"Don't simply retire from something; have something to retire to."

2024
City of San José
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
Annual Comprehensive Financial Report

For the Fiscal Years Ended June 30, 2024, and June 30, 2023
Pension Trust and Postemployment Healthcare Trust Funds of the City of San José, California
A fiduciary component unit of the City of San José, CA

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

2024

City of San José

Federated City Employees' Retirement System

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2024

City of San José

Federated City Employees' Retirement System

John Flynn - Chief Executive Officer

Annual Comprehensive Financial Report for the Fiscal Years Ended June 30, 2024 and June 30, 2023
Pension Trust and Postemployment Healthcare Trust Funds of the City of San José, California
A fiduciary component unit of the City of San José, CA

Office of Retirement Services
1737 North First Street, Suite 600
San José, California 95112-4505
Phone: 408-794-1000 Fax: 408-392-6732
www.sjretirement.com

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Office of Retirement Services

Federated City Employees' Retirement System

November 5, 2024

The Honorable Mayor and City Council
Members of the Federated City Employees' Retirement System
City of San José
San José, California

Dear Mayor, Council Members, and System Members:

On behalf of the Board of Administration, I present the Federated City Employees' Retirement System's (the System) Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2024.

Over the past fiscal year, the System's time-weighted rate of return, net of investment fees, was 9.7%, compared to a 9.8% return for its policy benchmark and a 9.6% return for the Investment Metrics universe of public funds greater than $1 billion. Additionally, the System earned a time-weighted annualized rate of return, net of investment fees, of 4.0% and 8.5% for the three-year and five-year periods ending June 30, 2024, respectively, while the Investment Metrics universe net median earned a time weighted rate of return, net of investment fees of 3.0% and 7.2% for the same periods. The System's five-year rate of return compares favorably with the System's long-term actuarial assumed rate of return (the "discount rate") of 6.625%.

The Healthcare Plan's time-weighted net of investment fees rate of return was 9.4% for the fiscal year, compared to a 9.3% return for its policy benchmark. In addition, the Healthcare Plan earned a time-weighted net of investment fees rate of return of 2.1% and 5.8% for the three-year and five-year periods ending June 30, 2024, respectively. The Healthcare Plan's five-year rate of returns compare favorably with the Plan's long-term actuarial assumed rate of return (the "discount rate") of 6.0%.

The System's net position increased from $3,281,923,000 to $3,567,981,000 (see the Financial Section beginning on page 14). The net increase in the System's net position for fiscal year 2023-2024 was $286,058,000.

The Board believes that the professional services rendered by the staff, investment consultant, actuary, and counsel have produced a sound fund capable of sustained growth over the long-term. The Board of Administration and Retirement Services staff are available to provide additional information as requested.

Sincerely,

Spencer Horowitz

Spencer Horowitz, Chair
Board of Administration

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June 30, 2024 and June 30, 2023

Letter of Transmittal

Office of Retirement Services

Federated City Employees' Retirement System

November 5, 2024

Board of Administration and Members of the System
Federated City Employees' Retirement System
1737 North First Street, Suite 600
San José, CA 95112

Dear Trustees and Members of the System:

I am pleased to present the Annual Comprehensive Financial Report (ACFR) of the Federated City Employees' Retirement System (the System) for the fiscal year ended June 30, 2024. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System's management.

I encourage you to review this report carefully. I trust that you and the System members will find this ACFR helpful in understanding the System.

System History, Participants, and Services. Our mission is to continue providing quality services in delivering pension and related benefits and maintain financially sound pension plans.

Established in 1941, the System is a public retirement system that has provided service retirement, disability, death, and survivor benefits to its members for 84 years, administered in accordance with the City of San José (the City) Municipal Code and the charter. The current System consists of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan. All regular, full-time City employees are eligible for System benefits.

The System is administered by the Chief Executive Officer (CEO) of the Office of Retirement Services (ORS), and a seven-member Board of Administration. The Board is appointed by the City Council and serves in accordance with the San José Municipal Code.

See Note 1 to the basic financial statements for further information on the description of the System.

Funding Status and Progress. The System's funding objective for both its defined benefit pension plan and its defined benefit other post-employment benefits (OPEB) healthcare plan is to meet long-term benefit obligations through contributions and investment income. As of the most recent actuarial valuation dated June 30, 2023, the funded ratio of the defined benefit pension plan and the defined benefit OPEB plan was 58.2% and 52.5%, respectively, based on the actuarial value of assets.

For the valuation of pension and OPEB benefits, the actuarial assumption for the net rate of return to be earned by the System is currently 6.625% and 6.0% respectively. The impact of the difference between the actual net rate of return earned by the System and the assumption rates will result in an investment gain or loss that will be reflected in the pension and OPEB unfunded liabilities in next year's ACFR. The net increase in the System's net position for the fiscal year 2023-2024 was $286,058,000. Details of the components of this increase are included in the *Statement of Changes in Plan Net Position* on page 29. The defined benefit pension plan's funding progress is presented on page 138, and the defined benefit OPEB plan's funding progress is presented on page 155.

Letter of Transmittal *(continued)*

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

The absolute performance of the System over the fiscal year was positive due to a strong performance in both domestic and international equities along with fixed income, which provided attractive yields. Over the past fiscal year, the System's time-weighted rate of return, net of investment fees, was 9.7% for the fiscal year, compared to a 9.8% return for its policy benchmark and a 9.6% return for the Investment Metrics universe net median of public funds greater than $1 billion. Additionally, the System earned a time-weighted rate of return, net of investment fees, of 4.0% and 8.5% for the three-year and five-year periods ending June 30, 2024, respectively, while the Investment Metrics universe net median earned a time weighted rate of return, net of investment fees of 3.0% and 7.2% for the same periods.

The Pension System outperformed the actuarially assumed rate of return of 6.625%, achieving a 9.7% time-weighted rate of return, net of investment fee. Fiscal year 2023-24 saw a continued strong performance in the stock market. Both public equity and high-yield bonds experienced double-digit returns. The System captured this positive performance effectively, ultimately slightly underperforming compared to the policy benchmark return by 0.1%.

The System's 0.1% underperformance relative to the policy benchmark was attributable to allocation effects, even though manager selection has been positive for the fiscal year. The System's slight underweight in public equity contributed to a large proportion of the relative underperformance to the benchmark.

The Healthcare Plan's time-weighted net of investment fees rate of return was 9.4% on investments for the fiscal year, compared to a 9.3% return for its policy benchmark. In addition, the Healthcare Plan earned a time-weighted net of investment fees rate of return of 2.1% and 5.8% for the three-year and five-year periods ending June 30, 2024, respectively.

The net position of the System increased from $3,281,923,000 to $3,567,981,000 (see the Financial Section beginning on page 14).

The Investment Policy Statement for the System has been revised as of September 2023. Notable changes were revisions to the verbiage and changes to the Appendices, but there was no change to the asset allocation.

The Investment Program continued to manage portfolio investments and move initiatives forward during the fiscal year. The continuity of the Investment Program is a testament to the human capital and infrastructure in place.

Major Initiatives. Throughout the fiscal year, the Office of Retirement Services (ORS) steadily addressed staffing vacancies across all divisions. Recruitment for a new CEO commenced in the second half of the year to replace the retiring incumbent. This process culminated in the appointment of a new CEO in August 2024.

In April 2024, the City Auditor issued report 24-03, *Retirement Services: The Office Has Not Consistently Followed City Procurement Policies and Standard Practices*. The report was published with one finding which is covered in three different recommendations. ORS is diligently working to address these recommendations. As a result, ORS worked extensively with an outside consultant to create and update policies, including a policy for the procurement of goods and services for ORS and a Trustee Educational Travel Policy.

In addition, new Disability Retirement Rules and Policies were updated and implemented, and training was provided for the System Disability Committee. These new rules have improved efficiencies, increasing the number of applications processed while simultaneously decreasing the time to process them.

ORS continued to put on a successful Open Enrollment Health Fair for retirees, which included 878 forms submitted, 414 health-in-lieu, 89 Anthem, 74 Kaiser, 57 Delta, and 120 VSP enrollment requests processed. 530 requests were submitted directly through ORS' member portal, MemberDirect.

Financial Reporting. This ACFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB) and the reporting requirements prescribed by the Government Finance Officers' Association of the United States and Canada (GFOA). Transactions of the System are reported on an accrual basis of accounting. For an overview and analysis of the financial activities of the System for the fiscal years ended June 30, 2024 and 2023, please refer to the Management's Discussion and Analysis (MD&A) on page 17.

Macias Gini & O'Connell LLP, the System's independent auditor, has audited the accompanying financial statements. The financial audit provides reasonable assurance that the System's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatement. The System 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 System continuously reviews internal controls to ensure that the System'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 System's assets.

Because the cost of a control should not exceed the benefits to be derived, management believes internal control is adequate and the accompanying statements, schedules, and tables are fairly presented and free from material misstatement. Sufficient internal controls over financial reporting exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

Awards and Recognition. I am proud to report that the GFOA awarded its Certificate of Achievement for Excellence in Financial Reporting to the System for its ACFR for the fiscal year ended June 30, 2023. This was the 24th consecutive year the System has achieved this prestigious award. To be awarded a Certificate of Achievement, the System must publish an easily readable and efficiently organized annual comprehensive financial report. This report 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 ACFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine eligibility for another certificate.

The System also received the Public Pension Standards Award in recognition of meeting professional standards for plan design and administration by the Public Pension Coordinating Council.

Acknowledgements. I want to take this opportunity to thank the members of the System for their confidence in the ORS staff, whose dedication, commitment to the System, and diligent work helped to ensure the System's continued success during the past year. I also want to express my gratitude to the Board of Administration for its dedicated effort in supporting the staff through this past year. Finally, I would like to thank the City staff and consultants for their exceptional support.

Respectfully Submitted,

John Flynn
Chief Executive Officer
Office of Retirement Services

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Certificate of Achievement for Excellence in Financial Reporting

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San José Federated City Employees' Retirement System California

For its Annual Comprehensive Financial Report For the Fiscal Year Ended

June 30, 2023

Christopher P. Morrill

Executive Director/CEO

Certificate for Meeting Professional Standards in Public Pensions

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2023

Presented to

City of San José Federated
City Employees' Retirement System

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)

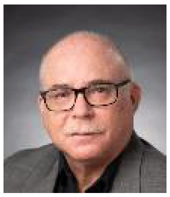
Alan H. Winkle
Program Administrator

Board of Administration, Administration, and Outside Consultants

BOARD OF ADMINISTRATION

The Retirement System is administered by a seven-member Board of Administration composed of two City employees elected by members of the System, a retiree representative and three public members, who are not connected with the City and have significant banking or investment experience, and another public member selected by the seven Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08.300 of the San José Municipal Code.

As of June 30, 2024, the members of the Board were as follows:



SPENCER HOROWITZ, CHAIR
Public member appointed to the Board August 2019. His current term expires November 30, 2024

JULIE JENNINGS, VICE CHAIR
Employee representative appointed to the Board January 2020. Her current term expires November 30, 2027

ANURAG CHANDRA, TRUSTEE
Public member appointed to the Board December 2016. His current term expires November 30, 2026.

DEBORAH ABBOTT, TRUSTEE
Public member appointed to the Board May 2023. Her current term expires November 30, 2026.

MATTHEW FAULKNER, TRUSTEE
Public member appointed to the Board June 2023. His current term expires November 30, 2027.

MARK LINDER, TRUSTEE
Federated retiree representative appointed to the Board January 2022. His current term expires November 30, 2024.

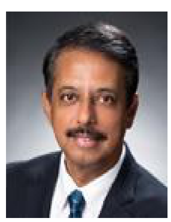
PRACHI AVASTHY, TRUSTEE
Employee representative appointed to the Board April 2022. Her current term expires November 30, 2025.

DEVORA "DEV" DAVIS CITY COUNCIL LIAISON TO THE BOARD
Non-voting member appointed to the Board March 2017

OFFICE OF RETIREMENT SERVICES ADMINISTRATION

JOHN FLYNN, DIRECTOR CHIEF EXECUTIVE OFFICER

BARBARA HAYMAN, DEPUTY DIRECTOR CHIEF OPERATIONS OFFICER



PRABHU PALANI, CHIEF INVESTMENT OFFICER

STANDING PUBLIC MEETINGS

Board Meetings: Third Thursday of the Month, 8:30 AM

Agendas for all public meetings are posted on the bulletin board at City Hall and on the department's website at https://www.sjretirement.com or they can be obtained from the Retirement Office at 1737 North First Street, Suite 600, San José, CA 95112. Meeting times and locations are subject to change; please call our office at (408) 794-1000 for current information.

Board of Administration, Administration, and Outside Consultants *(continued)*

OUTSIDE CONSULTANTS

ACTUARY

Cheiron, Inc.
Encinitas, CA

AUDITOR

Macias Gini & O'Connell LLP
Walnut Creek, CA

DOMESTIC RELATIONS ORDER AND DISABILITY COUNSEL

Saltzman & Johnson Law Corporation
Alameda, CA

GENERAL & FIDUCIARY COUNSEL

Reed Smith LLP
San Francisco, CA

INVESTMENT COUNSEL

Hanson Bridgett LLP
San Francisco, CA

Reed Smith LLP
San Francisco, CA

INVESTMENT CONSULTANTS

Albourne America LLC – Absolute Return
San Francisco, CA

Meketa Investment Group, Inc. – General Consultant
Carlsbad, CA

Verus Advisory Inc. – Risk Advisory
Seattle, WA

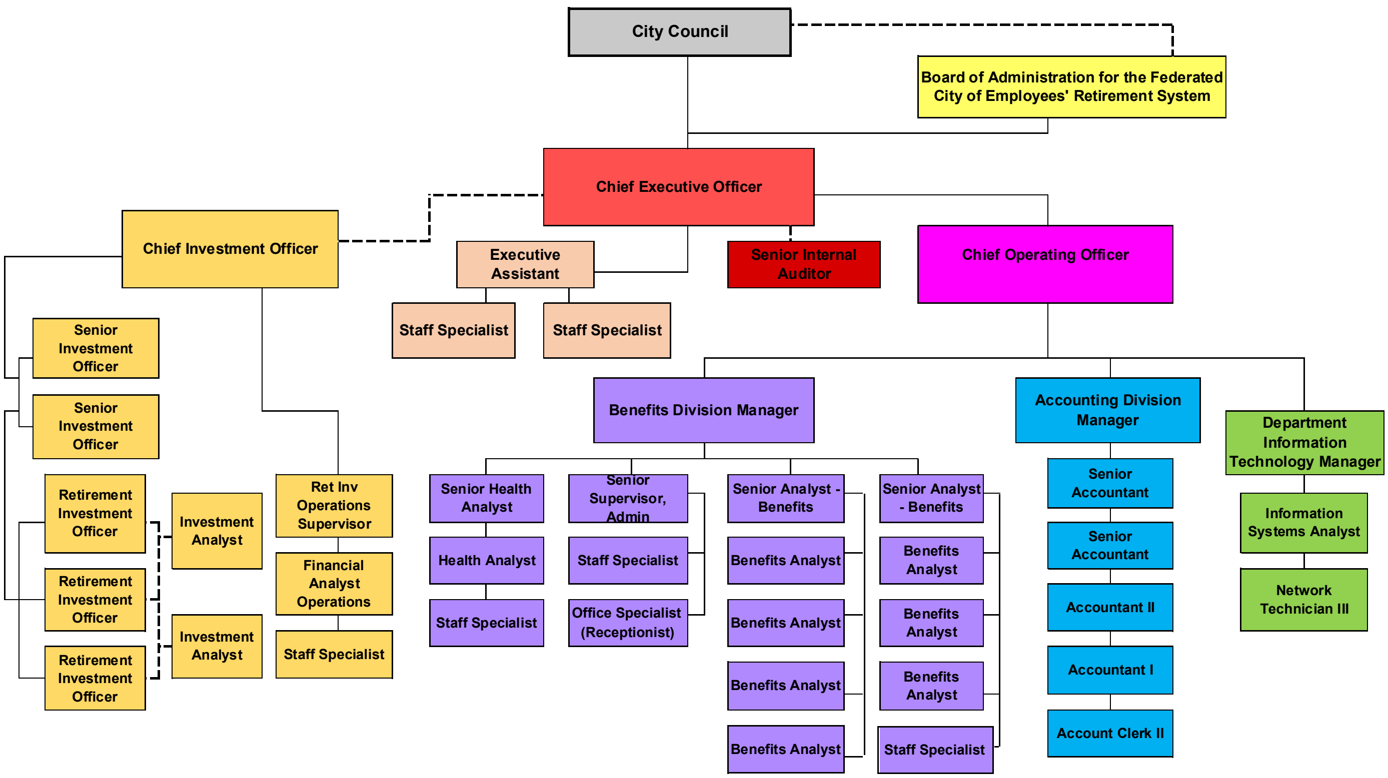
TAX COUNSEL

Ice Miller LLP
Indianapolis, IN

2024 Office of Retirement Services Organizational Chart

Office of Retirement Services

1737 North First Street Suite 600, San José, CA 95112
(408) 794-1000 (800) 732-6477 (408) 392-6732 Fax
www.sjretirement.com



A list of investment professionals who provide services for the pension and healthcare trusts can be found on page 112 of the Investment Section of this report. The Schedule of Investment Fees and Schedule of Commissions can be found on pages 122 and 123 - 126, respectively.

Financial Section

Pension Trust and Postemployment Healthcare Trust
Funds of the City of San José, California

City of San José
Federated City Employees' Retirement System
Annual Comprehensive Financial Report for the Fiscal Years Ended
June 30, 2024 and June 30, 2023

MGO. | Certified Public Accountants

Independent Auditor's Report

Board of Administration of the City of San José
Federated City Employees' Retirement System
San José, California

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the City of San José Federated City Employees' Retirement System (System), a pension trust fund and postemployment healthcare fund of the City of San José, California, as of and for the years ended June 30, 2024, and 2023, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2024, and 2023, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

www.mgocpa.com

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The combining schedule of defined benefit pension plan net position, combining schedule of changes in defined benefit pension plan net position, schedules of administrative expenses and other, schedules of payments to consultants, and schedules of investment expenses (other supplemental information) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory, investment, actuarial, and statistical sections of the Annual Comprehensive Financial Report but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2024, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Macias Gini É O'Connell LLP

Walnut Creek, California
November 5, 2024

Management's Discussion and Analysis (unaudited)

November 5, 2024

Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 600
San José, California 95112-4505

The Office of Retirement Services is pleased to provide this overview and analysis of the financial activities of the Federated City Employees' Retirement System (the System) for the fiscal years ended June 30, 2024 and 2023. The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established to provide retirement benefits for eligible non-sworn employees 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 5 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2024

- As of June 30, 2024, the System had $3,567,981,000 in plan net position restricted for pension benefits and postemployment healthcare benefits. Plan net position of $3,154,443,000 restricted for pension benefits is available to meet the System's ongoing obligations to plan participants and their beneficiaries. The Postemployment Healthcare Plan's net position of $413,538,000 is available for the exclusive use of retiree medical benefits.
- The System's total plan net position held in trust for pension benefits and postemployment healthcare benefits increased during the fiscal year ended June 30, 2024 by $286,058,000 or 8.7% from the prior fiscal year, primarily as a result of the appreciation in the fair value of investments caused by the strong returns in public equity and high yield bonds.
- Additions to plan net position during the fiscal year ended June 30, 2024 were $582,226,000, which includes employer and employee contributions of $243,670,000 and $43,824,000, respectively, and net investment income of $294,732,000. This represents an increase of $73,018,000 or 14.4% of total additions from the prior fiscal year amount of $509,208,000.
- Deductions from plan net position for fiscal year ended June 30, 2024 increased by $11,735,000 from $284,433,000 to $296,169,000 over the prior fiscal year, or approximately 4.1%, due to an increase in retirement benefit payments. The increase in retirement benefit payments was attributable to an increased number of retired members and beneficiaries as well as cost-of-living adjustments.

Overview of the Financial Statements

The System's financial statements, notes to the financial statements, required supplementary and other supplemental information for the year ended June 30, 2024, were prepared in conformity with the principles of governmental accounting and reporting set forth by the Governmental Accounting

Standards Board (GASB) and the reporting requirements prescribed by the Government Finance Officers' Association of the United States and Canada (GFOA). The following discussion and analysis are intended to serve as an introduction to the System's financial statements, which are comprised of these components:

1. Statements of Plan Net Position
2. Statements of Changes in Plan Net Position
3. Notes to the 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 Position*** 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 Position***, on the other hand, provide a view of current year additions to and deductions from the System.

Both statements are in compliance with accounting principles generally accepted in the United States of America (GAAP) as set forth by the GASB. GAAP requires state and local government pension plans and other postemployment benefit plan reports to use the full accrual method of accounting and make certain disclosures. The System complies with all significant requirements of these pronouncements.

The *Statements of Plan Net Position* and the *Statements of Changes in Plan Net Position* report information about the System's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which recognizes contributions as revenue when currently due pursuant to legal requirements and benefits and refunds of contributions when due and payable under the provisions of the System. All of the fiscal year's additions and deductions are taken into account regardless of when cash is received or paid. All realized 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 System's net position restricted for pension benefits and postemployment healthcare benefits (net position)—the difference between assets and liabilities. Over time, increases and decreases in the System's net position are one indicator of whether its financial health is improving or deteriorating. Other factors, such as the net pension liability and the net OPEB liability, should also be considered in measuring the System's overall health.

Notes to the 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* beginning on page 31 of this report).

Required Supplementary Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning employer contributions and the System's progress in funding its obligations to provide pension and other postemployment healthcare benefits to members and beneficiaries (see *Required Supplementary Information* beginning on page 64 of this report). The *Schedule of Changes in the Employer's Net Pension Liability* and *Related Ratios of the Defined Benefit Pension Plan* was prepared using the System's net position.

Other Supplemental Information. The *Combining Schedules of Defined Benefit Pension Plan Net Position* and *Changes in Defined Benefit Pension Plan Net Position, Schedules of Administrative Expenses and Other, Payments to Consultants*, and *Investment Expenses* are presented immediately following the *Required Supplementary Information.*

Financial Analysis

As previously noted, plan net position may serve over time as a useful indication of the System's financial position (see Tables 1a and 1c on page 20). At the close of fiscal years 2024 and 2023, the System's total assets exceeded the System's total liabilities. The System's financial statements do not include the total pension liability or the total OPEB liability for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively.

The Pension System's net position as a percentage of the total pension liability and the Postemployment Healthcare Plan's total OPEB liability should also be considered when evaluating the System's financial health. Based on the June 30, 2023 actuarial valuation rolled forward to June 30, 2024, the net position of the Defined Benefit Pension Plan was 61.7% of the total pension liability, and the net position of the Other Postemployment Employee Benefit Plan was 56.7% of the total OPEB liability. For more information on the results and impact of the June 30, 2023 actuarial valuations, please see Notes 4 and 5 to the financial statements beginning on page 55.

As of June 30, 2024, \$3,154,443,000 and \$413,538,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 20). Plan net position restricted for pension benefits of \$3,154,443,000 is available to meet the System's ongoing obligations to pension plan participants and their beneficiaries. Postemployment Healthcare Plan net position of \$413,538,000 is available for the exclusive use of retiree medical benefits.

As of June 30, 2024, total net position restricted for pension benefits and for the postemployment healthcare benefits increased by 8.5% and 10.4% from the prior year, primarily due to the net appreciation in the fair value of investments of \$227,585,000 and \$29,509,000 for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was due to the strong returns in public equities and high-yield bonds during the fiscal year. The System's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 41.

As of June 30, 2023, \$2,907,315,000 and \$374,608,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1b and 1d on pages 20 - 21). Plan net position restricted for pension benefits of \$2,907,315,000 was available to meet the System's ongoing obligations to pension plan participants and their beneficiaries. Postemployment Healthcare Plan net position of \$374,608,000 was available for the exclusive use of retiree medical benefits.

As of June 30, 2023, total net position restricted for pension benefits and for the postemployment healthcare benefits increased by 7.4% and 7.3% from the prior year, primarily due to the net appreciation in the fair value of investments \$196,661,000 and \$16,895,000 for the Defined Benefit Pension Plan, and for the Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was due to the strong returns in public equities and high-yield bonds during the fiscal year. The System's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 41.

As of June 30, 2024, receivables decreased by \$1,872,000 or 10.3% and by \$11,000 or 0.4% in the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Receivables in the Defined Benefit Pension Plan and Postemployment Healthcare Plan decreased mainly due to a decrease in employer contributions receivable. In the previous year, receivables decreased by \$43,696,000 or 70.6% and by \$11,767,000 or 79.8% for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively, due to a decrease in receivables from brokers and others and accrued investment income receivables.

As of June 30, 2024, liabilities decreased by \$12,023,000 or 35.6% for the Defined Benefit Pension Plan, and increased \$155,000 or 5.7% for the Postemployment Healthcare Plan, due to the timing of trades. In the previous year, liabilities increased by \$4,742,000 or 16.3% for the Defined Benefit Pension Plan, and decreased \$338,000 or 11.1% for the Postemployment Healthcare Plan, respectively, due to the timing of trades.

NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 1a)

As of June 30, 2024 and 2023 (Dollars in thousands)

	2024	2023	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Receivables	$ 16,361	$ 18,233	$ (1,872)	(10.3)%
Investments at fair value	3,157,626	2,920,184	237,442	8.1%
Other assets, net	2,180	2,645	(465)	(17.6)%
Total Assets	**3,176,167**	**2,941,062**	**235,105**	**8.0%**
Current liabilities	21,724	33,747	(12,023)	(35.6)%
Total Liabilities	**21,724**	**33,747**	**(12,023)**	**(35.6)%**
Plan Net Position	**$ 3,154,443**	**$ 2,907,315**	**$ 247,128**	**8.5%**

NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 1b)

As of June 30, 2023 and 2022 (Dollars in thousands)

	2023	2022	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Receivables	$ 18,233	$ 61,929	$ (43,696)	(70.6)%
Investments at fair value	2,920,184	2,671,917	248,267	9.3 %
Other assets, net	2,645	3,186	(541)	(17.0)%
Total Assets	**2,941,062**	**2,737,032**	**204,030**	**7.5 %**
Current liabilities	33,747	29,005	4,742	16.3 %
Total Liabilities	**33,747**	**29,005**	**4,742**	**16.3 %**
Plan Net Position	**$ 2,907,315**	**$ 2,708,027**	**$ 199,288**	**7.4 %**

NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN (Table 1c)

As of June 30, 2024 and 2023 (Dollars in thousands)

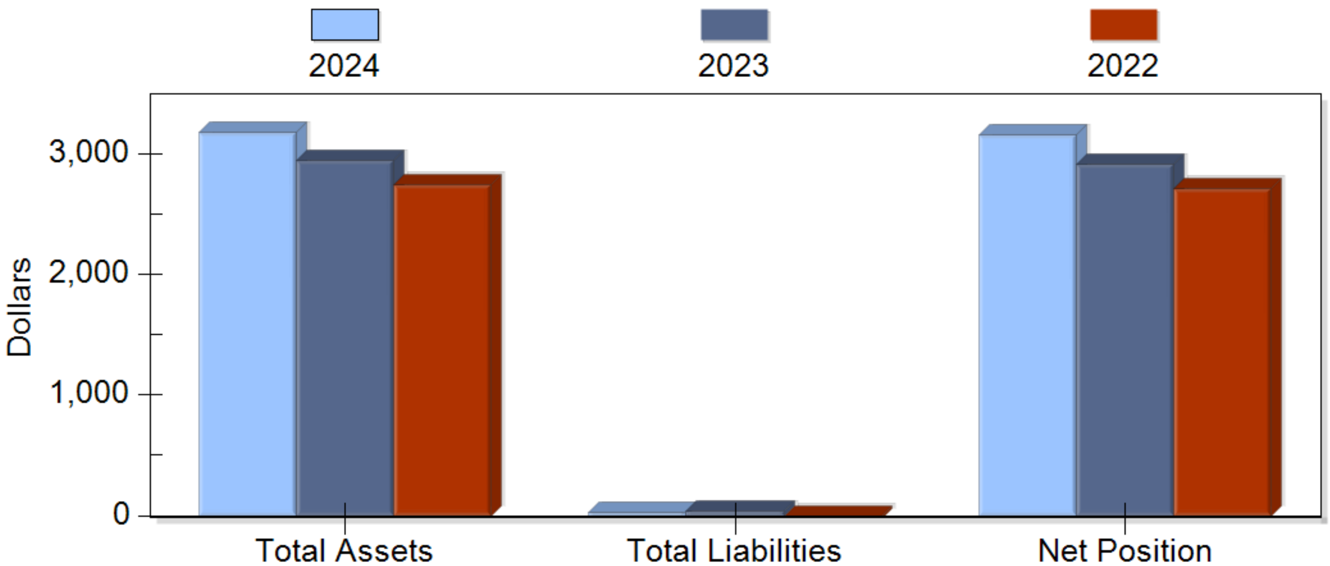
	2024	2023	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Receivables	$ 2,960	$ 2,971	$ (11)	(0.4)%
Investments at fair value	413,405	374,248	39,157	10.5 %
Other assets, net	45	106	(61)	(57.5)%
Total Assets	**416,410**	**377,325**	**39,085**	**10.4 %**
Current liabilities	2,872	2,717	155	5.7 %
Total Liabilities	**2,872**	**2,717**	**155**	**5.7 %**
Plan Net Position	**$ 413,538**	**$ 374,608**	**$ 38,930**	**10.4 %**

NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN (Table 1d)

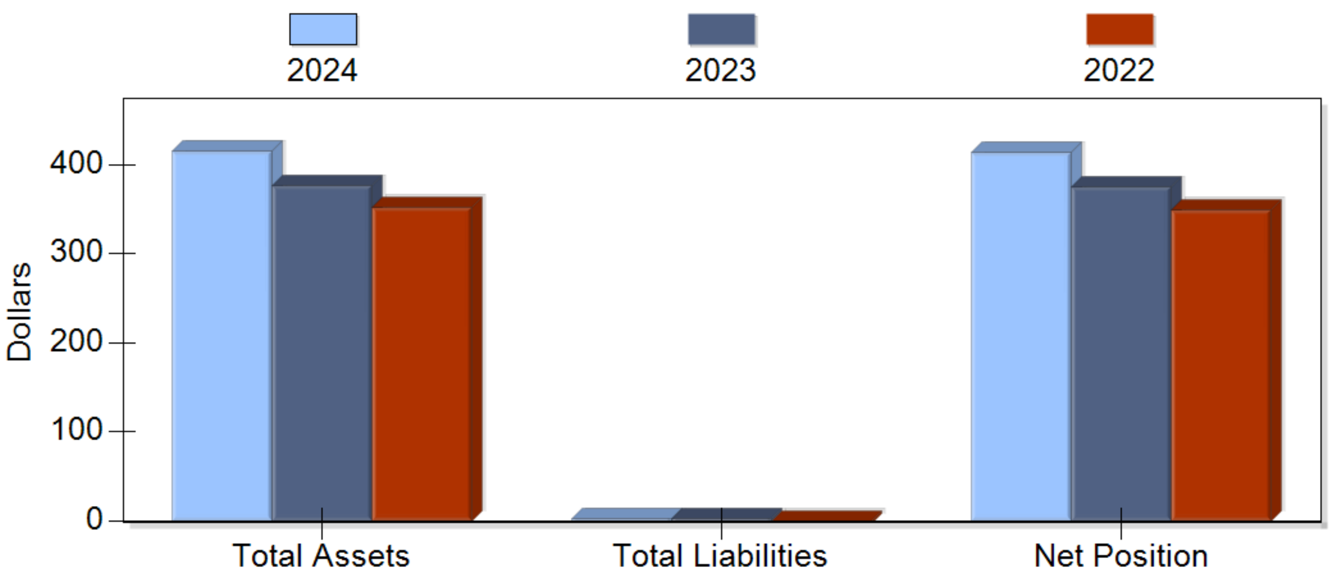
As of June 30, 2023 and 2022 (Dollars in thousands)

	2023	2022	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Receivables	$ 2,971	$ 14,738	$ (11,767)	(79.8)%
Investment at fair value	374,248	337,262	36,986	11.0 %
Other assets, net	106	176	(70)	(39.8)%
Total Assets	**377,325**	**352,176**	**25,149**	**7.1 %**
Current liabilities	2,717	3,055	(338)	(11.1)%
Total Liabilities	**2,717**	**3,055**	**(338)**	**(11.1)%**
Plan Net Position	**$ 374,608**	**$ 349,121**	**$ 25,487**	**7.3 %**

DEFINED BENEFIT PENSION PLAN NET POSITION (Tables 1a and 1b)
As of June 30, 2024, 2023 and 2022
(Dollars in millions)



POSTEMPLOYMENT HEALTHCARE PLAN NET POSITION (Tables 1c and 1d)
As of June 30, 2024, 2023 and 2022
(Dollars in millions)



FEDERATED SYSTEM ACTIVITIES

In the fiscal year ended June 30, 2024, the System’s combined Defined Benefit Pension Plan and Postemployment Healthcare Plan net position increased by $286,058,000 or 8.7%, primarily due to the strong returns in public equity and high-yield bonds during the fiscal year which led to the System earning significant investment gains. Key elements of the System’s financial activities are described in the sections that follow.

Additions to Plan Net Position

The assets needed to fund retirement benefits are accumulated through the collection of employer and employee contributions along with earnings on investments (net of investment expense). Total Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plan for the fiscal year ended June 30, 2024, were $509,829,000 and $72,397,000, respectively (see Tables 2a and 2c on pages 23 - 24).

For the fiscal year ended June 30, 2024, total additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by $57,727,000 or 12.8% and $15,291,000 or 26.8%, respectively. The primary cause of the increase from the prior year in the Defined Benefit Pension Plan and the Postemployment Healthcare Plan was due to the increase in net investment income of $35,482,000 and $12,881,000, respectively, due to the strong returns from public equity and high-yield bonds during the fiscal year.

The System's time-weighted rate of return, net of investment fee, as determined by the System's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2024 for the Defined Benefit Pension Plan, was 9.7% compared to 7.4% for fiscal year 2023.

For the fiscal year ended June 30, 2023, total additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by $386,169,000 or 585.7%, and $60,740,000, or 1,671.4%, respectively. The primary cause of the increase from the prior year in the Defined Benefit Pension Plan and the Postemployment Healthcare Plan was due to the increase in net investment income of $391,230,000 and $62,554,000, respectively, due to the strong returns from public equity and high-yield bonds during the fiscal year.

The System's time-weighted rate of return, net of investment fee, as determined by the System's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2023 for the Defined Benefit Pension Plan, was 7.4% compared to (4.5%) for fiscal year 2022.

Deductions from Plan Net Position

The System was created to provide a monthly pension allowance, 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 San José Municipal Code, refunds of contributions to terminated employees, and the cost of administering the System.

Deductions for the fiscal year ended June 30, 2024, totaled $262,701,000 and $33,467,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased by $9,887,000 or 3.9% from the previous year due to an increase in benefit payments (see Table 2a on page 23). The increase in benefit payments is primarily due to continued increases in the number of retirees and beneficiaries with higher final average salaries and added cost of living adjustments. Deductions for the Postemployment Healthcare Plan increased by $1,848,000 or 5.8% from the previous year primarily due to the increase in healthcare insurance premiums. (see Table 2c on page 24).

Deductions for the fiscal year ended June 30, 2023, totaled $252,814,000 and $31,619,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased by $10,563,000 or 4.4% from the previous year due to an increase in benefit payments. The increase in benefit payments is primarily due to continued increases in the number of retirees and beneficiaries with higher final average salaries and added cost of living adjustments. (see Table 2b on page 23). Deductions for the Postemployment Healthcare Plan decreased by $234,000 or 0.7% from the previous year primarily due to the decrease in healthcare insurance premiums. (see Table 2d on page 24).

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 2a)

For the Fiscal Years Ended June 30, 2024 and 2023 (Dollars in thousands)

	2024	2023	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	$ 33,933	$ 30,561	$ 3,372	11.0 %
Employer contributions	218,313	199,440	18,873	9.5 %
Net investment income [1]	257,583	222,101	35,482	16.0 %
Total Additions	**509,829**	**452,102**	**57,727**	**12.8 %**
Retirement benefits	236,880	228,530	8,350	3.7 %
Death benefits	18,352	17,213	1,139	6.6 %
Refund of contributions	1,333	1,613	(280)	(17.4)%
Administrative expenses	6,136	5,458	678	12.4 %
Total Deductions	**262,701**	**252,814**	**9,887**	**3.9 %**
Net Increase in Plan Net Position	**247,128**	**199,288**	**47,840**	**24.0 %**
Beginning Net Position	**2,907,315**	**2,708,027**	**199,288**	**7.4 %**
Ending Net Position	**$ 3,154,443**	**$ 2,907,315**	**$ 247,128**	**8.5 %**

[1] *Net of investment expenses of $12,221 and $11,454 in 2024 and 2023, respectively.*

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 2b)

For the Fiscal Years Ended June 30, 2023 and 2022 (Dollars in thousands)

	2023	2022	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	$ 30,561	$ 27,464	$ 3,097	11.3 %
Employer contributions	199,440	207,598	(8,158)	(3.9)%
Net investment income / (loss) [1]	222,101	(169,129)	391,230	231.3 %
Total Additions	**452,102**	**65,933**	**386,169**	**585.7 %**
Retirement benefits	228,530	219,497	9,033	4.1 %
Death benefits	17,213	16,373	840	5.1 %
Refund of contributions	1,613	1,403	210	15.0 %
Administrative expenses	5,458	4,978	480	9.6 %
Total Deductions	**252,814**	**242,251**	**10,563**	**4.4 %**
Net Increase / (Decrease) in Plan Net Position	**199,288**	**(176,318)**	**375,606**	**213.0 %**
Beginning Net Position	**2,708,027**	**2,884,345**	**(176,318)**	**(6.1)%**
Ending Net Position	**$ 2,907,315**	**$ 2,708,027**	**$ 199,288**	**7.4 %**

[1] *Net of investment expenses of $11,454 and $9,696 in 2023 and 2022, respectively.*

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN (Table 2c)
For the Fiscal Years Ended June 30, 2024 and 2023 (Dollars in thousands)

	2024	2023	Increase Amount	Increase Percent
Employee contributions	$ 9,891	$ 9,841	$ 50	0.5 %
Employer contributions	25,357	22,997	2,360	10.3 %
Net investment income[1]	37,149	24,268	12,881	53.1 %
Total Additions	**72,397**	**57,106**	**15,291**	**26.8 %**
Healthcare insurance premiums	32,635	30,869	1,766	5.7 %
Administrative expenses	832	750	82	10.9 %
Total Deductions	**33,467**	**31,619**	**1,848**	**5.8 %**
Net Increase in Plan Net Position	**38,930**	**25,487**	**13,443**	**52.7 %**
Beginning Net Position	**374,608**	**349,121**	**25,487**	**7.3 %**
Ending Net Position	**$ 413,538**	**$ 374,608**	**$ 38,930**	**10.4 %**

[1] *Net of investment expenses of $381 and $365 in 2024 and 2023, respectively.*

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN (Table 2d)
For the Fiscal Years Ended June 30, 2023 and 2022 (Dollars in thousands)

	2023	2022	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	$ 9,841	$ 9,865	$ (24)	(0.2)%
Employer contributions	22,997	24,787	(1,790)	(7.2)%
Net investment income / (loss) [1]	24,268	(38,286)	62,554	163.4 %
Total Additions	**57,106**	**(3,634)**	**60,740**	**1,671.4 %**
Healthcare insurance premiums	30,869	31,088	(219)	(0.7)%
Administrative expenses	750	765	(15)	(2.0)%
Total Deductions	**31,619**	**31,853**	**(234)**	**(0.7)%**
Net Increase / (Decrease) in Plan Net Position	**25,487**	**(35,487)**	**60,974**	**171.8 %**
Beginning Net Position	**349,121**	**384,608**	**(35,487)**	**(9.2)%**
Ending Net Position	**$ 374,608**	**$ 349,121**	**$ 25,487**	**7.3 %**

[1] *Net of investment expenses of $365 and $572 in 2023 and 2022, respectively.*

Reserves

The System is required by the City of San José Municipal Code to establish various reserves in the System's net position. The System's net position is allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan (which consists of the 115 Trust). The Defined Benefit Pension Plan Retirement Fund and the Defined Benefit Pension Plan Cost-of-Living Fund both have a General Reserve and an Employee Contributions Reserve. The Postemployment Healthcare 115 Funds have a General Reserve only (see table on page 44 for a complete listing and year-end balances of the System's reserves). The 401(h) reserves were depleted as of November 2019.

The System's reserves are established from employer and employee contributions and the accumulation of investment income, after satisfying investment and administrative expenses. Additionally, the appreciation or depreciation in the fair value of investments is held in the unrealized gain / loss account, a component of each System's General Reserve.

With the implementation of Measure F, a medical in-lieu component of the General Reserves was created to account for those members who elected to be in the medical-in-lieu credit program. These members are retirees who are eligible for medical insurance and / or dental insurance but who opt not to take it and instead elect to be in the in-lieu credit program. These members are given credits worth 25% of the lowest cost plan, which can be used in future years if the retiree opts to enroll in a City medical or dental plan. See Note 2 of the financial statements for additional information.

The System's Fiduciary Responsibilities

The System's Board of Administration is the fiduciary trustee of the Defined Benefit Pension Plan and Postemployment Healthcare Plan. Under the California Constitution and the San José Municipal Code, System assets may only be used for the exclusive benefit of providing benefits to plan participants and their beneficiaries and defraying reasonable costs of administration.

Economic Factors and Rates Affecting Next Year

The System's actuarial valuations as of June 30, 2023, were used to determine the contribution rates and dollar amounts effective June 23, 2024 for fiscal year 2024-2025. The annual determined contribution rates and dollar amounts were adopted by the Board in April 2024. The June 30, 2023 actuarial valuations include Board-adopted actuarial assumption changes recommended by the System's actuary in the June 30, 2023 Preliminary Valuation Results Review presented in November 2023.

The Investment Policy Statement for the System has been revised as of September 2023, and the asset allocation was revised as of April 2024. Notable changes were revisions to the verbiage and changes to the Appendices.

Defined Benefit Pension Plan

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The System's actuarial valuation for funding purposes uses a five-year smoothing method for investment gains and losses. This means that the current year's gains or losses compared to the actuarially assumed rate of return, as calculated at year-end, are recognized over five years. The unfunded actuarial liability (UAL) of $2.1 billion, as of June 30, 2023, does not include the impact of approximately $223 million of net deferred investment gains yet to be recognized, primarily resulting from favorable investment returns during fiscal year 2021. It is anticipated that future actuarial valuations will recognize these remaining deferred net investment gains as described above and the smoothing of any new gains or losses over a five-year period.

The System is exposed to general investment 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 6.625%, net of investment expenses, in the actuarial valuation as of June 30, 2023. With all other actuarial variables being equal, underperforming the assumed rate of return would increase the UAL and decrease the funded status of the System, thereby increasing required contributions to the System. Conversely, with all other actuarial variables being equal, overperforming the assumed rate of return would decrease the UAL and increase the funded status of the System, thereby decreasing required contributions to the System.

In addition to investment market risk, the System is exposed to non-economic or demographic risk. The demographic assumptions, which include rates of termination, retirement, disability and mortality, are often unique to the System's provisions and the specific demographics of the System participants.

Management's Discussion and Analysis **(unaudited)** *(continued)*

Deviations from these actuarial assumptions cause the System to experience gains or losses, which in turn can lead to volatility in the contribution rates. To minimize this risk, every two to five years, the System's actuary conducts an experience study to assess whether the experience of the System is conforming to the actuarial assumptions. The last experience study was performed in November 2023.

The actuarial assumptions may be adjusted where it is determined that current assumptions will not provide the most accurate expectation of what may happen in the future. The wage inflation assumption was updated to reflect currently bargained agreements for FYE 2024 through FYE 2026. Demographic assumptions were updated based on the most recent experience study covering the period through June 30, 2023. See Actuarial section for the effects of these changes.

Contribution rates for fiscal year 2024-2025, as determined by the June 30, 2023 actuarial valuation, includes the impact of the items stated above and the recognition of smoothed deferred investment gains and losses.

Postemployment Healthcare Plan

Under Measure F, member contributions were fixed at 7.50% of pay; the City's contributions toward the explicit subsidy (or premium subsidy) is actuarially determined; and the City also pays the implicit subsidy (difference between the explicted claims cost for a retiree or spouse and the total (retiree plus City) premium) on a pay-as-you-go basis as part of active health premiums. In addition, the City has an option to limit its contribution for the explicit subsidy to 14% of payroll.

In March 2018, the Board approved the contribution policy that sets the City health care contributions for Tier 1 members as a flat dollar amount, beginning with fiscal year 2019.

Requests for Information

This financial report is designed to provide the Board of Administration, Mayor and City Council, our membership, taxpayers, and stakeholders, with a general overview of the System'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:

Federated City Employees' Retirement System
1737 North First Street, Suite 600
San José, California 95112-4505

Respectfully Submitted,

John Flynn
Chief Executive Officer
Office of Retirement Services

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Basic Financial Statements

STATEMENTS OF PLAN NET POSITION

As of June 30, 2024 and 2023 (In Thousands)

	2024		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ASSETS			
Receivables			
Employee contributions	$ 766	$ 212	$ 978
Employer contributions	1,206	139	1,345
Brokers and others	9,801	2,249	12,050
Accrued investment income	4,588	360	4,948
Total Receivables	**16,361**	**2,960**	**19,321**
Investments, at fair value			
Securities and other:			
Public equity	1,497,838	250,854	1,748,692
Private equity	406,491	-	406,491
Investment grade bonds	154,428	56,183	210,611
Core real estate	137,613	42,133	179,746
Cash and cash equivalents	161,428	9,815	171,243
Growth real estate	120,875	-	120,875
Private debt	114,577	-	114,577
Immunized cash flows	107,116	-	107,116
Market neutral strategies	92,390	-	92,390
Emerging market bonds	90,474	-	90,474
Long-term government bonds	53,368	19,897	73,265
Private real assets	72,187	-	72,187
High yield bonds	62,174	-	62,174
Treasury inflation-protected securities	59,962	-	59,962
Venture / Growth capital	26,705	-	26,705
Commodities	-	20,700	20,700
Short-term investment grade bonds	-	13,823	13,823
Total Investments	**3,157,626**	**413,405**	**3,571,031**
Other assets, net	2,180	45	2,225
TOTAL ASSETS	**3,176,167**	**416,410**	**3,592,577**
LIABILITIES			
Payable to brokers	19,916	357	20,273
Other liabilities	1,808	2,515	4,323
TOTAL LIABILITIES	**21,724**	**2,872**	**24,596**
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	3,154,443	-	3,154,443
Postemployment healthcare benefits	-	413,538	413,538
TOTAL PLAN NET POSITION	**$ 3,154,443**	**$ 413,538**	**$ 3,567,981**

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

Basic Financial Statements *(continued)*

STATEMENTS OF PLAN NET POSITION (continued)

As of June 30, 2024 and 2023 (In Thousands)

	2023		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
ASSETS			
Receivables			
Employee contributions	$ 520	$ 159	$ 679
Employer contributions	5,603	284	5,887
Brokers and others	7,770	2,134	9,904
Accrued investment income	4,340	394	4,734
Total Receivables	**18,233**	**2,971**	**21,204**
Investments, at fair value			
Securities and other:			
Public equity	1,335,443	224,221	1,559,664
Private equity	390,509	-	390,509
Core real estate	151,393	48,156	199,549
Investment grade bonds	123,724	50,521	174,245
Immunized cash flows	161,586	-	161,586
Growth real estate	119,947	-	119,947
Emerging market bonds	110,305	-	110,305
Private debt	102,833	-	102,833
Market neutral strategies	90,110	-	90,110
Cash and cash equivalents	81,186	3,113	84,299
Long-term government bonds	56,500	17,521	74,021
Private real assets	67,767	-	67,767
Treasury inflation-protected securities	56,954	-	56,954
High yield bonds	56,207	-	56,207
Commodities	-	17,534	17,534
Venture / Growth capital	15,720	-	15,720
Short-term investment grade bonds	-	13,182	13,182
Total Investments	**2,920,184**	**374,248**	**3,294,432**
Other assets, net	2,645	106	2,751
TOTAL ASSETS	**2,941,062**	**377,325**	**3,318,387**
LIABILITIES			
Payable to brokers	30,341	375	30,716
Other liabilities	3,406	2,342	5,748
TOTAL LIABILITIES	**33,747**	**2,717**	**36,464**
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	2,907,315	-	2,907,315
Postemployment healthcare benefits	-	374,608	374,608
TOTAL PLAN NET POSITION	**$ 2,907,315**	**$ 374,608**	**$ 3,281,923**

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

STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Fiscal Years Ended June 30, 2024 and 2023 (In Thousands)

	2024		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ADDITIONS			
Contributions:			
Employee	$ 33,933	$ 9,891	$ 43,824
Employer	218,313	25,357	243,670
Total Contributions	**252,246**	**35,248**	**287,494**
Investment income			
Net appreciation in fair value of investments	227,585	29,509	257,094
Interest income	34,790	1,876	36,666
Dividend income	7,429	6,145	13,574
Less: investment expense	(12,221)	(381)	(12,602)
Net Investment Income	**257,583**	**37,149**	**294,732**
TOTAL ADDITIONS	**509,829**	**72,397**	**582,226**
DEDUCTIONS			
Retirement benefits	236,880	-	236,880
Healthcare insurance premiums	-	32,635	32,635
Death benefits	18,352	-	18,352
Refund of contributions	1,333	-	1,333
Administrative expenses and other	6,136	832	6,968
TOTAL DEDUCTIONS	**262,701**	**33,467**	**296,168**
NET INCREASE	**247,128**	**38,930**	**286,058**
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS			
BEGINNING OF YEAR	**2,907,315**	**374,608**	**3,281,923**
END OF YEAR	**$ 3,154,443**	**$ 413,538**	**$ 3,567,981**

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

STATEMENTS OF CHANGES IN PLAN NET POSITION (continued)

For the Fiscal Years Ended June 30, 2024 and 2023 (In Thousands)

	2023		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ADDITIONS			
Contributions:			
Employee	$ 30,561	$ 9,841	$ 40,402
Employer	199,440	22,997	222,437
Total Contributions	**230,001**	**32,838**	**262,839**
Investment income			
Net appreciation in fair value of investments	196,661	16,895	213,556
Interest income	29,616	2,037	31,653
Dividend income	7,278	5,701	12,979
Less: investment expense	(11,454)	(365)	(11,819)
Net Investment Income	**222,101**	**24,268**	**246,369**
TOTAL ADDITIONS	**452,102**	**57,106**	**509,208**
DEDUCTIONS			
Retirement benefits	228,530	-	228,530
Healthcare insurance premiums	-	30,869	30,869
Death benefits	17,213	-	17,213
Refund of contributions	1,613	-	1,613
Administrative expenses and other	5,458	750	6,208
TOTAL DEDUCTIONS	**252,814**	**31,619**	**284,433**
NET INCREASE	**199,288**	**25,487**	**224,775**
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS			
BEGINNING OF YEAR	**2,708,027**	**349,121**	**3,057,148**
END OF YEAR	**$ 2,907,315**	**$ 374,608**	**$ 3,281,923**

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

Notes to the Basic Financial Statements

NOTE 1 - DESCRIPTION OF THE PLAN

The following description of the City of San José Federated City Employees' Retirement System (the System) is provided for financial reporting purposes only. Readers should refer to the City of San José Municipal Code (SJMC) for more complete information.

(a) General

The System was established in 1941 to provide retirement benefits for certain employees of the City of San José (City). The current System consists of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan and includes all provisions of SJMC Chapters 3.28, 3.44, and 3.52.

The Defined Benefit Pension Plan was established pursuant to Internal Revenue Code (IRC) Section 401(a), is held and administered in the 1975 Federated City Employees' Retirement System (Pension Trust) and includes all provisions of SJMC Chapters 3.28.

The Postemployment Healthcare Plan is comprised of the IRC Section 115 trust and is held and administered in the Federated City Employees' Healthcare Trust Fund; it includes all provisions of SJMC Chapters 3.28 and 3.52, respectively.

The Postemployment Healthcare Plan was established under the now depleted IRC Section 401(h), an account within the Pension Trust, for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. The 401(h) plan was depleted as of November 2019 and all post-employment healthcare benefit payments are now made from the IRC 115 trust account.

The IRC Section 115 trust established June 24, 2011 by the San José City Council (City Council) under the provisions of SJMC Chapter 3.52 (Ordinance number 28914) provides an alternative to the depleted 401(h) account for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. A request for private letter ruling on the tax qualified status of the new trust and the pre-tax treatment of employee contributions to the trust was filed with the IRS on October 17, 2011. On August 6, 2013, the City obtained a private letter ruling from the IRS confirming the pre-tax treatment of employee contributions to the 115 Trust. Beginning on December 23, 2013, employee contributions made for retiree healthcare are deposited into the 115 Trust.

On August 18, 2012, the System received a favorable tax determination letter from the IRS for the Pension Trust, which formerly included the Defined Benefit Pension Plan and the now depleted 401(h) portion of the Postemployment Healthcare Plan. A new determination letter was received on July 8, 2014.

Effective September 30, 2012, pursuant to City of San José Ordinance Number 29120, the System was amended to provide for different retirement benefits for individuals hired, rehired, or reinstated by the City on and after that date but before September 27, 2013. Members subject to these new benefit provisions are referred to as Tier 2 members, whereas members hired before September 30, 2012 are referred to as Tier 1 members. Differences in benefits are noted in the appropriate sections below.

Effective February 3, 2013, pursuant to City of San José Ordinance Number 29184, unrepresented executive management and professional employees who are hired directly into a position in Unit 99 on or after that date, may make a one-time irrevocable election to participate in either a newly created Defined Contribution Plan or become a Tier 2 participant in the System. To be eligible, an employee must not have been previously a member of the City of San José Retirement System. The System does not administer or hold the assets of the Defined Contribution Plan.

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(a) General (Continued)

Effective September 27, 2013, pursuant to City of San José Ordinance Number 29283, the System was amended to provide for different retirement benefits for individuals hired or rehired by the City on and after that date. Members subject to these new benefits are referred to as Tier 2B members, having the same benefits as Tier 2 members in the Defined Benefit Pension Plan, except, Tier 2B members do not have Postemployment Healthcare benefits. The ordinance also stated that the City shall bear and pay an amount equal to the additional costs incurred by the Retirement System for that portion of the unfunded liability as determined by the actuary of the Retirement System that the City and the new employees hired on or after September 27, 2013, would have otherwise paid as contributions had those employees been eligible for retiree healthcare. The additional payment by the City shall be for a period of time under the terms and conditions set forth by the City Council.

The City and the Federated bargaining units engaged in settlement discussions concerning litigation arising out of a voter approved ballot measure, known as Measure B, which passed in 2012. On December 15, 2015, and January 12, 2016, the City and the bargaining units representing employees in Federated reached a settlement agreement on the Federated Alternative Pension Reform Settlement Framework (Federated Framework). The terms of the Federated Framework also applied to unrepresented employees, including unrepresented management and executive employees in Unit 99. The Federated Framework included an agreement that a ballot measure would be placed on the November 8, 2016 election for the voters to replace Measure B.

On November 8, 2016, the voters approved the Alternative Pension Reform Act known as Measure F. Measure F included, among other things, prohibiting any enhancements to defined retirement benefits without voter approval; codifying the Tier 2 pension benefit; closing the defined benefit retiree healthcare plan; and prohibiting retroactive defined retirement benefit enhancements. The City Council approved Ordinance Number 29879 on May 16, 2017, amending the San José Municipal Code to reflect the terms of Measure F and the Federated Framework. The changes to the Municipal Code became effective thirty (30) days after May 16, 2017. Most of the terms of Measure F and the Federated Framework were implemented on June 18, 2017. The provisions of the Federated Framework include, but are not limited to, revising Tier 2 benefits, allowing rehired Tier 1 employees to remain in Tier 1, creating a defined contribution Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare (medical and dental) and a one time irrevocable election to opt in to the defined contribution VEBA from the defined benefit retiree 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. All Tier 1 employees (except those who enter the Plan after June 18, 2017 with “Classic” membership in California Public Employees' Retirement System (CalPERS)) and Tier 2 employees who were previously making contributions into the defined benefit retiree healthcare plan (Tier 2A), were eligible to opt-in to the VEBA, while all Tier 2 employees (except unrepresented employees) were required to move in to the defined contribution VEBA.

The VEBA opt-in election period was October 18, 2017 through December 15, 2017, and the Internal Revenue Service issued a favorable private letter ruling to the Section 115 Trust on February 7, 2018. The IRS ruled that allowing the contributions to the VEBA to be made from the Sections 115 Trust is consistent with Code Section 115(1) and will not compromise the Section 115 Trust's status under Code Section 115. The contributions for the members who opted in to the VEBA and opted out of the defined benefit healthcare plan were transferred in March 2018 for the initial opt-in period. The IRS approved allowing eligible employees who are rehired into the City from calendar years 2018 through 2022 to opt-in to the VEBA if they were not employed during the initial opt-in period. The VEBA is being administered by the City, not the Office of Retirement Services, and therefore it is also not under the jurisdiction of the Retirement Board.

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(a) General (Continued)

The System 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 and postemployment healthcare trust fund. The System is administered by the Chief Executive Officer of the Office of Retirement Services, an employee of the City, who serves at the pleasure of the Federated City Employees' Retirement System Board of Administration (Board of Administration). The seven-member Board of Administration is composed of two City employees elected by members of the System, a retiree representative, and three public members, who are not connected with the City and have significant banking or investment experience, and another public member, who is selected by the six Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08.300 of the San José Municipal Code. The contribution and benefit provisions and all other requirements are established by City ordinance. The System is responsible for all direct administrative costs, except for certain support services, which are provided and funded directly by the City. The System is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

All full-time and eligible part-time employees of the City are required to be members of the System, except unrepresented executive management and professional employees in Unit 99 who are first hired on or after February 3, 2013 and have made an irrevocable election to participate in the Defined Contribution Plan pursuant to SJMC Chapter 3.49, instead of Tier 2 of the Defined Benefit Plan. Also excluded are employees who are members of the City's Police and Fire Department Retirement Plan.

With the passage of Measure F, rehires with prior Tier 1 City service who were in Tier 2 became part of the Tier 1 membership Defined Benefit Pension Plan effective June 18, 2017. In addition, employees in Tier 2 who have "Classic" membership with CalPERS may be moved to Tier 1 subject to the identification of these employees and confirmation of "Classic" membership with CalPERS. Rehires in the Tier 1 membership is broken down into the type of coverage the member had in the Postemployment Healthcare Plan prior to the passage of Measure F. The System members are categorized into three membership types based on when they entered the Plan, except for the rehires mentioned above.

The following table summarizes the System members as of June 30, 2024 and 2023, respectively.

	As of June 30, 2024				
Defined Benefit Pension Plan:	**Tier 1 Pension only [3]**	**Tier 1 Pension & Medical [4]**	**Tier 2 Pension only [3]**	**Tier 2 Pension & Medical [4]**	**Total**
Retirees and beneficiaries currently receiving benefits [1]	847	3,750	59	1	4,657
Terminated members [2]	710	142	1,279		2,131
Active members	115	1,008	3,109	69	4,301
Total	**1,672**	**4,900**	**4,447**	**70**	**11,089**
Postemployment Healthcare Plan:		**Tier 1 [4]**		**Tier 2A [4]**	**Total**
Retirees and beneficiaries currently receiving benefits [5]		3,750		1	3,751
Terminated members - Deferred vested		142			142
Active members		1,008		69	1,077
Total		**4,900**		**70**	**4,970**

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(a) General (Continued)

	As of June 30, 2023				
Defined Benefit Pension Plan:	**Tier 1 Pension only [3]**	**Tier 1 Pension & Medical [4]**	**Tier 2 Pension only [3]**	**Tier 2 Pension & Medical [4]**	**Total**
Retirees and beneficiaries currently receiving benefits [1]	806	3,771	48	1	4,626
Terminated members [2]	742	151	1,126		2,019
Active members	120	1,077	2,782	69	4,048
Total	**1,668**	**4,999**	**3,956**	**70**	**10,693**
Postemployment Healthcare Plan		**Tier 1 [4]**		**Tier 2 A [4]**	**Total**
Retirees and beneficiaries currently receiving benefits [5]		3,771		1	3,772
Terminated members - Deferred vested		151			151
Active members		1,077		69	1,146
Total		**4,999**		**70**	**5,069**

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

2 *Includes vested members entitled to future benefits and non-vested members that are due a refund of their contributions*

3 *Includes members that are eligible for catastrophic disability medical benefits only (VEBA) from the Postemployment Healthcare plan*

4 *Members are eligible for full retiree medical benefits*

5 *Payees that have health and/or dental coverage*

(b) Pension, Disability and Healthcare Benefits

Effective December 9, 1994, the System entered into an agreement with CalPERS that extends reciprocal retirement benefits to members. In certain situations, this agreement may result in improved retirement benefits for members who move from one eligible retirement system to another.

The following table summarizes the pension, disability, and healthcare benefits for the members. Please consult the Municipal Code for complete information.

	Tier 1 [1]	Tier 1 Classic [4]	Tier 2A [5]	Tier 2B [6]
Contributions				
Employee	14.84% of base salary (Pension: 7.34% [2], Retiree Healthcare: 7.50%) as of 6/25/2023	10.36% of base salary (8.36% Pension, 2.00% VEBA [3]) as of 6/25/2023	15.51% (Pension: 8.01%, Retiree Healthcare: 7.50% [3]) as of 6/25/2023	10.01% (8.01% Pension, 2.00% VEBA[7]) as of 6/25/2023
City	Pension: 20.16% (Normal Cost) + Flat dollar amount (UAL); Retiree Health: Flat dollar amount as of 6/25/2023	Pension: 20.16% (Normal Cost) + Flat dollar amount (UAL) as of 6/25/2023	Pension: 8.01%; Retiree Healthcare: dollar amount, not rate of pay as of 6/25/2023	Pension: 8.01% as of 6/25/2023
Service required to leave contributions in retirement system	5 years		5 years Federated City Service (Year of Service = 2080 hours worked in the applicable 12-month period)	

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(b) Pension, Disability and Healthcare Benefits (Continued)

	Tier 1 [1] Tier 1 Classic [4]	Tier 2A [5] Tier 2B [6]
Service Retirement		
Age / years of service	55 with 5 years service 30 years service at any age	62 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service. A reduction factor of 5% per year for each year between age fifty-five (55) and the Tier 2 member's age at retirement before age 62, prorated to the closest month
Deferred vested retirement	55 with 5 years service (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.)	May commence on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction. (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 55 with reduction factor of 5% per year for each year between age fifty-five and the Tier 2 member's age at retirement before age 62, prorated to the closest month.
Allowance	2.5% x Years of Service x Final Compensation (75% max) Final Compensation is the highest average monthly earnable pensionable salary during 12 consecutive months, capped at 108% of the second highest 12 consecutive months. **Tier 1:** If separation takes place prior to July 1, 2001, Final Compensation is highest average monthly salary during 36 consecutive months **Tier 1 Classic:** If separation takes place on or after July 1, 2001, Final Compensation is highest average monthly salary during 12 consecutive months. If separation takes place prior to July 1, 2001, Final Compensation is highest average monthly salary during 36 consecutive months	2.0% x Years of Federated City Service x Final Compensation (70% max) "Final Compensation" is the average monthly (or biweekly) base pay for the highest 3 consecutive years of Federated City Service Excludes premium pay or any other forms of additional compensation
Disability Retirement (Service Connected)		
Minimum service	NONE	
Allowance	40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation)	2% x Years of Federated City Service x Final Compensation (Minimum of 40%, maximum of 70% of Final Compensation)
Disability Retirement (Non-Service Connected)		
Minimum service	5 years Federated City Service	

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(b) Pension, Disability and Healthcare Benefits (Continued)

	Tier 1 [1]	Tier 1 Classic [4]	Tier 2A [5]	Tier 2B [6]
Allowance	**Tier 1:** 20% of Final Compensation for up to 6 years of service. Add 2% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of service.(Maximum 75% of Final Compensation). For those who entered the System on 8/31/98 or before, the calculation is as follows: 40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation) If under 55 years old, subtract 0.5% for every year under age 55 **Tier 1 Classic:** 40% of Final Compensation plus 2.5% years of service in excess of 16 years x Final Compensation (Maximum 75% of Final Compensation) If under 55 years old, subtract 0.5% for every year under age 55. For those entering the System on 9/01/98 or later, the calculation is as follows: 20% of Final Compensation for up to 6 year of service. Add 2% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of service (Maximum 75% of Final Compensation)		2% x Years of Federated City Service x Final Compensation. (Minimum of 20%, maximum of 70% of Final Compensation)	
Medical Benefits [3]				
Eligibility	Retired for disability or service with 15 years service or receive allowance that is at least 37.5% of Final Compensation. ("Deferred Vested" members are eligible)	N/A - All Federated Tier 1 Classic employees are mandated to contribute 2.00% of base salary to the VEBA [7]	Retired for disability or service with 15 years service or receive allowance that is at least 37.5% of Final Compensation. (Certain "Deferred Vested" members are also eligible)	N/A - All Federated Tier 2B employees are mandated to contribute 2.00% of base salary to the VEBA [7]
Premiums	Retirement System pays 100% of lowest cost plan that is available to active City employees. If retiree does not choose the lowest cost plan, retiree pays the difference between that premium and the premium for the lowest cost plan	N/A - All Federated Tier 1 Classic employees are mandated to contribute 2.00% of base salary to the VEBA [7]	Retirement System pays 100% of lowest cost single or family premium that is available to active City employees. If retiree does not choose the lowest cost plan, retiree pays the difference between that premium and the premium for the lowest cost plan	N/A - All Federated Tier 2B employees are mandated to contribute 2.00% of base salary to the VEBA [7]

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(b) Pension, Disability and Healthcare Benefits (Continued)

	Tier 1 [1]	Tier 1 Classic [4]	Tier 2A [5]	Tier 2B [6]
Medicare eligibility	At age 65, members of FCERS will be required to enroll in Medicare Parts A & B. If a member does not meet this requirement within 3 months of the date member turns 65, health care benefits will cease until such requirements are met	N/A - All Federated Tier 1 Classic employees are mandated to contribute 2.00% of base salary to the VEBA [7]	At age 65, members of FCERS will be required to enroll in Medicare Parts A & B. If a member does not meet this requirement within 3 months of the date member turns 65, health care benefits will cease until such requirements are met	N/A - All Federated Tier 2B employees are mandated to contribute 2.00% of base salary to the VEBA [7]
Dental Benefits [3]				
Eligibility	Must be enrolled at retirement with 5 years service or receive retirement allowance of at least 37.5% of Final Compensation. In addition, the employee must retire directly from City service. ("Deferred Vested" members are not eligible)	N/A - All Federated Tier 1 Classic employees are mandated to contribute 2.00% of base salary to the VEBA [7]	Must be enrolled at retirement with 5 years service or receive retirement allowance of at least 37.5% of Final Compensation. ("Deferred Vested" members are not eligible)	N/A - All Federated Tier 2B employees are mandated to contribute 2.00% of base salary to the VEBA [7]
Premiums	Fully paid by retirement fund	N/A - All Federated Tier 1 Classic employees are mandated to contribute 2.00% of base salary to the VEBA [7]	Fully paid by retirement fund	N/A - All Federated Tier 2B employees are mandated to contribute 2.00% of base salary to the VEBA [7]
Reciprocity				
Reciprocity	As of December 9, 1994, the City of San José Federated City Employees' Retirement System adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between this retirement system and CalPERS or certain other public agency retirement systems that also have reciprocal agreements with CalPERS. Please call the Office of Retirement Services or CalPERS for more information. Final eligibility for reciprocity is determined at the time of retirement			

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(b) Pension, Disability and Healthcare Benefits (Continued)

	Tier 1 [1]	Tier 1 Classic [4]	Tier 2A [5]	Tier 2B [6]
Cost-of-Living Adjustments (COLA)				
COLA	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLAs are compounded and paid each April. There is no prorating of COLA		Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the lesser of the increase in the Consumer Price Index (San José-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), or a back-loaded 2% COLA per fiscal year. The back-loaded COLA shall be calculated as follows: i. Service at retirement of 1-10 years: 1.25% per year ii. Service at retirement of 1-10 years and hired before June 16, 2017: 1.5% iii. Service at retirement of 11-20 years: 1.5% per year iv. Service at retirement of 21-25 years: 1.75% per year v. Service at retirement of 26 years and above: 2.0% per year COLAs are applied annually on April 1st. The first COLA will be prorated based on the number of months retired prior to April 1st. Partial months are not included in the proration.	

[1] *Federated Tier 1 applies to employees hired on or before September 29, 2012.*

[2] *Federated Rehires (hired between September 30, 2012 and June 18, 2017) will have an additional contribution rate (3.00% for FY 23-24) for the cost of the retroactive benefit.*

[3] *Federated Tier 1 and Tier 2A employees who opted-in to the VEBA are not eligible for the Defined Benefit Retiree Healthcare Plan (Medical or Dental Benefits). For more information about the VEBA, visit www.sanjoséca.gov/VEBA or email veba@sanjoséca.gov.*

[4] *Employees with "Classic" membership from a CalPERS or reciprocal agency hired by the City of San José on or after June 18, 2017. A CalPERS "Classic" member is a member who previously worked for a CalPERS or other reciprocal agency and meets the following criteria: 1. First established CalPERS membership or membership in a CalPERS reciprocal agency prior to January 1, 2013, 2. AND is hired by the City of San José after a break in service of less than six months, 3. AND did not have concurrent (overlapping) service with the other agency. City of San José Reciprocity Election Form must be submitted within thirty (30) days of the first day of employment with the City.* ***Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan.***

[5] *Tier 2A applies to employees hired between September 30, 2012 and September 27, 2013.*

[6] *Tier 2B are employees who were newly hired on or after September 27, 2013.*

[7] *Unit 99 employees are not eligible to contribute to the VEBA.*

(c) Death Benefits

The following table summarizes the survivorship pension and health benefits for Tier 1 members. Please consult the Municipal Code for complete information.

	Tier 1 / Tier 1 Classic
Death Before Retirement	
Non-service connected death with less than 5 years of service	Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (Benefit may not exceed 50% of the salary earned in year prior to death)

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(c) Death Benefits (Continued)

Tier 1 / Tier 1 Classic	
Greater than 5 years of service or service connected death	To surviving spouse / domestic partner: Years of Service x 2.5% x Final Compensation (40% minimum, 75% maximum, except that "deferred vested" members not eligible for 40% minimum) If no surviving spouse / domestic partner, to surviving children: 1 Child: 25% of spousal / domestic partnership allowance 2 Children: 50% of spousal / domestic partnership allowance 3 Children: 75% of spousal / domestic partnership allowance If no surviving spouse / domestic partner or surviving children: Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (Benefit may not exceed 50% of the salary earned in year prior to death)
Death After Retirement	
Standard allowance to surviving spouse / domestic partner or children **(Minimum 5 years of service)**	To surviving spouse / domestic partner: 50% of Retiree's Allowance If no surviving spouse / domestic partner, to surviving children: 1 Child: 25% of spousal / domestic partnership allowance 2 Children: 50% of spousal / domestic partnership allowance 3 Children: 75% of spousal / domestic partnership allowance If no surviving spouse / domestic partner or surviving children: estate or beneficiary will receive the difference between employee contributions (including interest) and the total paid to member by the retirement system at the time of death
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces the allowance to provide a survivorship allowance to a designated beneficiary or a higher survivorship allowance to their spouse / domestic partner
Special Death Benefit	
Special death benefit	$500 death benefit paid to estate or designated beneficiary in addition to benefits above

For death before retirement, the survivorship allowance to surviving spouse / domestic partner lasts until death or remarriage. However, it will last until death if member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, the survivorship allowance to surviving spouse / domestic partner lasts until death. If there is an allowance payable to a surviving spouse / domestic partner, no allowance will be paid to surviving children. Surviving children receive a monthly survivorship allowance only when there is no surviving spouse / domestic partner.

The following table summarizes the death benefits for Tier 2 members. Please consult the Municipal Code for complete information.

Tier 2A and 2B	
Death Before Retirement	
Non-service connected death not eligible for retirement	Return of employee contributions, plus interest.

NOTE 1 - DESCRIPTION OF THE PLAN (Continued)

(c) Death Benefits (Continued)

	Tier 2A and 2B
Eligible for retirement or service connected death	To surviving spouse / domestic partner: 2.0% x Years of Federated Service x Final Compensation (70% max) 40% minimum, 70% maximum, except that "deferred vested" members not eligible for 40% minimum) If no surviving spouse / domestic partner, to surviving children until age 18: 1 Child: 25% of spousal / domestic partnership allowance 2 Children: 50% of spousal / domestic partnership allowance 3 Children: 75% of spousal / domestic partnership allowance 4 or More Children: Split equal share of 75% of spousal / domestic partnership allowance If no surviving spouse / domestic partner or surviving children: Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (benefit may not exceed 50% of the salary earned in year prior to death)
Death After Retirement	
Survivorship allowance to surviving spouse / domestic partner or children that was elected by the member at retirement. **(Minimum 5 years of service)**	To surviving spouse / domestic partner: 50% of Retiree's Allowance If no surviving spouse / domestic partner, to surviving children until age 18: 1 Child: 25% of spousal / domestic partnership allowance 2 Children: 50% of spousal / domestic partnership allowance 3 Children: 75% of spousal / domestic partnership allowance **Tier 2B only:** 4 or More Children: Split equal share of 75% of spousal / domestic partnership allowance If no surviving spouse / domestic partner or surviving children: estate or beneficiary will receive the difference between employee contributions (including interest) and the total paid to member by the retirement system at the time of death.
Optional Settlements	
Optional settlements	Retiree may choose an optional settlement at retirement that reduces the allowance to provide a survivorship allowance to a designated beneficiary or a higher survivorship allowance to their spouse / domestic partner

For death before retirement, the survivorship allowance to surviving spouse / domestic partner lasts until death, remarriage, or establishment of a domestic partnership if member was at least 62 with at least 20 years of service (or 55 with a reduction factor of 5%) at the time of death. For death after retirement, the survivorship allowance to surviving spouse / domestic partner lasts until death.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying financial statements present only the financial activities of the System in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statements of the System are intended to present only the plan net position and changes in plan net position of the System. They do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2024 and 2023, and the changes in its financial position for the years then ended in conformity with U.S. GAAP. The System is reported in a pension and postemployment healthcare trust fund in the City of San José's basic financial statements.

(b) Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting. Contributions are recognized when due pursuant to legal requirements. Benefits and refunds of contributions are

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Accounting (Continued)

recognized when currently due and payable under the provisions of the System. 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 GAAP 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 3.28.355 delegates authority to the Board of Administration to invest the monies of the System as provided in Section 3.28.355. The Board has adopted detailed investment guidelines consistent with conditions and limitations set forth in Section 3.28.355.

The Defined Benefit Pension Plan investment policy was updated and approved by the Board on September 21, 2023, and the asset allocation was updated and approved on April 18, 2024. The asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and the System's adopted actuarial assumed rate of return as utilized in the June 30, 2023 and June 30, 2022 valuations, respectively.

The System's investment asset allocation is as follows:

PENSION	As of June 30,				
Asset Class	2024 Target Asset Allocation	2023 Target Asset Allocation	Asset Class	2024 Target Asset Allocation	2023 Target Asset Allocation
Public equity	49 %	49 %	Growth real estate	3 %	3 %
Investment grade bonds	6 %	8 %	Market neutral strategies	3 %	3 %
Private equity	8 %	8 %	Private debt	3 %	3 %
Core real estate	5 %	5 %	Private real assets	3 %	3 %
Immunized cash flows	5 %	5 %	High yield bonds	2 %	2 %
Venture / Growth capital	4 %	4 %	Long-term government bonds	4 %	2 %
Emerging market bonds	3 %	3 %	Treasury inflation-protected securities	2 %	2 %

The Postemployment Healthcare Plan investment policy and asset allocation was updated and approved by the Board on January 20, 2022 and April 21, 2022, respectively. There were no changes to the investment policy for fiscal year ending June 30, 2024. The asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and the System's adopted actuarial assumed rate of return as utilized in the June 30, 2023 and June 30, 2022 valuations, respectively.

The System's investment asset allocation is as follows:

HEALTHCARE	As of June 30,				
Asset Class	2024 Target Asset Allocation	2023 Target Asset Allocation	Asset Class	2024 Target Asset Allocation	2023 Target Asset Allocation
Public equity	58 %	58 %	Short-term investment grade bonds	6 %	6 %
Investment grade bonds	14 %	14 %	Commodities	5 %	5 %
Core real estate	12 %	12 %	Long-term investment grade bonds	5 %	5 %

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Investments (Continued)

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. See Note 3 for more detailed information on the fair value of investments.

The fair value of derivative instrument investments that are not exchange traded, such as swaps and rights is determined by the System's custodian bank based on the base fair 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. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated based on the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

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

Investment expenses presented within the accompanying financial statements consist of management and performance fees and other investment-related fees. Other investment-related fees include expenses for shared investment-related administration, consultants, custody, and legal services. These fees are disclosed within the Investment Expenses in the *Statement of Changes in Plan Net Position* and detailed in the *Schedules of Investment Expenses* in the Other Supplemental Information section.

The investment expenses do not include the commissions and fees paid to transact public securities. Partnership management fees paid for the private equity program are drawn from the committed capital and reported as an increase in the cost basis. These fees and costs are included within the net asset value (NAV) or public securities cost. These fees are reported as part of the net appreciation / (depreciation) in the investments fair value on the financial statements.

For the fiscal years ended June 30, 2024 and 2023, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 9.75% and 7.31%, respectively. For the fiscal years ended June 30, 2024 and 2023, the annual money-weighted rate of return on healthcare plan investments, net of healthcare plan investment expenses, was 8.23% and 8.21%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(d) Other Assets

Capital assets are recorded at cost and comprise of half of all costs related to the development of a new pension administration system. Total costs are allocated to both the System and the Police and Fire Department Retirement Plan. The capital asset went into production on February 1, 2019 and is being amortized using the straight line method of amortization over a 10-year period ending in 2029. It is being amortized per GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

The System applies GASB Statement No. 87, *Leases*, to its leased assets. GASB Statement No. 87 establishes a single model for lease accounting based on the principle that leases are a form of financing that create a long-term obligation. Leases are recorded as an intangible capital asset for the right to use the underlying asset (leased asset). The value of the right to use asset and the corresponding liability are initially measured using the present value of the payments expected to be made over the lease term. The right to use asset is then amortized over the lease term and the liability

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Other Assets (Continued)

is reduced by payments made pursuant to the lease. The System's principal leased asset is its office space in San José, California, the term of which expires March 31, 2025, and will most likely be extended for an additional five years. Lease expense is not significant to the System.

The System applies GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, to its subscription assets. GASB Statement No. 96 establishes a SBITA as a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability for government end users. Subscription assets are recorded as a liability for future lease payments and an intangible capital asset for the right to use the underlying asset (subscription asset). The subscription liability is the present value of payments expected to be made during the lease term. The right to use asset is then amortized over the lease term and the liability is reduced by payments made pursuant to the lease. The System's subscription leased assets are composed of numerous investment related subscriptions, the terms of which expire through June 30, 2026. The subscription lease expense is not significant to the System.

For fiscal years ended 2024 and 2023, the amortization expense was $522,972 and $756,374, respectively.

(Dollars in thousands)	As of June 30, 2023	Additions	Deletions	As of June 30, 2024
Other depreciable assets and amortization				
Pension administration system, cost	$ 4,201	$ 75	$ -	$ 4,276
Leased and subscription assets, cost	903	70	(148)	825
Less accumulated amortization	(2,353)	(523)	-	(2,876)
Other depreciable assets, net of accumulated amortization	**$ 2,751**	**$ (378)**	**$ (148)**	**$ 2,225**

(Dollars in thousands)	As of June 30, 2022	Additions	Deletions	As of June 30, 2023
Other depreciable assets and amortization				
Pension administration system, cost	$ 4,163	$ 38	$ -	$ 4,201
Leased and subscription assets, cost	796	107	-	903
Less accumulated amortization	(1,597)	(756)	-	(2,353)
Other depreciable assets, net of accumulated amortization	**$ 3,362**	**$ (611)**	**$ -**	**$ 2,751**

(e) Plan Net Position Restricted for Pension and Postemployment Healthcare Benefits

The System is required by the City of San José Municipal Code to establish various reserves in the plan net position. The plan net position is allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan (which includes the 115 Trust).

As of June 30, 2024 and 2023, plan net position totaling $3,567,981,000 and $3,281,923,000, respectively, is allocated as follows (in thousands):

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Plan Net Position Restricted for Pension and Postemployment Healthcare Benefits (Continued)

	Retirement Fund	Cost-of-Living Fund	Total Defined Benefit Pension Plan	Postemployment Healthcare (115)	Grand Total
June 30, 2024					
Employee contributions reserve	$ 429,973	$ 65,607	$ 495,580	$ -	$ 495,580
General reserve	1,514,341	1,144,522	2,658,863	410,427	3,069,290
Retiree healthcare in-lieu premium credit	-	-	-	3,111	3,111
Total	**$ 1,944,314**	**$ 1,210,129**	**$ 3,154,443**	**$ 413,538**	**$ 3,567,981**
June 30, 2023					
Employee contributions reserve	$ 401,002	$ 60,804	$ 461,806	$ -	$ 461,806
General reserve	1,408,406	1,037,103	2,445,509	372,107	2,817,616
Retiree healthcare in-lieu premium credit	-	-	-	2,501	2,501
Total	**$ 1,809,408**	**$ 1,097,907**	**$ 2,907,315**	**$ 374,608**	**$ 3,281,923**

Employee Contributions Reserve 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 a return of accumulated employee contributions, plus credited interest, to the member upon separation from City employment. Terminated members' returns of contributions are paid from the Defined Benefit Pension Plan only. No employee contributions are paid into or out of the healthcare plan reserves.

General Reserve is a reserve that represents net earnings resulting from interest earnings, employer contributions, and realized and unrealized investment gains and losses. It also represents an accumulation of funds necessary to pay all accumulated vested retirement obligations.

Retiree Healthcare In-lieu Premium Credit - With the implementation of Measure F, a medical in-lieu component of the General Reserve was created to account for those members who elected to be in the medical in-lieu credit program. These members are retirees who are eligible for medical insurance and / or dental insurance but who opt not to take it and instead elect to be in the in-lieu credit program. These members are given credits worth 25% of the lowest cost plan, which can be used in future years if the retiree opts to enroll in a City medical or dental plan.

(f) Allocation of Investment income

Earnings on investments, excluding unrealized gains and losses, are recorded first in the general reserve category of plan net position. An allocation is made semi-annually from the general reserve category to the employee contributions category of plan net position based on the balance in that account at an annual rate of 3%, as specified by the City of San José Municipal Code.

(g) Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 99, *Omnibus 2022*, was issued in April 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows: classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Implementation of Governmental Accounting Standards Board Statements (Continued)

Derivative Instruments, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument, clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives; clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability; extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt; clarification of provisions in Statement No. 34, *Basic Financial Statements - and Managements Discussion and Analysis - for State and Local Governments*, as amended, related to the focus of the government-wide financial statements; terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; terminology used in Statement 53 to refer to resource flows statements. Provisions related to leases and SBITAs were effective and implemented for the fiscal year beginning July 1, 2022. Provisions related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 have been implemented in the fiscal year beginning July 1, 2023. There was not a significant impact to the financial statements.

GASB Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*, was issued in June 2022. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by the reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The System has adopted the provisions of Statement No. 100 for the fiscal year beginning with July 1, 2023. There was not a significant impact to the financial statements.

GASB Statement No. 101, *Compensated Absences*, was issued in June 2022. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that a liability for certain types of compensated absences—including parental leave, military leave, and jury duty leave—not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. The System will adopt the provisions of Statement No. 101 for the fiscal year beginning with July 1, 2024.

GASB Statement No. 102, *Certain Risk Disclosures*, was issued in December 2023. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The System will adopt the provisions of Statement No. 102 for fiscal years beginning after July 1, 2024, if applicable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Implementation of Governmental Accounting Standards Board Statements (Continued)

GASB Statement No. 103, *Financial Reporting Model Improvements*, was issued in April 2024. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. Furthermore, this Statement stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. This Statement emphasizes that the analysis provided in MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government. The System will adopt the provisions of Statement No. 103 for the fiscal year beginning with July 1, 2025.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, was issued in September 2024. The purpose of this statement is to provide users of governmental financial statements with essential information about certain types of capital assets. It requires certain types of capital assets to be disclosed separately within the capital assets note disclosures required by Statement No. 34. These include lease assets recognized under Statement No. 87 (*Leases*), intangible right-to-use assets recognized under Statement No. 94 (*Public-Private and Public-Public Partnerships and Availability Payment Arrangements*), and subscription assets recognized under Statement No. 96 (*Subscription-Based Information Technology Arrangements*). These assets must be disclosed separately by major class of underlying asset in the capital assets note disclosures. In addition, intangible assets other than those three types must also be disclosed separately by major class. The statement further requires additional disclosures for capital assets that are held for sale. The requirements of this statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

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 fluctuates 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. Additionally, most other types of investments are also sensitive to changes in interest rates, generally to a lesser extent. The System's asset allocation details how much of the System's investments are fixed income, as well as other types of investments. The System does not have a policy regarding interest rate risk.

Market Risk – General market risk factors exist that could cause depreciation or appreciation of the System's investment portfolio. These risks include general, economic, political and regulatory risks. The System's investments may be impacted by changes caused by global and domestic market conditions and industry-specific economic and regulatory conditions.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (Continued)

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in months and years) as of June 30, 2024 and 2023.

INVESTMENT MATURITIES AT FAIR VALUE
As of June 30, 2024 (Dollars 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								
Investment grade bonds [1]	$ 1,569	$ -	$ 1,698	$ 34,067	$ 82,173	$ 90,125	$ 209,632	$ 215,760
Immunized cash flows	6,957	4,721	11,586	83,852	-	-	107,116	106,299
Long-term government bonds	-	-	-	-	-	73,265	73,265	102,330
High yield bonds	242	48	1,030	37,909	22,893	52	62,174	63,434
Treasury inflation-protected securities	2,989	2,643	6,653	47,677	-	-	59,962	63,605
Emerging market bonds [3]	-	-	-	50,942	-	-	50,942	49,816
Short-term investment grade bonds	13,823	-	-	-	-	-	13,823	13,823
Private debt [4]	2,786	-	-	-	-	-	2,786	3,633
Total Fixed Income	**$ 28,366**	**$ 7,412**	**$ 20,967**	**$ 254,447**	**$ 105,066**	**$ 163,442**	**$ 579,700**	**$ 618,700**

INVESTMENT MATURITIES AT FAIR VALUE
As of June 30, 2023 (Dollars 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								
Investment grade bonds [1]	$ -	$ 313	$ 389	$ 28,179	$ 68,658	$ 77,653	$ 175,192	$ 194,348
Immunized cash flows [2]	9,401	6,394	15,616	130,163	-	-	161,574	166,529
Long-term government bonds	-	-	-	-	-	74,021	74,021	98,956
Treasury inflation-protected securities	3,555	-	5,194	48,205	-	-	56,954	61,834
High yield bonds	9	-	651	24,019	25,751	5,777	56,207	61,483
Emerging market bonds [3]	-	-	-	-	51,038	-	51,038	39,816
Commodities	-	-	-	-	-	17,534	17,534	17,499
Private debt [4]	908	675	-	-	-	-	1,583	6,916
Total Fixed Income	**$ 13,873**	**$ 7,382**	**$ 21,850**	**$ 230,566**	**$ 145,447**	**$ 174,985**	**$ 594,103**	**$ 647,381**

[1] *Investment grade bonds accounts consists of fixed income securities and futures. Futures are not included in this table.*

[2] *Immunized cash flows are a combination of cash and fixed income securities. Cash is not included in this table.*

[3] *Emerging market bonds allocated accounts consist of fixed income securities and a limited partnership; the limited partnership is excluded from this table.*

[4] *Private debt is a combination of fixed income and separately managed accounts. The separately managed accounts are not included in this table.*

Custodial Credit Risk – Custodial credit risk is the risk that the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party, if that outside party fails. The System does not have a policy regarding custodial credit risk. As of June 30, 2024 and 2023 all of the System's investments are held in the System's name and / or not exposed to custodial credit risk.

Credit Quality Risk – The System's investment policy allows for investments in a wide variety of domestic and international debt securities that may carry a high rating, low rating, or be unrated.

NOTE 3 - INVESTMENTS (Continued)

Generally credit risk is managed through establishing investment guidelines for every investment manager. Investment managers may, as part of their investment strategy, invest in securities where the issuer's ability or willingness to pay is limited. At times, these debt securities may be converted into other debt, equity, or hybrid securities that have different risk and return characteristics than the securities initially purchased. The System may hedge against the possible adverse effects of currency fluctuations on the System'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. 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 following table provides information for the portfolio as of June 30, 2024 and 2023 concerning credit risk. These tables reflect only securities held in the System's name.

RATINGS OF FIXED INCOME INVESTMENTS

As of June 30, 2024 and 2023 (Dollars in thousands)

	2024		2023	
S&P Quality Rating	Fair Value	Fair Value as a % of Total Fixed Income	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 16,807	2.90%	$ 83,165	14.00%
AA+	321,124	55.39	239,106	40.25
AA	59,867	10.33	52,839	8.89
AA-	2,266	0.39	2,359	0.40
A+	2,681	0.46	3,206	0.54
A	8,207	1.42	6,570	1.11
A-	8,648	1.49	6,264	1.05
BBB+	8,109	1.40	8,446	1.42
BBB	9,720	1.68	7,987	1.34
BBB-	62,534	10.79	59,798	10.07
BB+	6,867	1.18	6,715	1.13
BB	12,492	2.15	8,469	1.43
BB-	10,688	1.84	11,815	1.99
B+	12,436	2.15	7,580	1.28
B	7,884	1.36	6,920	1.16
B-	6,356	1.10	5,956	1.00
CCC+	4,154	0.72	3,193	0.54
CCC	1,520	0.26	1,921	0.32
CCC-	244	0.04	106	0.02
Not Rated	17,096	2.95	71,688	12.06
Total	**$ 579,700**	**100.00%**	**$ 594,103**	**100.00%**

Foreign Currency Risk – This is the risk that changes in exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the System's investment policy permits individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The System's investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The System utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2024 and 2023, the System'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 System's commitments relating to international currency contracts are settled on a net basis.

NOTE 3 - INVESTMENTS (Continued)

The following tables provide information as of June 30, 2024 and 2023, concerning the fair value of investments that are subject to foreign currency risk:

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2024 (Dollars in thousands)

Currency Name	Cash	Public Equity	Private Equity	Growth Real Estate	Total Exposure
Australian dollar	$ -	$ 1,815	$ -	$ -	$ 1,815
Canadian dollar	1	5,343	-	-	5,344
Danish krone	-	4,099	-	-	4,099
Euro currency	242	49,123	243	19,314	68,922
Hong Kong dollar	-	3,787	-	-	3,787
Japanese yen	41	10,555	-	-	10,596
Norwegian krone	-	2,924	-	-	2,924
Swedish krona	-	2,804	-	-	2,804
Swiss franc	6	17,034	-	-	17,040
Taiwanese new dollar	24	-	-	-	24
United Kingdom pound	277	30,985	-	-	31,262
Total	**$ 591**	**$ 128,469**	**$ 243**	**$ 19,314**	**$ 148,617**

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2023 (Dollars in thousands)

Currency Name	Cash	Public Equity	Private Equity	Growth Real Estate	Total Exposure
Australian dollar	-	1,213	-	-	1,213
Canadian dollar	56	5,975	-	-	6,031
Danish krone	174	4,333	-	-	4,507
Euro currency	1,024	46,236	508	23,549	71,317
Hong Kong dollar	-	3,969	-	-	3,969
Japanese yen	123	10,840	-	-	10,963
Norwegian krone	2	864	-	-	866
Swedish krona	24	2,971	-	-	2,995
Swiss franc	520	17,188	-	-	17,708
Taiwanese new dollar	25	-	-	-	25
United Kingdom pound	36	22,954	-	-	22,990
Total	**$ 1,984**	**$ 116,543**	**$ 508**	**$ 23,549**	**$ 142,584**

Investment Concentration Risk – The System's investment policy specifies that investments shall be diversified with the intent to minimize the risk of large investment losses. The total portfolio shall be constructed in a way to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, issuers, geographies, or industries. In addition, assets will be assigned to a variety of investment managers that employ a range of investment management strategies. No single investment management firm shall be authorized to manage more than 15% of the System's assets without Board approval, with the exception of passive management where the System's assets are not held in the System's name at the System's custodian bank. In such cases, there is no concentration limit. As of June 30, 2024 and 2023, the System did not hold investments in any one issuer, excluding U.S. government guaranteed investments, that represented 5% or more of the total plan net position or total investments.

Derivatives – The System's investment policy allows for investments in derivative instruments that comply with the System's objectives of providing a cost effective means of managing portions of a portfolio and to manage risk through hedging activities. The System is currently authorized to use derivative strategies to equitize cash during portfolio transitions until physical securities are in place and to reproduce or replicate a physical holding that corresponds to a Board approved policy benchmark. In

NOTE 3 - INVESTMENTS (Continued)

addition to the System's internal derivative policies, it is understood that the mandates of certain investment managers retained by the System may use derivatives.

Derivative investments are reported at fair value. Derivative instruments 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. 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, 2024 or 2023. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated based on the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

The fair values and notional amounts for derivative instruments outstanding as of June 30, 2024 and 2023, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2024 and 2023 financial statements are as follows (amounts in thousands):

	Net Appreciation / (Depreciation) in Fair Value of Investments through June 30, 2024		Fair Value at June 30, 2024		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount/ Shares**
FX forwards	Investment income	$ (2)	FX forwards	$ -	$ 351
Fixed income futures long	Investment income	$ 1,564	Futures	-	147,597
Fixed income futures short	Investment income	(16)	Futures	-	(1,279)
Index futures long	Investment income	19	Futures	-	11,247
Index futures short	Investment income	205	Futures	-	(31,672)
Total Derivative Instruments		**$ 1,770**		**$ -**	

	Net Appreciation / (Depreciation) in Fair Value of Investments through June 30, 2023		Fair value at June 30, 2023		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount/ Shares**
FX forwards	Investment income	$ (63)	FX forwards	$ -	$ 612
Fixed income futures long	Investment income	(3,561)	Futures		77,500
Fixed income futures short	Investment income	127	Futures	-	(1,443)
Index futures long	Investment income	1,004	Futures	-	2,479
Index futures short	Investment income	(1,575)	Futures	-	(21,112)
Total Derivative Instruments		**$ (4,068)**		**$ -**	

Derivative investments are also subject to counterparty credit risk (non-exchange traded). The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2024 and 2023.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (Continued)

Counterparty Credit Risk – The System is exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. The System's investments in forward currency contracts bear counterparty credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2024, total commitments in forward currency contracts to purchase and sell international currencies were $(351,000) and $351,000, with fair values of $(351,000) and $351,000, respectively, held by counterparties with S&P rating of at least AA+. As of June 30, 2023, total commitments in forward currency contracts to purchase and sell international currencies were $1,076,000, with fair values of $1,076,000 and $1,076,000, respectively, held by counterparties with S&P rating of BBB+ and above.

Fair Value Measurements – The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly. Inputs to the valuation include: 1) quoted prices for similar assets or liabilities in active markets; 2) quoted prices for identical or similar assets or liabilities in markets that are not active; 3) inputs other than quoted prices that are observable for the asset or liability; and 4) market-corroborated inputs.

Level 3 inputs are unobservable inputs for an asset or liability where there are little market activities. The inputs into the determination of fair value are based upon the best information in the circumstances and may require management judgment or estimation.

The System has the following recurring fair value measurements as of June 30, 2024 and 2023:

Investments Measured at Fair Value As of June 30, 2024		**Fair Value Measurements Using**			
(Dollars in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**	**Net Asset Value (NAV)**
Investments by Fair Value Level					
Public equity	$ 1,748,692	$ 288,453	$ -	$ -	$ 1,460,239
Private equity	406,491	-	-	25,218	381,273
Investment grade bonds	210,611	38,368	116,060	-	56,183
Core real estate	179,746	-	-	-	179,746
Cash and cash equivalents	171,243	171,243	-	-	-
Growth real estate	120,875	-	-	-	120,875
Private debt	114,577	-	-	2,786	111,791
Immunized cash flows	107,116	95,196	11,920	-	-
Market neutral strategies	92,390	-	-	-	92,390
Emerging market bonds	90,474	-	-	-	90,474
Long-term government bonds	73,265	-	-	-	73,265
Private real assets	72,187	-	-	45	72,142
High yield bonds	62,174	-	56,267	-	5,907
Treasury inflation-protected securities	59,962	59,962	-	-	-
Venture / Growth capital	26,705	-	-	-	26,705
Commodities	20,700	-	-	-	20,700
Short-term investment grade bonds	13,823	13,823	-	-	-
Total Investments Measured at Fair Value	**$ 3,571,031**	**$ 667,045**	**$ 184,247**	**$ 28,049**	**$ 2,691,690**

NOTE 3 - INVESTMENTS (Continued)

Investments Measured at Fair Value As of June 30, 2023		Fair Value Measurements Using			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3	Net Asset Value (NAV)
Investments by Fair Value Level					
Public equity	$ 1,559,664	$ 250,578	$ -	$ -	$ 1,309,086
Private equity	390,509	-	-	26,303	364,206
Core real estate	199,549	-	-	-	199,549
Investment grade bonds	174,245	22,516	101,208	-	50,521
Immunized cash flows	161,586	133,814	27,772	-	-
Growth real estate	119,947	-	-	-	119,947
Emerging market bonds	110,305	-	-	-	110,305
Private debt	102,833	-	-	3,786	99,047
Market neutral strategies	90,110	-	-	-	90,110
Cash and cash equivalents	84,299	84,299	-	-	-
Long-term government bonds	74,021	-	-	-	74,021
Private real assets	67,767	-	-	45	67,722
Treasury inflation-protected securities	56,954	56,954	-	-	-
High yield bonds	56,207	-	50,852	-	5,355
Commodities	17,534	-	-	-	17,534
Venture / Growth capital	15,720	-	-	-	15,720
Short-term investment grade bonds	13,182	13,182	-	-	-
Total Investments Measured at Fair Value	**$ 3,294,432**	**$ 561,343**	**$ 179,832**	**$ 30,134**	**$ 2,523,123**

Equity and Fixed Income Securities

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for these securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices for similar securities that are observable in the market place. Debt and equity securities classified in Level 3 are securities whose inputs to valuation techniques are unobservable by the market place. Many of these securities are priced by the issuers or industry groups for these securities. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank.

Alternative Investments

Alternative investments include public equity, private equity, core real estate, investment grade bonds, growth real estate, emerging market bonds, private debt, market neutral strategies, long-term government bonds, private real assets, high yield bonds, commodities, and venture / growth capital. These are investments for which exchange quotations are not readily available and are valued at estimated fair value, as determined in good faith by the General Partner (GP) of each investment firm retained by the System. These investments are initially valued at cost with subsequent adjustments that reflect third party transactions, financial operating results and other factors deemed relevant by the GP. The assets in the alternative investment program are classified as Level 3 assets or at the NAV. A more detailed explanation of the Level 3 and NAV valuation methodologies follows.

NOTE 3 - INVESTMENTS (Continued)

Investments in non-public equity securities are valued by the GP using one or more valuation methodologies outlined in GASB Statement No. 72, *Fair Value Measurement and Application*, depending upon the availability of data required by each methodology. In some cases, the GP may use multiple approaches to estimate a valuation range. For the immediate time period following a transaction, the determination of the fair value for equity securities, in which no liquid trading market exists, can generally be approximated based on the transaction price (absent any significant developments). Thereafter, or in the interim, if significant developments relating to such portfolio company or industry occur which may suggest a material change in value, the GP should value each investment by applying generally accepted valuation methods including: (1) the market approach (such as market transaction and comparable public company multiples, which are based on a measurement of the company's historical and projected financial performance with typical metrics including enterprise value / latest 12 months earnings before interest, taxes, depreciation, and amortization (EBITDA) or projected fiscal year EBITDA) or (2) the income or discounted cash flow approach.

The determination of fair value using these methodologies should take into consideration a range of factors, including but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment. Because of the subjective nature of estimated fair value of the private investments, such value may differ significantly from the values that would have been used had a ready market existed for these investments. These financial instruments have been classified as Level 3 or NAV in the fair value hierarchy, provided that the NAV is calculated and used as a practical expedient to estimate fair value in accordance with GAAP requirements. These investments are not categorized within the fair value hierarchy.

The following tables present the category, fair value, unfunded commitments, redemption frequency and redemption notice period for investments for which fair value is presented using the NAV as of June 30, 2024 and 2023:

Investments Measured at the NAV As of June 30, 2024 *(Dollars in thousands)*	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
Public equity	$ 1,460,239	$ -	Daily, Weekly, Monthly	1 - 30 Days
Private equity	381,273	101,582	Daily, N/A	1 Day, N/A
Core real estate	179,746	-	Quarterly	45 - 90 Days
Investment grade bonds	56,183	-	Daily	1 - 3 Days
Growth real estate	120,875	44,323	N/A	N/A
Emerging market bonds	90,474	-	Daily, Quarterly	1 - 45 Days
Private debt	111,791	48,912	N/A	N/A
Market neutral strategies	92,390	-	Monthly, Bi-Annual	45 - 60 Days
Long-term government bonds	73,265	-	Daily	3 Days
Private real assets	72,142	54,551	N/A	N/A
High yield bonds	5,907	-	Daily	3 Days
Commodities	20,700	-	Daily	3 Days
Venture / Growth capital	26,705	50,552	N/A	N/A
Total Investments Measured at NAV	**$ 2,691,690**	**$ 299,920**		

NOTE 3 - INVESTMENTS (Continued)

Investments Measured at the NAV As of June 30, 2023 *(Dollars in thousands)*	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Public equity	$ 1,309,086	$ -	Daily, Weekly, Monthly	1 - 30 Days
Private equity	364,206	102,400	Daily, N/A	1 Day, N/A
Core real estate	199,549	-	Quarterly	90 Days
Investment grade bonds	50,521	-	Daily	1 - 3 Days
Growth real estate	119,947	60,000	N/A	N/A
Emerging market bonds	110,305	-	Daily, Quarterly	1 - 45 Days
Private debt	99,047	63,500	N/A	N/A
Market neutral strategies	90,110	-	Monthly, Bi-Annual	45 - 60 Days
Long-term government bonds	74,021	-	Daily	3 Days
Private real assets	67,722	51,100	N/A	N/A
High yield bonds	5,355	-	Daily	3 Days
Commodities	17,534	-	Daily	3 Days
Venture / Growth capital	15,720	52,000	N/A	N/A
Total Investments Measured at NAV	**$ 2,523,123**	**$ 329,000**		

Public equity - Public equities are shares of ownership of a firm listed on an exchange; the System holds global public equities to benefit from their total return (capital appreciation plus current yield) over a long-term horizon. The commingled funds liquidity ranges from daily to monthly and the notice periods are between one day and thirty days.

Private equity - This type generally invests in privately held companies. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market. The commingled investment offers daily liquidity with a one-day notice.

Core real estate - This type includes investments in open-ended real estate commingled funds. Core real estate funds typically invest in physical properties. The goal of core real estate is to produce price appreciation and income while maintaining a low correlation to stocks and bonds held by the System. The open-ended real estate funds offer quarterly redemptions with notice periods of forty-five days to ninety days.

Investment grade bonds - The purpose of investment grade bonds is to produce returns and income for the System by providing exposure to rates and credit risk. The commingled funds offer daily liquidity with a notice period of one to three days.

Growth real estate - The goal of growth real estate is to produce price appreciation and income while maintaining a low correlation to stocks and bonds. The only way to exit these funds is through a sale in a secondary market.

Emerging market bonds - Emerging market bonds funds typically invest in contractual cash flows of governments and other sovereign entities, corporations, securitizations, and derivatives thereof in emerging market countries with a sovereign rating less than BBB-. One partnership has quarterly redemption period with a notice period of forty-five days; the other has a daily redemption period with a one-day notice period.

Private debt - This type includes investments in private debt limited partnership funds. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market.

NOTE 3 - INVESTMENTS (Continued)

Market neutral strategies - This type includes investments in limited partnership hedge funds that invest both long and short in a wide array of securities, including listed and OTC derivatives, and typically use leverage and hedging to capture directional market movements or relative market mispricing. The redemption frequencies range from monthly to bi-annual with notice periods of forty-five days to sixty days.

Long-term government bonds - The purpose of long-term government bonds is to provide a positive return in highly stressed market environments, with a low correlation to equity risk. The commingled fund offers daily liquidity with a notice period of three days.

Private real assets - Private real assets are physical or tangible assets that have value due to their substance and properties. The goal of real assets is to help the portfolio maintain purchasing power through periods of inflation. The only way to exit these funds is through a sale in a secondary market.

High yield bonds - The primary purpose of high yield bonds is to provide the System with exposure to high yielding corporate debt. The commingled fund offers daily liquidity with a notice period of three days.

Commodities - Commodities are physical or tangible assets that have value due to their substance and properties. The goal of commodities is to help the portfolio maintain purchasing power through periods of inflation. The commodities fund offers daily liquidity with three business days' notice.

Venture / Growth capital - This type includes investments in venture capital limited partnership funds, which generally invest in early stage privately held companies. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market.

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS

Net Pension Liability. The components of the net pension liability (i.e., the total pension liability determined in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*, less the plan net position) as of June 30, 2024 and 2023, were as follows (dollars in thousands):

	2024	2023
Total pension liability	$ 5,113,959	$ 4,882,494
Plan fiduciary net position	3,154,443	2,907,315
Net pension liability	$ 1,959,516	$ 1,975,179
Plan fiduciary net position as a percentage of the total pension liability	**61.7 %**	**59.5 %**

Actuarial Assumptions. 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 appropriate revisions to the actuarial assumptions, as actual results are compared with past expectations and new estimates are made about the future. The last experience study was performed in November 2023.

The total pension liability as of June 30, 2024 and 2023 is based on results of an actuarial valuation date of June 30, 2023 and 2022, respectively, and rolled-forward to June 30, 2024 and 2023 using standard roll forward procedures. A summary of the actuarial assumptions used to determine the total pension liability is shown on the next page.

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (Continued)

Actuarial Assumptions		
Valuation date	June 30, 2023	June 30, 2022
Measurement date	June 30, 2024	June 30, 2023
Inflation rate	2.50%	2.50%
Discount rate	6.625%. The Board expects a long-term rate of return of 8.8% based on Meketa's 2023 20-year capital market assumptions and the System's current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate	6.625%. The Board expects a long-term rate of return of 7.2% based on Meketa's 2022 20-year capital market assumptions and the System's current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate
Active, withdrawal, death, disability service retirement	Tables based on current experience	Tables based on current experience
Mortality	*Healthy retirees and beneficiaries:* 0.995 for males, and 1.020 for females, times the 2010 Public General Mortality Table (PubG-2010) for healthy retirees *Healthy non-annuitant:* 0.992 for males, and 1.084 for females, times the 2010 Public General Mortality Table (PubG-2010) for healthy employees *Disabled retirees*: 0.990 for males, and 0.920 for females, times the 2010 Public General Mortality Table (PubG-2010) for disabled retirees Mortality is projected on a generational basis using the MP-2021 projection scale	*Healthy retirees:* 0.995 for males, and 0.960 for females, times the 2010 Public General Mortality Table (PubG-2010) for healthy retirees *Healthy non-annuitant:* 0.992 for males, and 1.084 for females, times the 2010 Public General Mortality Table (PubG-2010) for healthy employees *Disabled annuitants:* 1.051 for males, and 0.991 for females, times the CalPERS 2009 Ordinary Disability Mortality Table Mortality is projected on a generational basis using the MP-2021 projection scale
Salary increases	The base wage inflation plus a merit / longevity increase based on years of service ranging from 3.25% at hire to 0.25% for members with 18 or more years of service. The base wage inflation reflects currently bargained increases and 3.00% after the bargaining agreements expire.	The base wage inflation assumption of 3.00% plus a merit / longevity increase based on years of service ranging from 3.75% at hire to 0.10% for members with 15 or more years of service
Cost-of-Living Adjustment	Tier 1 - 3% per year; Tier 2 - 1.25% to 2.00% depending on years of service	Tier 1 - 3% per year; Tier 2 - 1.25% to 2.00% depending on years of service

The assumption for the long-term expected rate of return on pension plan investments of 6.625% for both the valuation years ended June 30, 2023 and 2022, was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return.

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2024 and 2023, (see the discussion of the System's investment policy) are summarized in the table on the next page:

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (Continued)

	2024		2023	
Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	49%	8.5%	49%	6.5%
Private equity	8%	10.8%	8%	7.9%
Investment grade bonds	6%	4.8%	8%	2.0%
Core real estate	5%	6.9%	5%	3.8%
Immunized cash flows	5%	2.5%	5%	0.3%
Venture / Growth capital	4%	12.0%	4%	8.8%
Emerging market bonds	3%	6.8%	3%	3.5%
Growth real estate	3%	9.0%	3%	6.0%
Market neutral strategies	3%	5.8%	3%	3.4%
Private debt	3%	9.2%	3%	6.2%
Private real assets	3%	9.3%	3%	6.4%
High yield bonds	2%	6.8%	2%	4.6%
Long-term government bonds	4%	5.0%	2%	2.3%
Treasury inflation-protected securities	2%	4.7%	2%	1.9%
Cash and cash equivalents	N/A	2.5%	N/A	0.3%

Discount Rate. The discount rate used to measure the total pension liability was 6.625% for both measurement years ended June 30, 2024 and 2023. It is assumed that System member contributions and City contributions will be made based on the actuarially determined rates based on the Board's funding policy. Based on those assumptions, the System's net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in Discount Rate. In accordance with GASB Statement No. 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following presents the net pension liability of the City, as of June 30, 2024 and 2023, calculated using the discount rate of 6.625%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate (in thousands):

	2024			2023		
	1% Decrease (5.625%)	Discount Rate (6.625%)	1% Increase (7.625%)	1% Decrease (5.625%)	Discount Rate (6.625%)	1% Increase (7.625%)
Total pension liability (TPL)	$ 5,804,479	$ 5,113,959	$ 4,549,547	$ 5,543,803	$ 4,882,494	$ 4,341,812
Plan fiduciary net position	3,154,443	3,154,443	3,154,443	2,907,315	2,907,315	2,907,315
Net pension liability	$ 2,650,036	$ 1,959,516	$ 1,395,104	$ 2,636,488	$ 1,975,179	$ 1,434,497
Plan fiduciary net position as a percentage of the TPL	**54.3 %**	**61.7 %**	**69.3 %**	**52.4 %**	**59.5 %**	**67.0 %**

On June 24, 2008, the City Council adopted Ordinance No. 28332 amending Chapter 3.28 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 System (referred to as prefunding).

In November 2010, the Board adopted a funding policy (referred to as the floor methodology) setting the City's funding policy contribution amount to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage rate reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

In October 2014, the Board approved implementing an incremental reduction approach to determining

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (Continued)

"actuarial equivalence" for the prefunding when the economic expansion has exceeded 58 months in duration and / or the S&P 500 has returns in excess of 130%. This approach will ensure that as business expansions and / or market valuation mature and exceed historic norms, the System reduces the incentive for the City to prefund its contributions. The incremental reduction to the discount rate that is used to calculate the prefunding is 15% per year, up to a maximum of 45%. In March 2022, the Board approved a modification to the incremental reduction approach that added market valuations as an additional criterion for triggering a reduction in the prefunding discount rate.

In February 2016, the Board approved the City's request that the floor methodology for Tier 1 be used only for the annual employer Normal Cost contribution (which includes administrative expenses) and that the annual employer Unfunded Actuarial Liability (UAL) contribution be set at the dollar amount recommended by the actuary and adopted by the Board in the annual actuarial valuation report beginning fiscal year 2017.

San José City Council Ordinance No. 29120 implemented the terms approved by the City Council on June 12, 2012 for Tier 2 pension benefits for new System members hired on or after September 30, 2012. The new tier includes significant benefit changes from the existing Tier 1 plan as described in Note 1. In addition, the contribution rate for Tier 2 members includes a change in the cost sharing between the City and active Tier 2 members, which is a 50/50 split of all costs, including UAL. Currently, Tier 1 members split normal cost with 8/11 paid by the City and 3/11 paid by Tier 1 members. The responsibility for funding the UAL is generally not shared with the Tier 1 employees.

Beginning September 2014, the Board approved the City's request to exclude Tier 2 from the floor methodology to ensure that the City does not pay more than the actuarially determined contribution (ADC).Therefore, the contribution rate determined by the actuary multiplied by the actual payroll is used.

On June 29, 2021, the City Council introduced an ordinance amending the Municipal Code to cease the contributions of Tier 1 members of the System with 30 or more years of service credit as of the effective date of the Ordinance. Eligible members are those employees who are in positions assigned to an unrepresented employee unit or a represented bargaining unit that has agreed to the Ordinance and has been approved by the City Council. As of June 30, 2024, Unit 99, the Association of Legal Professionals, and Association of Building, Mechanical, and Electrical Inspectors have agreed to the provisions. The change is intended by the City to incentivize such members to continue working for the City by increasing their take-home pay. The Ordinance was approved on August 3, 2021 and became effective on September 2, 2021.

On May 19, 2022, the Board approved the City's decision to prefund Tier 1 contributions for the fiscal year ending June 30, 2023. The City decided not to prefund contributions for fiscal year ending June 30, 2024. The City's contributions for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2024 and 2023 were as follows.

Fiscal year		**2024**	
Actuarial valuation year		**2022**	
(Dollars in thousands)	**Tier 1**	**Tier 2**	**Total**
Actual payroll	$ 143,232	$ 290,942	$ 434,174
City normal cost rate for pension and COLA	20.16%	8.01% [2]	N/A
Regular contributions paid throughout the year	28,876	23,304	52,180
UAL amounts	168,762	-	168,762
Adjustments and accruals	(2,630)	1	(2,629)
Total contributions for the fiscal year	**$ 195,008**	**$ 23,305**	**$ 218,313**

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (Continued)

Fiscal year	2023		
Actuarial valuation year	2021		
(Dollars in thousands)	Tier 1	Tier 2	Total
Actual payroll	$ 143,224	$ 243,091	$ 386,315
Actuarial payroll	132,590	N/A	N/A
Actual payroll in excess of actuarial payroll	10,634	N/A	N/A
City normal cost rate for pension and COLA	20.32%	8.13% [2]	N/A
Additional contributions due to the Floor Methodology	2,161	N/A	2,161
Prefunded contribution amount (BOY) [1]	184,423	N/A	184,423
Regular contributions paid throughout the year	-	19,763	19,763
Adjustments and accruals	(6,961)	54	(6,907)
Total contributions for the fiscal year	**$ 179,623**	**$ 19,817**	**$ 199,440**

[1] *Beginning of year*

[2] *Tier 2 Contribution rate includes UAL percentage of 0.28% for fiscal years ended June 30, 2024 and 2023*

Contributions to the Defined Benefit Pension Plan are actuarially determined to provide adequate assets to pay benefits when due. The City's Tier 1 UAL contribution is actuarially determined as a minimum dollar amount. All other contributions are an actuarially determined percentage of each member's covered payroll. The contribution rates and amounts for fiscal years ended June 30, 2024 and 2023 were based on the actuarial valuations performed as of June 30, 2022 and 2021, respectively.

The City and the participating member's contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2024 and 2023 were as follows:

	City-Board Adopted			Member	
Period	City Tier 1	Tier 1 UAL Dollar Amount [3]	City Tier 2	Employee Tier 1 [2]	Employee Tier 2
6/23/24 - 6/30/24	22.81%		8.73%	6.61%	8.49%
6/25/23 - 6/22/24 [1]	20.16%	$168,762,000	8.01%	7.34%	8.01%
7/01/22 - 6/24/23 [1]	20.32%	$162,602,000	8.13%	7.41%	8.13%

[1] *The actual contribution rates paid by the City for fiscal year ended June 30, 2023 differed for Tier 1 due to the City funding the actuarially determined contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.*

[2] *Under Measure F, certain Tier 2 members who had previous Tier 1 service or prior service with a reciprocal employer were reclassified to Tier 1. Ordinance No. 30183, which became effective January 4, 2019, amended the Municipal Code to reflect these changes. Reclassified Tier 1 members paid an additional 3.00% in contributions for fiscal years ended June 30, 2024 and 2023. Classic Tier 1 members paid an additional 1.02% and 1.09% in contributions for fiscal years ended June 30, 2024 and 2023, respectively.*

[3] *Contributions are structured as a normal cost, plus a payment on the Unfunded Actuarial Liability (UAL).Tier 1 City contributions are administered as a normal cost contribution rate based on payroll plus a dollar amount payment on the UAL.*

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS

Net OPEB Liability. The components of the net Other Postemployment Benefit (OPEB) liability of the System (i.e., the System's liability determined in accordance with GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, less the plan fiduciary net position) as of June 30, 2024 and 2023, were as follows (dollars in thousands):

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (Continued)

	2024	2023
Total OPEB liability	$ 729,703	$ 665,107
Plan fiduciary net position	413,538	374,608
Net OPEB liability	$ 316,165	$ 290,499
Plan fiduciary net position as a percentage of the total OPEB liability	**56.7 %**	**56.3 %**

Actuarial Assumptions. 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 appropriate revisions to the actuarial assumptions, as actual results are compared with past expectations and new estimates are made about the future. The last experience study was performed in November 2023.

The total OPEB liability as of June 30, 2024 and 2023 is based on results of an actuarial valuation date of June 30, 2023 and 2022, and rolled-forward to June 30, 2024 and 2023 using generally accepted actuarial procedures. A summary of the actuarial assumptions used to determine the total OPEB liability is shown below.

Actuarial Assumptions		
Valuation date	June 30, 2023	June 30, 2022
Measurement date	June 30, 2024	June 30, 2023
Actuarial cost method	Entry age normal, level of % of pay	Entry age normal, level of % of pay
Inflation rate	2.50%	2.50%
Discount rate (net)	6.00% per year. The Board expects a long-term rate of return of 8.0% based on Meketa's 20-year capital market assumptions and the System's current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate	6.00% per year. The Board expects a long-term rate of return of 6.3% based on Meketa's 20-year capital market assumptions and the System's current investment policy
Projected payroll increases		
Wage inflation rate	Currently bargained increases of 4.50% effective July 1, 2024 and 3.50% effective July 1, 2025. Assumed annual increases of 3.00% thereafter.	3.00%
Merit increase	Merit component added based on an individual's years of service ranging from 3.25% to 0.25%	Merit component added based on an individual's years of service ranging from 3.75% to 0.10%
Rates of mortality	Mortality is projected on a generational basis using the MP-2021 scale	Mortality is projected on a generational basis using the MP-2021 scale
Healthy retirees and beneficiaries	0.995 for males and 1.020 for females, times the 2010 Public General Mortality Table (PubG-2010) for healthy retirees	0.995 for males and 0.960 for females, times the 2010 Public General Mortality Table (PubG-2010) for healthy retirees
Healthy non-annuitants	0.992 for males and 1.084 for females, times the 2010 Public General Mortality Table (PubG-2010) for healthy employees	0.992 for males and 1.084 for females, times the 2010 Public General Mortality Table (PubG-2010) for healthy employees
Disabled retirees	0.990 for males and 0.920 for females, times the 2010 Public General Mortality Table (PubG-2010) for disabled retirees	1.051 for males and 0.991 for females, times the CalPERS 2009 Ordinary Disability Mortality Table

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (Continued)

Healthcare Cost Trend Rates		
Medical	The valuation assumes that future medical inflation will be at a rate of 8.60% to 3.94% per annum graded down over a 50 year period for medical pre-age 65 and 5.72% to 3.94% per annum for medical post-age 65. For fiscal year beginning 2024, actual calendar year 2024 premiums are combined with a trend assumption for calendar year 2025	The valuation assumes that future medical inflation will be at a rate of 7.16% to 3.94% per annum graded down over a 51 year period for medical pre-age 65 and 4.27% to 3.94% per annum for medical post-age 65. For fiscal year beginning 2023, actual calendar year 2023 premiums are combined with a trend assumption for calendar year 2024
Dental	Dental inflation is assumed to be 3.50%	Dental inflation is assumed to be 3.50%

The assumption for the long-term expected rate of return on OPEB plan investments of 6.00% for the valuation years ended June 30, 2023 and June 30, 2022, respectively, was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return.

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2024 and 2023, (see the discussion of the System's investment policy) are summarized in the following table. The assets are invested in a 115 trust.

	2024		2023	
Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	58.0%	8.5%	58.0%	6.5%
Investment grade bonds	14.0%	4.8%	14.0%	2.0%
Core real estate	12.0%	6.9%	12.0%	3.8%
Short-term investment grade bonds	6.0%	3.7%	6.0%	0.9%
Commodities	5.0%	5.3%	5.0%	3.0%
Long-term government bonds	5.0%	5.0%	5.0%	2.3%

Discount Rate. The discount rate used to measure the total OPEB liability was 6.00% for the measurement years ended June 30, 2024 and 2023 respectively, and is based on the long-term expected rate of return on investments. It is assumed that plan member contributions remain fixed at 7.5% of pay for employees eligible to participate in the postemployment healthcare plan and the City contributes the actuarially determined contribution toward the explicit subsidy up to a maximum of 14% of total payroll. In addition, the City pays the implicit subsidy on a pay-as-you-go basis. Based on those assumptions, the System's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in Discount Rate. In accordance with GASB No. 74 regarding the disclosure of the sensitivity of the net OPEB liability to changes in the discount rate, the following presents the net OPEB liability of the City, as of June 30, 2024 and 2023, calculated using the discount rate of 6.00% for both years, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate (dollar amounts in thousands):

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (Continued)

	2024			2023		
	1% Decrease (5.00%)	Discount Rate (6.00%)	1% Increase (7.00%)	1% Decrease (5.00%)	Discount Rate (6.00%)	1% Increase (7.00%)
Total OPEB liability	$ 826,703	$ 729,703	$ 650,188	$ 757,945	$ 665,107	$ 589,559
Plan fiduciary net position	413,538	413,538	413,538	374,608	374,608	374,608
Net OPEB liability	$ 413,165	$ 316,165	$ 236,650	$ 383,337	$ 290,499	$ 214,951
Plan fiduciary net position as a percentage of the total OPEB liability	**50.0 %**	**56.7 %**	**63.6 %**	**49.4 %**	**56.3 %**	**63.5 %**

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1.0% lower, 7.60% decreasing to 2.94%, or 1.0% higher, 9.60% decreasing to 4.94%, than the current healthcare cost trend rates (dollar amounts in thousands):

	2024			2023		
	1% Decrease	Health Care Cost Trend	1% Increase	1% Decrease	Health Care Cost Trend	1% Increase
Total OPEB liability	$ 641,895	$ 729,703	$ 836,867	$ 581,274	$ 665,107	$ 768,300
Plan fiduciary net position	413,538	413,538	413,538	374,608	374,608	374,608
Net OPEB liability	$ 228,357	$ 316,165	$ 423,329	$ 206,666	$ 290,499	$ 393,692
Plan fiduciary net position as a percentage of the total OPEB liability	**64.4 %**	**56.7 %**	**49.4 %**	**64.4 %**	**56.3 %**	**48.8 %**

The Postemployment Healthcare Plan is an IRC Section 115 Trust. The 401(h) plan was depleted as of November 2019 leaving only the 115 Trust in the Healthcare Plan beginning with the end of the fiscal year ended June 30, 2020.

On June 24, 2008, the City Council adopted Ordinance No. 28332 amending Chapter 3.28 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 System (referred to as prefunding).

In November 2010, the Board adopted a funding policy (referred to as the floor methodology) setting the annual contribution to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage rate of contribution reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

In October 2014, the Board approved implementing an incremental reduction approach to determining "actuarial equivalence" for the prefunding when the economic expansion has exceeded 58 months in duration and / or the S&P 500 has returns in excess of 130%. This approach will ensure that as business expansions and / or market valuation mature and exceed historic norms, the System reduces the incentive for the City to prefund its contributions. The incremental reduction to the discount rate that is used to calculate the prefunding is 15% per year, up to a maximum of 45%. In March 2022, the Board approved a modification to the incremental reduction approach that added market valuations as an additional criterion for triggering a reduction in the prefunding discount rate.

On August 27, 2013, San José City Council adopted Ordinance No. 29283 to exclude Tier 2 members hired on or after September 27, 2013 from retiree medical and dental benefits (referred to as Tier 2B members) but the City shall bear and pay an amount equal to the additional costs incurred by the System for that portion of the unfunded liability as determined by the actuary for the System that the City and Tier 2B members would have otherwise paid as contributions had those employees been eligible for the retiree healthcare defined benefit.

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (Continued)

Historically, member and City contributions to the System have been negotiated through collective bargaining and have not been actuarially determined. No amount was determined on an actuarial basis to fund the Healthcare Plan prior to fiscal year 2019. With the passage of Measure F, the Federated Alternative Pension Reform Settlement Framework (Federated Framework) became effective as of June 16, 2017. A Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare was created and Tier 1 and some Tier 2 members were eligible for an irrevocable opt-out of the defined benefit retiree healthcare plan. The VEBA opt-in election period was October 18, 2017 through December 15, 2017, and the healthcare contributions of members who opted in to the VEBA was transferred out of the Postemployment Healthcare Plan in March 2018 and moved in to the defined contribution VEBA. All Tier 1 employees (except those who enter the Plan after June 18, 2017 with “Classic” membership in CalPERS) and Tier 2 employees who were previously making contributions into the defined benefit retiree healthcare plan (Tier 2A), were eligible to opt-in to the VEBA, while all Tier 2 employees (except unrepresented employees) were required to move in to the defined contribution VEBA. The VEBA is being implemented by the City, not ORS, and therefore it is also not under the jurisdiction of the Retirement Board.

With the implementation of Measure F, member contributions were fixed at 7.5% of pay. The City's contribution toward the explicit subsidy is actuarially determined beginning with the fiscal year ending June 30, 2019, and the City also pays the implicit subsidy on a pay-as-you-go basis as part of active health premiums. In addition, the City has an option to limit its contributions to 14% of payroll. The explicit subsidy (or premium subsidy) is paid by the System and is the premium for health coverage selected by the retiree, up to 100% of the premium for the lowest cost plan offered to active employees. The implicit subsidy is the difference between the expected claims cost for a retiree or spouse and the total (retiree plus City) premium.

In February 2018, the Board approved the contribution policy that sets the City healthcare contributions as a flat dollar amount, beginning with fiscal year 2019. The City's contribution for the Postemployment Healthcare Plan during the fiscal year ended June 30, 2024 was $25,357,000, 19,095,000 in regular contributions, $6,406,000 in implicit subsidy, and $(144,000) in adjustments and accruals. The City's contribution for the Postemployment Healthcare Plan during the fiscal year ended June 30, 2023 was $22,997,000, $18,318,000 in regular contributions, $5,370,000 in implicit subsidy, and $(691,000) in adjustments and accruals.

The City and the participating member's contribution amounts and rates in effect for the Postemployment Healthcare Plan during the fiscal years ended June 30, 2024 and 2023 were as follows:

	City - Board Adopted [2]	Members with Healthcare
Period	**City Tier 1 and City Tier 2**	**Tier 1 and Tier 2**
07/01/23 - 06/30/24	$ 19,095,000	7.50 %
07/01/22 - 06/30/23	$ 18,318,000 [1]	7.50 %

[1] *Beginning of the year*

[2] *Explicit subsidy amounts as shown excludes accruals, adjustments, and implicit subsidy.*

NOTE 6 - COMMITMENTS

As of June 30, 2024 and 2023, the System had unfunded commitments to contribute capital for investments in the amount of $299,920,000 and $329,000,000, respectively.

NOTE 7 - LITIGATION

The System handles various claims and legal actions in the ordinary course of its business. In the opinion of management and independent legal counsel, the ultimate disposition of these matters is not likely to have a material adverse effect on the System’s financial position as a whole.

Required Supplementary Information

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS - DEFINED BENEFIT PENSION PLAN (unaudited)

(Dollars in thousands)

Total Pension Liability (TPL)	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Service cost (Middle of Year)	$ 81,586	$ 70,247	$ 67,581	$ 65,711	$ 61,014	$ 61,808	$ 59,628	$ 51,887	$ 49,011	$ 46,795
Interest	319,257	304,936	295,014	283,610	280,131	272,787	264,250	249,388	229,610	221,690
Changes of benefit terms	-	-	-	-	-	-	1,781	12,132	-	-
Differences between expected and actual experience	64,615	64,726	27,568	44,382	(27,723)	(11,662)	17,460	40,853	39,720	13,005
Changes of assumptions	22,572	518	9,684	36,981	(2,937)	54,398	(15,582)	60,233	205,875	108,674
Benefit payments, including refunds	(256,565)	(247,356)	(237,273)	(227,206)	(216,728)	(205,065)	(193,400)	(183,430)	(173,318)	(164,562)
Net Change in TPL	**231,465**	**193,071**	**162,574**	**203,478**	**93,757**	**172,266**	**134,137**	**231,063**	**350,898**	**225,602**
TPL - Beginning	**4,882,494**	**4,689,423**	**4,526,849**	**4,323,371**	**4,229,614**	**4,057,348**	**3,923,211**	**3,692,148**	**3,341,250**	**3,115,648**
TPL - Ending	**$5,113,959**	**$4,882,494**	**$4,689,423**	**$4,526,849**	**$4,323,371**	**$4,229,614**	**$4,057,348**	**$3,923,211**	**$3,692,148**	**$3,341,250**
Plan Fiduciary Net Position										
Contributions - employer	$ 218,313	$ 199,440	$ 207,598	$ 183,964	$ 181,327	$ 173,006	$ 156,770	$ 138,483	$ 124,723	$ 114,751
Contributions - employee	33,933	30,561	27,464	25,724	25,081	22,606	20,501	17,227	15,920	13,621
Net investment income	257,583	222,101	(169,129)	698,608	90,910	76,855	117,493	146,011	(35,011)	(16,642)
Benefit payments, including refunds	(256,565)	(247,356)	(237,273)	(227,206)	(216,728)	(205,065)	(193,400)	(183,430)	(173,318)	(164,562)
Administrative expense	(6,136)	(5,458)	(4,978)	(4,762)	(4,725)	(4,582)	(4,823)	(4,380)	(3,941)	(3,898)
Net Change in Plan Fiduciary Net Position	**$ 247,128**	**$ 199,288**	**$ (176,318)**	**$ 676,328**	**$ 75,865**	**$ 62,820**	**$ 96,541**	**$ 113,911**	**$ (71,627)**	**$ (56,730)**
Plan Fiduciary Net Position - Beginning	**2,907,315**	**2,708,027**	**2,884,345**	**2,208,017**	**2,132,152**	**2,069,332**	**1,972,791**	**1,858,880**	**1,930,507**	**1,987,237**
Plan Fiduciary Net Position - Ending	**$3,154,443**	**$2,907,315**	**$2,708,027**	**$2,884,345**	**$2,208,017**	**$2,132,152**	**$2,069,332**	**$1,972,791**	**$1,858,880**	**$1,930,507**
Net Pension Liability - Ending	**$1,959,516**	**$1,975,179**	**$1,981,396**	**$1,642,504**	**$2,115,354**	**$2,097,462**	**$1,988,016**	**$1,950,420**	**$1,833,268**	**$1,410,743**
Plan Fiduciary Net Position as a Percentage of TPL	**61.68%**	**59.55%**	**57.75%**	**63.72%**	**51.07%**	**50.41%**	**51.00%**	**50.29%**	**50.35%**	**57.78%**
Covered Payroll	**$ 434,174**	**$ 386,315**	**$ 348,307**	**$ 335,421**	**$ 319,980**	**$ 298,824**	**$ 290,504**	**$ 271,153**	**$ 257,771**	**$ 240,678**
Net Pension Liability as a Percentage of Covered Payroll	**451.32 %**	**511.29 %**	**568.86 %**	**489.68 %**	**661.09 %**	**701.91 %**	**684.33 %**	**719.31 %**	**711.20 %**	**586.15 %**

SCHEDULE OF INVESTMENT RETURNS - DEFINED BENEFIT PENSION PLAN (unaudited)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Annual money - weighted rate of return, net of investment expense	9.75%	7.31%	(4.19)%	29.43%	3.79%	4.17%	6.03%	7.53%	(0.79)%	(1.07)%

The rate shown above is based on the Defined Benefit and does not include the 115 Trust.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN (unaudited)

(Dollars in thousands)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contributions	$ 218,313	$ 199,440	$ 207,598	$ 183,964	$ 181,327	$ 173,006	$ 156,770	$ 138,483	$ 129,456	$ 114,751
Contributions in relation to actuarially determined contributions	218,313	199,440	207,598	183,964	181,327	173,006	156,770	138,483	124,723	114,751
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,733	$ -
Covered payroll	$ 434,174	$ 386,315	$ 348,307	$ 335,421	$ 319,980	$ 298,824	$ 290,504	$ 271,153	$ 257,771	$ 240,678
Contributions as a percentage of covered payroll	50.28 %	51.63 %	59.60 %	54.85 %	56.67 %	57.90 %	53.96 %	51.07 %	48.39 %	47.68 %

NOTES TO SCHEDULE

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Fiscal Year	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Valuation date	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Mortality	Adjusted 2010 Public General (healthy) and 2009 CalPERS (disabled) mortality tables projected on a generational basis with the SOA MP-2021 projection scale	Adjusted 2010 Public General (healthy) and 2009 CalPERS (disabled) mortality tables projected on a generational basis with the SOA MP-2021 projection scale	Adjusted 2010 Public General (healthy) and 2009 CalPERS (disabled) mortality tables projected on a generational basis with the SOA MP-2020 projection scale	Adjusted 2010 Public General (healthy) and 2009 CalPERS (disabled) mortality tables projected on a generational basis with the SOA MP-2019 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generation-al basis with the SOA MP-2018 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generation-al basis with the SOA MP-2017 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generation-al basis with the SOA MP-2015 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generation-al basis with the SOA MP-2015 projection scale	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Discount rate	6.625%	6.625%	6.625%	6.750%	6.750%	6.875%	6.875%	7.00%	7.00%	7.00%
Amortization growth rate	2.75%	2.75%	2.75%	2.75%	3.00%	3.00%	2.85%	2.85%	2.85%	2.85%
Salary increases	3.00% plus merit component based on years of service	3.00% plus merit component based on years of service	3.00% plus merit component based on years of service	3.00% plus merit component based on years of service	3.25% plus merit component based on years of service	3.25% plus merit component based on years of service	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service

NOTES TO SCHEDULE (continued)

Fiscal Year	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Valuation date	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Amortization method	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period. Tier 2 actuarial gains and losses, assumption changes, and plan changes are amortized over 10-year periods	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period. Tier 2 actuarial gains and losses, assumption changes, and plan changes are amortized over 10-year periods	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period. Tier 2 actuarial gains and losses, assumption changes, and plan changes are amortized over 10-year periods	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commencing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period	As of June 30, 2009, the unfunded actuarial liability was amortized over a closed 30 year period as a level percentage of pay. Gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of pay. The amortization payment for the 2015 assumption changes is phased-in over 3 years	As of June 30, 2009, the unfunded actuarial liability was amortized over a closed 30 year period as a level percentage of pay. Gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of pay. The amortization payment for the 2015 assumption changes is phased-in over 3 years	As of June 30, 2009, the unfunded actuarial liability was amortized over a closed 30 year period as a level percentage of pay. Gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of pay.	The unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30 year period commencing June 30, 2009 as a level percentage of Tier 1 pay. Actuarial gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of Tier 1 and Tier 2 pay

A complete description of the methods and assumptions used to determine the contribution rates for the year ending June 30, 2024 can be found in the June 30, 2022 actuarial valuation report.

Required Supplementary Information *(continued)*

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET OPEB LIABILITY AND RELATED RATIOS - POSTEMPLOYMENT HEALTHCARE PLAN (unaudited)

(Dollars in thousands)

Total OPEB Liability	2024	2023	2022	2021	2020	2019	2018	2017
Service cost (Middle of Year)	$ 7,322	$ 6,972	$ 7,539	$ 7,018	$ 7,040	$ 7,723	$ 7,889	$ 11,109
Interest	42,031	38,334	39,076	39,886	41,855	43,182	42,669	49,978
Changes of benefit terms	-	-	-	-	-	-	(57,623)	-
Differences between expected and actual experience	44,483	(36,989)	(24,961)	(33,945)	(25,639)	(10,418)	(994)	-
Changes of assumptions	3,395	9,273	22,369	34,496	(14,804)	9,310	(77,795)	-
Benefit payments, including refunds of member contributions	(32,635)	(30,869)	(31,088)	(31,871)	(30,779)	(28,826)	(29,724)	(31,007)
Net Change in Total OPEB Liability	**64,596**	**(13,279)**	**12,935**	**15,584**	**(22,327)**	**20,971**	**(115,578)**	**30,080**
Total OPEB Liability - Beginning	**665,107**	**678,386**	**665,451**	**649,867**	**672,194**	**651,223**	**766,801**	**736,721**
Total OPEB Liability - Ending	**$ 729,703**	**$ 665,107**	**$ 678,386**	**$ 665,451**	**$ 649,867**	**$ 672,194**	**$ 651,223**	**$ 766,801**
Plan Fiduciary Net Position								
Contributions - employer	$ 25,357	$ 22,997	$ 24,787	$ 26,236	$ 26,533	$ 26,410	$ 32,397	$ 31,905
Contributions - employee	9,891	9,841	9,865	10,275	10,692	10,578	15,545	16,827
Net investment income	37,149	24,268	(38,286)	77,360	3,075	9,472	12,336	17,041
Benefit payments, including refunds of member contributions	(32,635)	(30,869)	(31,088)	(31,871)	(30,779)	(28,826)	(29,724)	(31,007)
Administrative expense	(832)	(750)	(765)	(697)	(686)	(384)	(170)	(242)
VEBA transfer	-	-	-	(5)	(13)	(19)	(13,497)	-
Net Change in Plan Fiduciary Net Position	**$ 38,930**	**$ 25,487**	**$ (35,487)**	**$ 81,298**	**$ 8,822**	**$ 17,231**	**$ 16,887**	**$ 34,524**
Plan Fiduciary Net Position - Beginning	**374,608**	**349,121**	**384,608**	**303,310**	**294,488**	**277,257**	**260,370**	**225,846**
Plan Fiduciary Net Position - Ending	**$ 413,538**	**$ 374,608**	**$ 349,121**	**$ 384,608**	**$ 303,310**	**$ 294,488**	**$ 277,257**	**$ 260,370**
Net OPEB Liability - Ending	**$ 316,165**	**$ 290,499**	**$ 329,265**	**$ 280,843**	**$ 346,557**	**$ 377,706**	**$ 373,966**	**$ 506,431**
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	**56.67 %**	**56.32 %**	**51.46 %**	**57.80 %**	**46.67 %**	**43.81 %**	**42.57 %**	**33.96 %**
Covered Payroll	**$ 434,174**	**$ 386,315**	**$ 348,307**	**$ 335,421**	**$ 319,980**	**$ 298,824**	**$ 290,504**	**$ 271,153**
Net OPEB Liability as a Percentage of Covered Payroll	**72.82 %**	**75.20 %**	**94.53 %**	**83.73 %**	**108.31 %**	**126.40 %**	**128.73 %**	**186.77 %**

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

SCHEDULE OF INVESTMENT RETURNS - POSTEMPLOYMENT HEALTHCARE PLAN (unaudited)

	2024	2023	2022	2021	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	8.23%	8.21%	(9.91)%	24.92%	0.53%	4.33%	4.55%	7.20%

The rate shown above is based on the 115 trust only and does not include the 401(h).

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

Required Supplementary Information *(continued)*

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POSTEMPLOYMENT HEALTHCARE PLAN (unaudited)

Beginning in FYE 2010, contributions were scheduled to phase in to the full ARC as defined in the bargaining agreements and consistent with the parameters of GASB 45, but the contribution rates were capped before the full ARC was reached. With the contribution rates capped, the ARC was determined as the minimum amount that was consistent with the parameters of GASB 45. No amount had been determined on an actuarial basis to fund the plan, and consequently, the schedule of employer contributions was not provided. With the implementation of Measure F, Actuarially Determined Contributions (ADC) were calculated beginning for the fiscal year ending June 30, 2019.

	2024	2023	2022	2021	2020	2019
Actuarially determined contributions (ADC)	$ 25,357	$ 22,997	$ 24,787	$ 26,236	$ 26,533	$ 26,410
Actual contribution related to ADC	25,357	22,997	24,787	26,236	26,533	26,410
Contribution deficiency / (excess) relative to ADC	-	-	-	-	-	-
Covered - employee payroll	$ 434,174	$ 386,315	$ 348,307	$ 335,421	$ 319,980	$ 298,824
Actual contributions as % of covered payroll	5.84 %	5.95 %	7.12 %	7.82 %	8.29 %	8.84 %

(Dollars in thousands)

NOTES TO SCHEDULE

Fiscal Year	2024	2023	2022	2021	2020	2019
Valuation date	2022	2021	2020	2019	2018	2017
Timing	Actuarially determined contributions are calculated based on the valuation one year prior to the beginning of the fiscal year	Actuarially determined contributions are calculated based on the valuation one year prior to the beginning of the fiscal year	Actuarially determined contributions are calculated based on the valuation one year prior to the beginning of the fiscal year	Actuarially determined contributions are calculated based on the valuation one year prior to the beginning of the fiscal year	Actuarially determined contributions are calculated based on the valuation one year prior to the beginning of the plan year	Actuarially determined contributions are calculated based on the valuation one year prior to the beginning of the fiscal year
Key methods and assumptions used to determine contributions rates:						
Actuarial cost method	Individual entry age	Individual entry age	Individual entry age	Individual entry age	Individual entry age	Individual entry age
Amortization method	20-year layered amortizations as a level dollar amount with 3-year phase-in and phase-out	20-year layered amortizations as a level dollar amount with 3-year phase-in and phase-out	20-year layered amortizations as a level dollar amount with 3-year phase-in and phase-out	20-year layered amortizations as a level dollar amount with 3-year phase-in and phase-out	20-year layered amortizations as a level dollar amount with 3-year phase-in and phase-out	20-year layered amortizations as a level dollar amount with 3-year phase-in and phase-out
Asset valuation method	Fair value of assets	Fair value of assets	Fair value of assets	Fair value of assets	Fair value of assets	Fair value of assets
Amortization growth rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Discount rate	6.00%	6.00%	6.25%	6.75%	6.75%	6.875%
Ultimate rate of medical inflation	3.94%	3.78%	3.78%	3.94%	4.25%	4.25%
Salary increases	3.00% plus merit component based on years of service	3.00% plus merit component based on years of service	3.00% plus merit component based on years of service	3.00% plus merit component based on years of service	3.25% plus merit component based on years of service	3.25% plus merit component based on years of service
Mortality	Adjusted 2010 Public General Mortality tables for healthy members and for disabled members projected on a generational basis with the SOA MP-2021 projection scale	Adjusted 2010 Public General Mortality tables for healthy members and adjusted 2009 CalPERS mortality tables for disabled members projected on a generational basis with the SOA MP-2021 projection scale	Adjusted 2010 Public General Mortality tables for healthy members and adjusted 2009 CalPERS mortality tables for disabled members projected on a generational basis with the SOA MP-2020 projection scale	Adjusted 2010 Public General Mortality tables for healthy members and adjusted 2009 CalPERS mortality tables for disabled members projected on a generational basis with the SOA MP-2019 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2018 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2018 projection scale

A complete description of the methods and assumptions used to determine contributions for the year ending June 30, 2024 can be found in the June 30, 2022 actuarial valuation report.

Other Supplemental Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET POSITION

As of June 30, 2024 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ASSETS			
Receivables			
Employee contributions	$ 616	$ 150	$ 766
Employer contributions	920	286	1,206
Brokers and others	9,766	35	9,801
Accrued investment income	4,021	567	4,588
Total Receivables	**15,323**	**1,038**	**16,361**
Investments, at fair value			
Securities and other:			
Public equity	922,641	575,197	1,497,838
Private equity	250,391	156,100	406,491
Investment grade bonds	95,125	59,303	154,428
Core real estate	84,767	52,846	137,613
Cash and cash equivalents	99,437	61,991	161,428
Growth real estate	74,457	46,418	120,875
Private debt	70,577	44,000	114,577
Immunized cash flows	65,982	41,134	107,116
Market neutral strategies	56,910	35,480	92,390
Emerging market bonds	55,730	34,744	90,474
Long-term government bonds	32,874	20,494	53,368
Private real assets	44,466	27,721	72,187
High yield bonds	38,298	23,876	62,174
Treasury inflation-protected securities	36,936	23,026	59,962
Venture / Growth capital	16,450	10,255	26,705
Total Investments	**1,945,041**	**1,212,585**	**3,157,626**
Other assets, net	1,589	591	2,180
TOTAL ASSETS	**1,961,953**	**1,214,214**	**3,176,167**
LIABILITIES			
Payable to brokers	16,314	3,602	19,916
Other liabilities	1,325	483	1,808
TOTAL LIABILITIES	**17,639**	**4,085**	**21,724**
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	1,944,314	1,210,129	3,154,443
TOTAL PLAN NET POSITION	**$ 1,944,314**	**$ 1,210,129**	**$ 3,154,443**

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET POSITION

For the Fiscal Year Ended June 30, 2024 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ADDITIONS			
Contributions			
Employee	$ 27,189	$ 6,744	$ 33,933
Employer	127,405	90,908	218,313
Total Contributions	**154,594**	**97,652**	**252,246**
Investment income			
Net appreciation in fair value of investments	140,814	86,771	227,585
Interest income	21,673	13,117	34,790
Dividend income	4,625	2,804	7,429
Less: investment expense	(7,604)	(4,617)	(12,221)
Net Investment Income	**159,508**	**98,075**	**257,583**
TOTAL ADDITIONS	**314,102**	**195,727**	**509,829**
DEDUCTIONS			
Retirement benefits	163,988	72,892	236,880
Death benefits	10,250	8,102	18,352
Refund of contributions	1,129	204	1,333
Administrative expenses and other	3,829	2,307	6,136
TOTAL DEDUCTIONS	**179,196**	**83,505**	**262,701**
NET INCREASE	**134,906**	**112,222**	**247,128**
PLAN NET POSITION - RESTRICTED FOR PENSION BENEFITS			
BEGINNING OF YEAR	**1,809,408**	**1,097,907**	**2,907,315**
END OF YEAR	**$ 1,944,314**	**$ 1,210,129**	**$ 3,154,443**

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2024 and 2023

	2024			2023
	Original Budget	Actual	Under Budget	Actual
Personnel services	$ 4,456,000	$ 4,406,995	$ 49,005	$ 3,931,413
Non-personnel / equipment	872,000	851,767	20,233	728,634
Professional services	1,376,000	1,259,990	116,010	939,805
Non-cash reporting items [1]	-	448,947	-	608,957
Total Administrative Expenses & Other	**$ 6,704,000**	**$ 6,967,699**	**$ 185,248**	**$ 6,208,809**

[1] *Non-cash reporting items include amortization and GASB No. 87 and No. 96 interest expenses. The amortization expense is excluded from the budget totals since it is a non-cash item. GASB statements No. 87 and No. 96 recognizes certain long-term leases and subscription-based information technology arrangements as long-term assets. The related interest expenses are excluded from the budget.*

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2024 and 2023

Firm	Nature of Service	2024	2023
Alliance Resource Consulting LLP	Executive recruitment	$ 19,000	$ -
The Berwyn Group	Reports on deceased benefit recipients	1,313	1,313
Cheiron, Inc.	Actuarial consultant	253,277	229,457
Communication Advantage	Communication consultant	8,150	12,125
Cortex Applied Research, Inc.	Governance consultant	27,239	34,586
Ice Miller, LLC	Tax counsel	11,992	30,619
Levi, Ray, & Shoup	Programming changes, business continuance services, and web development and maintenance	25,144	16,755
Macias Gini & O’Connell LLP	External auditors	102,634	84,908
Reed Smith, LLC	Fiduciary and general counsel	446,814	244,498
Saltzman & Johnson	Domestic relations counsel	96,846	50,659
Trendtec, Inc.	Temporary staff	114,241	149,373
Other Consultants	Miscellaneous professional services	70,524	800
Other Medical	Medical consultants	82,816	84,712
Total		**$ 1,259,990**	**$ 939,805**

Other Supplemental Information *(continued)*

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2024 and 2023

Investment Managers' Fees*	2024	2023
Public equity	$ 2,179,988	$ 1,927,702
Private equity	1,481,695	1,739,815
Investment grade bonds	432,875	467,665
Core real estate	812,895	643,144
Growth real estate	1,538,188	2,518,322
Private debt	2,105,115	1,616,664
Immunized cash flows	71,943	100,043
Long-term government bonds	18,468	17,615
Private real assets	1,970,668	827,244
High yield bonds	229,011	211,757
Treasury inflation-protected securities	27,550	28,291
Venture / Growth capital	399,239	269,515
Short-term investment grade bonds	2,722	2,029
Total investment managers' fees	**11,270,357**	**10,369,806**

Other Investment Fees		
Investment consultants	410,200	454,504
Custodian bank	458,143	508,289
Investment legal fees	108,177	139,325
Other investment fees	355,191	347,280
Total other investment fees	**1,331,711**	**1,449,398**
TOTAL INVESTMENT EXPENSES	**$ 12,602,068**	**$ 11,819,204**

* The Total Investment Managers' Fees listed on this Schedule of Investment Expenses is based on ORS' General Ledger maintained by its Accounting Department and includes invoice management fees.

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Investment Section

Pension Trust and Postemployment Healthcare Trust
Funds of the City of San José, California

City of San José
Federated City Employees' Retirement System
Annual Comprehensive Financial Report for the Fiscal Years Ended
June 30, 2024 and June 30, 2023

MEKETA

5796 Armada Drive
Suite 110
Carlsbad, CA 92008

760.795.3450
Meketa.com

August 27, 2024

Mr. John Flynn
CEO
San Jose Federated City Employees' Retirement System
1737 North First Street, Suite 600
San Jose, CA 95112-4505

Dear Mr. Flynn:

Please find below a summary of the market environment and System performance through June 30, 2024.

Fiscal 2024 Year in Review

As it turned out, fiscal year 2024 began right around the same time as the Fed last increased interest rates in the battle against the pandemic-induced inflation. Where we stand today, following the end of fiscal year 2024, we could be close to the first interest rate cut in this cycle. It has been a year that, despite numerous predictions to the contrary, economic growth remained positive, inflation has leveled out or declined, depending on the measure, and the labor market has remained relatively strong despite some recent softening.

The last increase in the Federal Funds rate was in July of 2023, to a range of 5.25% - 5.5%. At the time, given the Fed's hawkish comments and above expectations economic data, investors started to recognize that rates could stay higher for longer, with no forthcoming interest rate cut. Combined with a downgrade in US debt and weakening economic data out of Europe and China, equity markets began to decline. Of the major asset classes, the US equity market (Russell 3000) fell by 3.3% in the first quarter of fiscal 2024. Outside the US, developed markets (MSCI EAFE) lost 4.1% and emerging market equities (MSCI Emerging Markets) were down 2.9%. Within emerging markets, Chinese equities (MSCI China) were down 1.9% in the first quarter of fiscal 2024.

Treasury rates continued to drift upward in the first quarter of fiscal 2024 with rates on longer-dated maturities increasing the most, driving a flattening of the yield curve. The two-year Treasury rose slightly from 4.9% to 5.1% while the ten-year Treasury increased from 3.8% to 4.6%. Higher rates resulted in negative returns for investment grade bonds. The broad US investment grade bond market (Bloomberg US Aggregate) fell 3.2%. Returns for High Yield bonds (Bloomberg High Yield) remained robust on few signs of distress and increased by 0.5% over the period.

As the second quarter of fiscal 2024 began, futures markets were still pricing in a small chance of an additional rate hike in the cycle, with two to three potential rate decreases in 2024. Markets continued searching for overall direction though, on the path of inflation, growth, and interest rates both in the US and abroad. As the quarter progressed, economic data started to come in below expectations and optimism built that major central banks could start cutting rates in 2024. This shift in sentiment rekindled the broad risk-on environment experienced earlier in calendar year 2023.

August 27, 2024

Among equity asset classes, the US equity market (Russell 3000) returned an impressive 12.1% in the second quarter of fiscal 2024. Outside the US, developed markets (MSCI EAFE) increased by 10.4% in the second quarter of fiscal 2024 with more than half the gains coming from a depreciating US dollar. Emerging market equities (MSCI Emerging Markets) were up 7.9% over the same period. Within emerging markets, Chinese equities (MSCI China) were down 4.2%, despite the enthusiasm around the globe.

Following a softening in inflation and expectations of lower policy rates, interest rates fell significantly in the second quarter of fiscal 2024, resulting in positive returns for investment grade asset classes. The two-year Treasury fell from 5.1% to 4.3%[1] while the ten-year Treasury declined from 4.6% to 3.9%.[1] The broad US investment grade bond market (Bloomberg US Aggregate) was up 6.8%, the strongest quarterly performance on record for that benchmark. Returns for high yield bonds (Bloomberg High Yield) continued the positive trend and increased by 7.2% over the second quarter of fiscal 2024.

The third quarter of fiscal 2024 began with the same optimism from the end of the previous quarter that inflation was in decline and that interest rate cuts would be forthcoming. However, as we moved forward it was likely that the resilient economic data that was driving global equities higher was also pushing out the timing of the expected first Fed rate cut, weighing on bonds. At that time major central banks had largely paused interest rate hikes with expectations that many would eventually cut rates. The uneven pace of falling inflation and economic growth across countries led to speculation that the pace of rate cuts could vary between central banks.

Inflation pressures had significantly eased in most countries from their pandemic peaks, but levels were still above most central bank targets with questions about how inflation would track going forward. Headline inflation in the US rose in March 2024 (3.2% to 3.5%) by more than expected, while core inflation was unchanged (3.8%) when it was predicted to decline to 3.7%.

Among equity asset classes, US markets (Russell 3000 Index) rose 10.0% in the third quarter of fiscal 2024. The technology sector continued to perform well, with energy likely gaining on geopolitical tensions. Non-US developed equity markets (MSCI EAFE) increased 5.8% in the quarter, helped by Japanese equities which hit multi-decade highs. A strengthening US dollar drove the weaker relative results for US investors with returns in local currency terms (MSCI EAFE Local) 4.2% higher (10.0% versus 5.8%) over the third quarter of fiscal 2024.

During the third quarter of fiscal 2024, emerging market equities (MSCI Emerging Markets) had the weakest equity returns (+2.4%), depressed by China (MSCI China) at -2.2%. Slowing economic growth, lingering issues in the property sector, and efforts by the US to discourage investments in China all weighed on results. The stronger dollar also hurt performance in emerging markets for US investors with returns in local currency terms (MSCI Emerging Markets Local) 2.1% higher (4.5%) during the same quarter.

Higher inflation and rising interest rates weighed on bonds with the broad US bond market (Bloomberg Aggregate) returning -0.8% for the third quarter of fiscal 2024. High Yield Bonds

August 27, 2024

(Barclays High Yield) remained positive, up 1.5% for the same quarter, as risk appetite remained strong and all-in yields attractive.

The final quarter of fiscal 2024 began with investors recognizing that interest rates may have to stay higher for longer given resilient economic data. Stronger than expected inflation and employment data in the US weighed on both stocks and bonds in April. However, by May and June, sentiment changed as the Fed confirmed it was unlikely they would increase interest rates and economic data started largely coming in below expectations. Headline year-over-year inflation in the US fell 0.5% over the quarter to 3.0% with several readings coming in below expectations. Core CPI also fell 0.5% in the quarter, finishing at 3.3%. Outside the US, inflation readings continued to decline in many developed markets, enough so that central banks in Canada, Sweden, Switzerland, and the EU all cut interest rates in the final quarter of fiscal 2024.

Among equity asset classes, US markets (Russell 3000 Index) rose 3.2% in the fourth quarter of fiscal 2024. Large capitalization technology companies again performed well driven by continued excitement over artificial intelligence. Enthusiasm surrounding artificial intelligence also benefited utilities, although to a lesser extent, with the market recognizing the massive computing power and energy needed to incorporate these technologies into many facets of everyday life. Non-US developed equity markets (MSCI EAFE) decreased 0.4% in the final quarter of fiscal 2024. A strengthening US dollar drove the weaker relative results for US investors with returns in local currency terms (MSCI EAFE Local) 1.4% higher (+1.0% versus -0.4%). Emerging market equities had the best returns in the final quarter of fiscal 2024, with the MSCI Emerging Markets Index returning +5.0%, partially attributed to China (MSCI China) at +7.1%.

Rising interest rates weighed on bonds with income balancing capital losses. The broad US bond market (Bloomberg Aggregate) returned 0.1% for the final quarter of fiscal 2024. High Yield Bonds (Barclays High Yield) remained positive, up 1.1% for the quarter.

Somewhat surprisingly for many, the 2024 fiscal year saw continued high policy rates with many economies avoiding recessions. In the US the Fed kept policy rates steady at 5.25%-5.50%, a level not seen in decades, for almost the entire fiscal year. Despite that, GDP growth in the US remained robust, with growth rates at 4.9%,[2] 3.4%,[2] 1.4%,[2] and 2.8%[2] for the first, second, third, and fourth quarters of fiscal year 2024, respectively. Unemployment increased 0.5% over the fiscal year, starting at 3.6% and ending at 4.1%,[3] but remained low relative to history. All of this occurred while the headline year-over-year inflation number ended where it began, at 3.0%,[3] while the core CPI number declined from 4.8% to 3.3%.[3]

Outside the US, unemployment and inflation painted a stable picture. The Eurozone ended fiscal year 2024 with unemployment numbers at 6.5%,[1] the same level as the beginning of the fiscal year. Japan ended with an unemployment figure of 2.5%,[1] slightly down from where it started for the year. Inflation in the Eurozone ended the fiscal year at 2.5%,[1] down from 5.5%[1] a year earlier. Inflation in Japan ended fiscal year 2024 at 2.8%[1] versus 2.6%[1] at the beginning of the fiscal year. China notably had inflation levels at the end of the fiscal year at 0.2%,[1] up slightly from 0.0% at the beginning of the fiscal year, given a disappointing reopening after Covid, issues in the property sector, geopolitical tensions, and increasingly protectionist trade measures around the globe.

August 27, 2024

Fiscal Year 2025 Outlook

In fiscal year 2024, the US economy defied most expectations, with inflation moderating without significant damage to the economy, despite historically high interest rates. The Federal Funds rate ended the year above 5%, where it started, while economic growth remained far from recessionary territory. This, combined with excitement over AI, led to strong results in many equity markets, while fixed income markets were positive on softening inflation expectations. As we look toward fiscal 2025, there are several areas that could guide markets, both positively and negatively. These include:

→ The path of inflation and monetary policy.

- In fiscal 2025 we will be watching as the Fed continues their attempt to manage a "soft landing" of the US economy.[4] A soft landing is when the Fed is able to sufficiently reduce inflation without increasing unemployment and turning growth negative.[5] Economic growth has continued to remain positive in the US, and while the US unemployment rate has increased to 4.1%,[3] it is still near historic lows.
- The current Federal Funds rate stood at 5.25% - 5.5% for most of fiscal 2024. At time of this publication, futures markets were pricing in an almost 100%[6] chance of a rate cut in September of 2024, followed by one or two more by the end of the calendar year. Should this play out as the futures markets expect, the next question might be how many more, if any, rate cuts could be expected in the second half of fiscal 2025. From there we will be watching how lower interest rates impact the economy.
- Inflation, after surging during and after the global pandemic, has significantly declined from its peak in the US and other advanced economies. However, inflation remains above the Fed's average 2% target, largely driven by the "stickier"[7] services sectors. In June 2024, the Consumer Price Index ("CPI") was at 3.0%, well below its peak of 9.1% in June of 2022.[8] Core CPI, which strips out the volatile food and fuel components, finished the fiscal year at 3.3%[1], down from a 6.6% peak.[9] Core inflation is higher than headline inflation, as price increases for parts of the services sector, particularly shelter, medical care, and auto insurance, remain elevated. How inflation tracks on this final leg toward the Fed's average 2.0% target will be key in the upcoming fiscal year and will heavily influence the path of interest rates and the overall economy.
- The US labor market remains relatively healthy, despite some recent softening. Jobs continue to be added to the economy and wage growth remains strong. The unemployment rate has ticked up though, largely from people re-entering the work force. Initial claims for unemployment have also recently started to increase and the ratio of the number of jobs to unemployed has returned to pre-pandemic levels. Labor markets can deteriorate relatively quickly so we expect the Federal Reserve to be more focused on labor markets as they consider lowering interest rates.

→ Will gains in the US equity market broaden out or remain focused in the technology sector?

- The US equity market had impressive gains over the fiscal year, but results were largely driven by several large technology companies that benefited from optimism over artificial intelligence.

- Signs of a healthy stock market advance usually include broader participation from companies across many sectors and capitalization sizes.
- We have recently seen some rotation into smaller company stocks given the prospect of lower interest rates and the economy potentially avoiding a recession. These companies are typically more interest rate sensitive and domestic focused, so recent developments have particularly benefited them.
- As we move ahead, we will be watching how the large cap technology companies perform and if this recent rotation into other areas of the equity market persists.

→ Will China, the world's second largest economy, be able to manage economic pressures while also deleveraging the economy and addressing the faltering property sector?

- The MSCI China Index returned 1.6% for fiscal year 2024. However, the same index returned +7.1% in the fourth quarter of fiscal 2024. Government purchases of shares, improving economic data, and returning foreign investors have all been supportive.
- Despite the recent gains, concerns remain about China's property sector, as well as tensions with the US and growing protectionist policies globally.
- Other shadow debt should continue to keep a ceiling on economic growth. While hard to measure, it is estimated that local government debt, which is not typically included in official government figures, totals between $7 and $11 trillion,[10] roughly two times the amount of China's office central government debt. The central government could help to bailout local provinces, which may encourage more borrowing, or tolerate the default of the local funding vehicles, which could risk contagion to other areas of China's financial system.
- Market-friendly policies and openness are waning, while Chinese Communist Party ideology and nationalism are growing. The traditional playbook of building things to continue growth in China is not favored by current leadership, making a resolution of these deleveraging issues paramount in order transition China's economy to a more sustainable path.

→ Geopolitical risks.

- Ongoing and latent regional conflicts have the potential to destabilize markets at any time. The war in Ukraine continues to demand more military and financial support.[11] Hamas' attack on Israel and the response of the Israeli Defense Force in Gaza has placed Israel's allies in a difficult position.
- China, with its own troubled domestic economy and real estate crisis, could continue to favor pro-nationalist policies over economic growth. Politically, China might try to thwart US multilateral efforts to restore peace in the Middle East and contain President Putin. Despite Chinese policy makers scrambling to restore investor confidence and battle deflation, public markets in China declined in fiscal 2024.
- Fiscal year 2024 has also been a busy year in elections, with votes happening in India, Mexico, Iran, the European Union, and Britain, among others. Of course, in addition to the November

August 27, 2024

presidential election in the US, other possibly consequential elections are set to occur in Moldova and Romania, which could have some impact on the path of the war in Ukraine.

- Given these geopolitical risks, it seems incongruous that the index of volatility in the stock market, the VIX, has been trading around one standard deviation below its long-term average at the end of the fiscal year, as continued strength in technology stocks and weakening economic data has moderated fear in the markets.
- We will continue to evaluate these geopolitical concerns, with an eye toward their impact on inflation and growth. Increases in geopolitical conflicts could hamper supply chains and once again might drive-up inflation. As the world's second largest economy, the health of the Chinese economy is important to many corporations and investors.

Return and treasury rate data from Bloomberg unless otherwise indicated.

[1] Source: Bloomberg.

[2] Source: Bureau of Economic Analysis.

[3] Source: Bureau of Labor Statistics.

[4] Source: Federal Reserve of St. Louis, "K. Engermann, "" A Soft Landing for the Economy: What it Means and What Data to Look at," October 11, 2023. The Fed was not able to tame inflation in the late 1970s and early 1980s without triggering economic recessions and raising unemployment.

[5] Source: Federal Reserve of St. Louis, "K. Engermann, "" A Soft Landing for the Economy: What it Means and What Data to Look at," October 11, 2023.

[6] Source: CME Group.

[7] Source: Federal Reserve Bank of Cleveland, M. Bryan, "Are Some Prices More Forward Looking than Others? We Think So"", May 19, 2010. Sticky prices are the prices for goods and services that do not respond quickly to aggregate demand. Medical care, personal services, insurance, and education are some examples of sticky-price services and goods. About 70% of headline CPI includes goods and services with another 30% of the index reflecting goods and services that change prices more quickly in response to consumer demand.

[8] Source: Bureau of Labor Statistics as of February 13, 2024.

[9] Source: Bureau of Labor Statistics as of February 13, 2024. In January 2024, shelter costs accounted for two-thirds of inflation.

[10] Source: Wall Street Journal "Trillions in Hidden Debt Drove China's Growth. Now It Threatens Its Future" July 14, 2024.

[11] Source: Financial Times, C. Miller, "Active Defense [sic]: How Ukraine Plans to Survive in 2024," January 18, 2024.

Plan Investment Results and Asset Allocation for the Retirement System[1,2]

The City of San Jose Federated City Employees' Retirement System had $3.2 billion in assets at the end of the fiscal year. For the fiscal year, the Retirement System returned 9.7% net of fees, versus the Policy Benchmark (9.7%) and Investable Benchmark (9.3%). The Retirement System's return was above the 6.625% assumed actuarial rate of return. The Retirement System's standard deviation of returns was 6.5%, exhibiting lower volatility than the peer median (7.9%).

Key factors for the Retirement System's performance for the fiscal year include:

→ *Public Equity*: The System's Public Equity aggregate was up 18.2% for the fiscal year, compared to a benchmark return of 17.6%. Global Equity returned 19.9%, U.S. Equity returned 22.5%, International Equity returned 8.2%, and Emerging Markets Equity returned 18.6%

→ *High Yield Bonds:* The Retirement System's High Yield Bonds aggregate also had a strongly positive return for the fiscal year, up 10.1%.

Plan Investment Results and Asset Allocation for the Health Care 115 Trust[3,4]

The San Jose Federated Retiree Health Care 115 Trust had $413.9 million in assets at the end of the fiscal year. For the fiscal year, the Health Care Trust returned 9.4% net of fees, compared to the Policy Benchmark return of 9.3%.

Within the Health Care Trust, Growth returned 17.8% versus the Growth Benchmark return of 17.7%, Low Beta returned 5.2% compared to the ICE BofA 91 Days T-Bills TR of 5.4%, and Other returned -3.4%, compared to the other benchmark of -3.0% over the fiscal year period.

Summary

Performance for the City of San Jose Federated City Employees' Retirement System over the fiscal year exceeded its Investable Benchmark and was in line with its Policy Benchmark. Compared to the Public Peer Group over $1 Billion Net Return, performance over the fiscal year ranked near the median, while also taking on less risk than the peers. We believe that the Retirement System has a high probability of achieving the actuarial rate over the long-term, while exhibiting lower volatility than peers. We are looking forward to continuing our work with Staff and the Board of Administration to assist the Retirement System in meeting its obligations to participants.

Sincerely,

Laura Wirick, CFA, CAIA
Managing Principal
LBW/CK/lv

Colin Kowalski
Investment Analyst

Performance figures calculated by custodian bank.
Time-weighted rate of return based on the market rate of return is used as the basis for the calculation.
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Statement of Investment Policy

PENSION

EXECUTIVE SUMMARY

The purpose of this document is to set forth the goals and objectives of the San José Federated City Employees' Retirement System, and to establish guidelines for the implementation of investment strategy.

This document will be reviewed at least annually. Any revisions to this document may be made only with the approval of the Board.

This investment policy was approved on September 21, 2023. The asset allocation was approved on April 18, 2024.

The Board of Administration recognizes that a stable, well-articulated investment policy is crucial to the long-term success of the System. As such, the Board members have developed this Investment Policy Statement with the following goals in mind:

- To clearly and explicitly establish the objectives and constraints that govern the investment of the System's assets,
- To establish a long-term target asset allocation with a high likelihood of meeting the System's objectives given the explicit constraints, and
- To protect the financial health of the System through the implementation of this stable long-term investment policy.

This document includes detail on the System's adopted asset allocation policy (summarized in Appendix A) and process, including the selected Functional asset class structure and the System benchmarks approved by the Board. It also includes the System's policy on manager selection, retention, evaluation, and termination, as well as the System's adopted risk policy, with specific risk parameters summarized in Appendix B.

Throughout this document, expected returns and volatilities were based on capital market assumptions from the general consultant.

I. SAN JOSÉ FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S GOALS

The San José Federated City Employees' Retirement System was established to provide retirement income for San José Federated City Employees' Retirement System employees and their families. The System's assets are structured to provide growth from capital gains and income, while maintaining sufficient liquidity to meet beneficiary payments.

II. INVESTMENT OBJECTIVES

The investment strategy of the San José Federated City Employees' Retirement System is designed to ensure the prudent investment of System assets in such a manner as to provide real growth of assets over time while protecting the value of the assets from undue volatility or risk of loss.

A. Risk Objectives

1. To accept the optimal level of risk required to achieve the System's return objective as stated immediately below.
2. To target total portfolio investment risk consistent with the investment beliefs and strategic goals set forth by the San José Federated City Employees' Retirement System Board.
3. To consider the financial health of the Sponsor when assuming investment risks.

PENSION (continued)

4. To use diversification to minimize exposure to company and industry-specific risks in the aggregate investment portfolio.

B. Return Objective

1. In a manner consistent with the goals stated in Section I above, to manage the System's assets as to achieve the highest, reasonably prudent return possible.

III. INVESTMENT CONSTRAINTS

A. Legal and Regulatory

The San José Federated City Employees' Retirement System is a defined benefit retirement program for certain employees of the City of San José in the State of California. The terms of the System are described in the San José Municipal Code.

B. Time Horizon

The System will be managed on a going-concern basis. The assets of the System will be invested with a long-term time horizon (ten to twenty years or more), consistent with the participant demographics and the purpose of the System.

C. Liquidity

The Board members intend to maintain sufficient liquidity to meet at least five years of anticipated beneficiary payments, net of System sponsor and member contributions.

D. Tax Considerations

The System is a tax-exempt entity. Therefore, investments and strategies will be evaluated only on the basis of expected risks and potential returns.

IV. RISK AND RETURN CONSIDERATIONS

The Board members accept the risks associated with investing in the capital markets (market risks), but will minimize wherever possible those risks for which the System is unlikely to be compensated (non-market or diversifiable risks).

V. DIVERSIFICATION

The Board members of the San José Federated City Employees' Retirement System recognize that an important element of risk control is diversification. Therefore, investments will be allocated across multiple classes of assets, chosen in part for their low correlation of expected returns. Within each asset type, investments will be distributed across many individual holdings, with the intention of further reducing volatility.

The specific degrees of diversification within asset classes will be addressed in each separate account manager's investment guidelines, or in each commingled manager's fund documents.

The purpose of the functional classifications and major asset classes are defined in the language and table below.

A. Functional Sub-portfolios

The investment strategy for the Investment Program employs three functional sub-portfolios to construct the comprehensive asset allocation. The allocation to the sub-portfolios is assessed at least annually and is based on projected capital market assumptions. The Chief Investment Officer ("CIO") shall review the relative size and composition of these sub-portfolios and advise the Investment Committee ("IC") of any necessary revisions to the allocation among the sub-portfolios.

1. **Growth Sub-portfolio:** The purpose of the Growth Sub-portfolio is to grow invested assets over the long-term in order to pay future benefits. This portfolio is characterized by a long investment horizon and can, therefore, accept a higher level of volatility. Assets in this portfolio may be volatile, have reduced liquidity, and derive the bulk of their return from capital appreciation. These assets include public and private equity, corporate and other debt with credit risk premiums, private real estate and other private assets. The success of this portfolio will be measured primarily by compounded annual growth rates in conjunction with the annualized standard deviation of returns as the primary measure of risk. Performance evaluation will, therefore, focus on the long-term total risk-adjusted return of the portfolio.

2. **Low Beta Sub-Portfolio:** The purpose of the Low Beta Sub-portfolio is to ensure that the overall (total portfolio) a) is relatively immune from market fluctuations while providing a source of alpha b) is a source of capital for purchasing undervalued assets in the Growth sub-portfolio, and c) has adequate assets available to pay benefits over an extended timeframe (the immunized cash portfolio). It will contain an "absolute return" program that invests in risk assets in isolation but whose combined long and short betas are relatively neutral to market movements, an immunized cash portfolio, as well as cash and cash-like assets such as short-term bonds, derivatives, and other investments that provide fixed, contractual cash flows with a minimum level of credit risk. For the immunized cash portfolio, the Board has established a target allocation amount of up to 60 months' worth of projected benefit payments in the Low Beta Sub-portfolio, which will be drawn down and replenished annually. The Low Beta portfolio is expected to provide a stable offset to the rest of the portfolio during periods of severe market stress and to effectively dampen the market volatility across the entire portfolio. The success of the Low Beta Sub-portfolio will be measured by its ability to offset declines in value in the Growth Sub-portfolio, as well as its ability to provide liquidity during times of market stress.

3. **Other Sub-Portfolio:** The purpose of the Other Sub-portfolio is to ensure that the overall portfolio is specifically protected against inflation risks while also providing for further diversification. The success of the Other sub-portfolio will be measured by its ability to protect the portfolio from inflation risk while also providing an additional source of return and diversification.

B. Interaction between the Functional Sub-Portfolios

The allocations to the Growth, Low Beta, and Other sub-portfolios will vary over time. When Growth assets are undervalued, the Low Beta Sub-portfolio will act as a source of funds and when Growth assets are overvalued the Low Beta sub-portfolio will act as a use for harvested Growth portfolio returns. The Growth and Other sub-portfolios will be subject to the volatility of the markets in which each functional sub-portfolio invests. In order to reallocate between the functional sub-portfolios, the CIO and the General Consultant will conduct an annual capital review to assess the relative value and risks associated with each asset class and deliver a review of the capital markets to the Board. The Consultant will provide the Board current forward-looking risk and return assumptions for all major asset classes. In conjunction with this review, the CIO will provide a recommendation of how best to allocate assets within each functional sub-portfolio. If necessary, the CIO will recommend changes in target allocations to the underlying asset classes in order to deploy the Investment Program's assets effectively in the upcoming year. While considering changes to the allocation to each functional sub-portfolio, the CIO will view the totality of all functional portfolios, and consider the impact of changes to the overall risk and return profile of the total portfolio.

Public Equity - *Growth*
The purpose of Public Equity is to provide the System exposure to the total return due to equity capital owners, including exposure to capital appreciation from economic growth, while managing volatility relative to the equity market.
Private Markets - *Growth*
The purpose of Private Markets is to provide the System exposure to asset growth and income while diversifying the portfolio and capturing an illiquidity premium.
Emerging Market Bonds - *Growth*
The primary purpose of Emerging Market Bonds is to provide the System exposure to rates and credit risk within emerging markets.
High Yield Bonds - *Growth*
The primary purpose of High Yield Bonds is to provide the System with exposure to high yielding corporate debt.
Market Neutral Strategies - *Low Beta*
The purpose of Market Neutral Strategies is to produce alpha based returns while reducing overall System volatility and increasing Sharpe ratio.
Bonds (Immunized Cash Flows) - *Low Beta*
The purpose of Bonds (Immunized Cash Flows) is to provide liquid funds for expected outflows and allow for other assets to be invested in an illiquid fashion.
Treasury Inflation-Protected Securities (TIPS) - *Other*
The purpose of TIPS is to provide exposure to inflation in addition to interest rates.
Core Real Estate - *Other*
The purpose of Core Real Estate is to produce the System income and price appreciation while maintaining a low correlation to both stocks and bonds.
Long-Term Government Bonds - *Other*
The purpose of Long-Term Government Bonds is to provide a positive return in highly stressed market environments, with a low correlation to equity risk.
Core Bonds - *Other*
The purpose of Core Bonds is to produce returns and income for the System by providing exposure to rates and credit risk.

VI. ASSET ALLOCATION POLICY

Asset Allocation and Portfolio Construction

A. The Board recognizes that establishing an appropriate strategic asset allocation (SAA) portfolio is critical to the long-term success of the investment program, as asset allocation is the single biggest determinant of the expected risk and return of the System.

B. In arriving at the SAA, the Board shall follow a *building block* approach whereby it approves a series of benchmark portfolios, each offering expected risk and return characteristics that are preferable to the one before it. This building block approach is further explained below:

1. *Liability Benchmark Portfolio* (LBP). As the first step in the portfolio construction process, the Board shall approve a LBP. The LBP is the portfolio that offers the lowest possible expected funding risk, where funding risk is defined as the risk that assets will grow at a slower rate than the System's liabilities. The LBP is expected to consist solely of bonds that match the duration of the liabilities.

2. *Low-Cost Passive Portfolio* (LCPP). If the Board believes a portfolio can be constructed that offers expected return / risk characteristics that are preferable to those of the LBP, but does not wish to invest significant resources in staff and consultants, the Board would then approve a LCPP. The LCPP would be simple to construct and implement and would consist only of public market asset classes managed on a passive basis. It would exclude private market asset classes and hedge funds, which are complex and costlier to implement.

3. *Strategic Asset Allocation Portfolio* (SAAP). If the Board believes an even more diversified portfolio would enhance the risk-adjusted return characteristics of the System and justify a meaningful investment in staff and consulting resources, the Board would then develop and approve an SAAP. The SAAP would be more complex than the LCPP because it would likely include private market asset classes and / or hedge funds. The staff and consulting resources required to manage such a portfolio would significantly increase the cost and administrative complexity of the System.

4. *Investable Benchmark Portfolio* (IBP). The Benchmark Portfolio would include the same underlying benchmarks as the SAAP, but would use a beginning-of-month weight for each asset class. This will account for weighting differences to the SAAP in asset classes that take more than one year to invest (private markets asset classes).

C. The Board believes the above building-block approach represents a thoughtful way of approaching its asset allocation decisions, as it makes each step in the portfolio construction process clear and explicit. It also requires the Board to consider and confirm the rationale for accepting the potential incremental risk, complexity and cost introduced by moving from one portfolio model to the next. Their relative merits would include evaluation on a net-of-expenses basis.

D. The benchmarks approved by the Board as of the date of this document, and the expected return of each, are described below:

1. A LBP consisting of a market benchmark with a duration profile similar to the System's liabilities.

2. A LCPP consisting of the following asset classes and targets, and the broad, commonly-used market indices that could be used for each asset class, are shown in Appendix A.
3. A SAAP consisting of the following asset classes and targets is shown in Appendix A.

Asset Allocation Tools & Methods

A. The LBP will be re-evaluated annually following the results of the annual actuarial study. LCPP and SAAP shall be established and modified based on the results of formal asset allocation studies performed whenever requested by the staff or the Board, but no less than every three years or when a significant market correction occurs. The LCPP and SAAP shall be reviewed annually to reflect the capital market assumptions (CMA) used in asset allocation studies and published annually or when the S&P 500 experiences a decrease of more than 20% from peak. The Board shall consult with the general investment consultant in connection with such asset allocation studies and CMA reviews.

B. Asset allocation studies shall be designed to ensure rigorous and objective analysis, and minimize decision-making bias by:

1. Requiring the use of a portfolio construction engine (“Engine”); and
2. Requiring that the Board and IC always focus first on establishing the most reasonable and defensible inputs to the Engine. That is, if the Board is uncomfortable with the results of the Engine, it shall respond by reviewing the reasonableness of the inputs to the Engine, rather than simply modifying the results.

C. When arriving at the LCPP and the SAAP, asset allocation studies shall include the four basic steps outlined below:

1. Step 1: Inputs
   a. For each study, the Board shall approve the inputs to the Engine including:
      - Permitted asset classes (Permitted asset classes for the LCPP shall include only public markets and permitted asset classes for the SAA Portfolio shall include both public and private markets);
      - CMAs; and
      - Material constraints (e.g. maximum allocations to certain asset classes), along with supporting rationale.

   b. The CIO shall propose the inputs to the IC, with prior input from the Board’s general investment consultant, and work with the investment consultant throughout the process to make subsequent revisions to inputs, based on feedback from the IC.

   c. The Board, IC, CIO and investment consultant are expected to reach a consensus regarding the above inputs and the Board shall formally approve them. Staff shall document the process by which it arrives at its recommended inputs.
2. Step 2: Modeling and Analysis
   a. The investment consultant will incorporate the approved inputs into the Engine to be used to identify and analyze potential asset allocation choices for each study and present the results to the CIO.

   b. The Board expects that the Engine will rely on mean-variance optimization (“MVO”).

c. The Board shall also consider the results of the MVO analysis under additional constraints to ensure adherence with approved risk limits including:
   - Stress testing, including historical scenario analysis and factor-specific testing;
   - Liquidity analysis under normal and stressed conditions; and
   - Cash flow management requirements for the immunization of certain projected benefits and expenses.

3. Step 3: Recommendations

a. The CIO will present the current asset allocation and a number of reasonable alternatives along the so-called "efficient frontier" for the Board to consider.

b. In presenting the alternatives, the CIO initially will present only the return / risk characteristics of each alternative and will not reveal the underlying asset class allocations (i.e. "blind" format). This will allow the Board / IC to focus initially on the return / risk implications of each alternative, rather than the underlying asset allocations.

c. After the Board has engaged in a preliminary discussion and analysis of the alternatives, the underlying asset allocations of each alternative will be revealed for further consideration.

d. The Board / IC may provide feedback to the CIO and investment consultant, which may require further analysis and a request for revised recommendations for the Board / IC to consider.

4. Step 4: Approvals

a. The Board / IC will review the final analyses and recommendations from the CIO and general consultant and approve:
   - Low Cost Portfolio Benchmark weights; and
   - Strategic Asset Allocation Portfolio weights, targets and ranges (maximum – minimum).

Rebalancing

A. The CIO shall adhere to the SAAP asset and sub-asset class "targets" approved by the Board and shall rebalance to within the approved range at least quarterly if the actual weights at the sub-asset class levels are not within 10% of the approved target, considering the cost of more frequent rebalancing. For example, if the target allocation for an asset class is 20%, re-balancing will be triggered quarterly when the actual allocation for the asset class deviates by +/- 2% (i.e. 10% x 20%, reaching 18% or 22%). The CIO may use discretion to rebalance to within the approved range at more frequent intervals than quarterly, and when actual weights are within 10% of the approved target, subject to an assessment of market risk, active risk, and transactions costs. When a change to the SAAP is made by the Board, the CIO and the investment team will rebalance to the new target weights as expeditiously as possible, or in tranches if directed by the Board. The CIO shall also use his discretion in rebalancing to the new SAAP in the event that instant liquidation of managers within an asset class may work against the interests of the System. Changes to the weights of illiquid asset classes may take several quarters to implement, and the CIO shall keep the IC apprised of progress toward the new SAAP. Synthetic rebalancing through an overlay provider may also be used when appropriate. The Immunized Cash Flows portfolio is exempt from this rebalancing provision, as it is amortizing by design.

B. Total System active risk (i.e. tracking error) is to be maintained below 3%. While asset class exposures may fall within acceptable capital allocation ranges as noted above, total System tracking error is not to exceed this 3% threshold.

Evaluating Asset Allocation Decisions

A. The Board shall periodically evaluate the effectiveness of its asset allocation decisions using the above portfolio benchmarks (i.e. Liability Portfolio Benchmark, Low-Cost Passive Portfolio, and Strategic Asset Allocation Portfolio).

B. The following table uses hypothetical returns to illustrate how the above benchmarks shall be used to evaluate the Board's asset allocation decisions.

Portfolio Benchmark	Net Return (%)	Value Added (%)	Conclusions
A. Liability Benchmark Portfolio	3.1	N/A	
B. Low Cost Passive Portfolio	7.0	3.9 (B - A)	By deviating from a portfolio with modest funding risk to a low-cost, passive portfolio that does not require significant staff or consulting resources, the Board shall have added net value of 3.9%
C. SAA Portfolio	7.8	0.8 (C - B)	By enhancing the passive portfolio with investments in private markets and hedge funds, the Board added net value of 0.8%

C. The Board will evaluate two additional benchmarks in order to assess the value added by the CIO, investment staff, and the investment consultants:

1. **Actual Portfolio:** This is the actual portfolio implemented by the CIO and investment staff with support from investment consultants. The Actual Portfolio includes private markets and hedge funds and reflects any active management exercised by the CIO and the underlying investment managers, subject to Board-approved policies and CIO-approved procedures.
2. **Investable Benchmark Portfolio:** The Investable Benchmark Portfolio is identical to the SAAP but is adjusted for the fact that the SAAP is not constantly "investable" with respect to private market asset classes. For private markets, the Investable Benchmark Portfolio would apply the best available private market benchmarks and, for weighting purposes, would reflect the pacing Systems for private markets (assuming the pacing Systems are reasonable). For example, if the private equity pacing System called for 15% to be invested in private equity by the end of the performance measurement period, then the Investable Benchmark Portfolio would reflect a 15% allocation to private equity, even though the SAA Portfolio calls for 22% to be invested in private equity.

The following table illustrates how the performance of the CIO would be evaluated. Again, the returns are hypothetical and for illustration purposes only.

Statement of Investment Policy *(continued)*

PENSION (continued)

Portfolio Benchmark	Net Return (%)	Value Added (%)	Conclusions
A. Actual Portfolio	7.5	0.5 (A - B)	CIO outperformed the Benchmark Portfolio from these sources: i) manager selection (including security selection effects) and ii) other effects
B. Benchmark Portfolio	7.0	N/A	

D. For the benefit of stakeholders, the Board shall also measure and report for comparison purposes, on a quarterly basis, the actual portfolio return relative to the return of the LCPP and relative to commonly cited benchmarks, including:

1. A 60% equity and 40% fixed income portfolio ("60/40 Portfolio") comprised of 60% MSCI ACWI IMI (net, unhedged) and 40% Bloomberg Barclays Global Aggregate Bond Index; and
2. A peer group benchmark consisting of other U. S. public pension Systems similar in size to the System, as reported in the InvestorForce Public DB > $1B Net.

VII. MANAGER SELECTION, RETENTION, EVALUATION & TERMINATION POLICY

Background

A. The Board has delegated to the CIO the authority to select and terminate all investment managers of the System subject to constraints and parameters contained herein. Such authority shall be further subject to Manager Selection, Retention, Evaluation & Termination Procedures ("Procedures"), approved by the CIO, that provide more detailed constraints and parameters.

B. It is the Board's intention that the CIO shall have the necessary authority and resources to effectively select, retain, evaluate, and terminate investment managers with the exceptions of venture capital and co-investments (due to the nascent nature of the venture capital program and investment concentration risk of co-investments). The Venture Capital program shall be approved by the Investment Committee and the Board prior to its implementation. These exceptions do not pertain to funds where an external manager has discretion.

C. Accordingly, the CIO shall have the authority to:

1. Manage the Investment Personnel of the System, including:
   a. Recommending to the CEO the appointment and duties of all professional, technical, and clerical employees of the Investment Division;
   b. Directing and supervising all Investment Personnel on a day-to-day basis; and
   c. Evaluating all Investment Personnel and managing their professional development.
2. Select and terminate investment consultants to assist in the selection, retention, evaluation, and termination of investment managers.
   a. The CIO may use the services of the general investment consultant appointed by the Board. Alternatively, if the services of the general consultant can be unbundled to separate manager research services, the CIO may select a consultant(s) of his or her choice to carry out manager research services that would otherwise have been included in the general investment consultant scope of services.

b. The CIO shall ensure that the total fees and expenses associated with the consultants he or she selects are reasonable and shall provide a report of such fees and expenses to the Investment Committee and the Board on at least a quarterly basis.

c. While the CIO shall have the authority to select and terminate investment consultants to assist staff in selecting, retaining, evaluating and terminating investment managers, the Board shall approve all contracts with investment consultants selected by the CIO to ensure such contracts reflect fair and reasonable value for the System.

3. Delegation of authority to the CIO to select and terminate investment managers reflects the Board's desire to:

a. Promote efficiency and effectiveness in the manager selection and termination processes;

b. Focus the Board's time and attention on investment policy, asset allocation, and oversight, rather than manager selection and termination; and

c. Establish clear accountability on the part of the CIO and investment staff for manager selection, retention, evaluation, and termination.

General Constraints and Parameters

A. The CIO's authority to select and terminate investment managers shall be subject to the following general constraints and parameters:

1. Investment managers shall meet the following **minimum qualifications** to be selected to manage any assets of the fund:

a. Be **registered as an investment advisor** under the Investment Advisor's Act of 1940 or comparable legislation, unless the manager represent and warrants that it is exempt from such registration under applicable law.

b. Agree to enter into a contract with the System requiring them to perform their services consistent with the fiduciary services established under (a) the Investment Advisor's Act of 1940; (b) California law applicable to fiduciaries of public employee retirement systems, which includes the California State Constitution, Art. XVI sec. 17 and the San José Municipal Code and / or (c) terms and conditions substantially comparable to the foregoing that are satisfactory to the System.

2. The nature and size of the manager's mandate shall be consistent with:

a. The asset allocation policy of the System;

b. Applicable constraints (e.g. **manager or strategy concentrations**) contained in this Investment Policy Statement; and the total System **active risk limit(s)**[1] **contained in the risk section of this IPS**.

[1] Active risk or tracking error limits may apply at the total fund level, or another aggregation (e.g. public markets assets only, excluding private markets). Risk limits may also be based on concentration, expressed for example, as a percentage (%) of some total amount of risk.

3. Notwithstanding paragraph 2) b) above, the CIO shall not approve the selection of an investment management firm for mandates that exceed the following limits:

Basis*	Description	Strategy Limit [1]
Vehicle	Separately managed accounts (active)	15%
	Commingled funds and SMAs (public, passive)	No limit[2]
	Commingled funds (public, active)	15%
	Commingled funds (hedge funds)	15%
	Commingled funds (private strategies)	15%[3]
Public Markets [4]	Passive strategies	No limit
	Active strategies	15%
		Transaction Limit [5]
Private Markets	Total $ commitment to asset class (e.g. Private Debt)	150% of Board-approved pacing plan (cumulative) [6]
	Primary fund commitment (1st allocation to mgr.)	2%**
	Primary fund commitment (follow-on)	3%**
	Secondary fund investment	1%**

* To be selected, the manager must satisfy the "Vehicle" constraint and the appropriate "Public Markets" or "Private Markets" constraints

** Percentage (%) of total System assets

1 Percentage (%) of total System assets allowable per investment strategy.
2 Rationale: Fund is constrained by the asset allocation. This is the "default" option for investing, and scale determines pricing.
3 For private strategies, limit applies to the capital invested plus future callable commitments.
4 Some of these limits related to public markets may be "interim", to be replaced by risk-based limits for example.
5 Percentage (%) of total System assets allowable per investment manager
6 This would allow, for example, a commitment in Year 1 that is 50% above "plan". The "cumulative" provision would allow for a "catch-up" for any slower-than-planned investments in prior years.

4. When a market movement is the cause of a breach in the above limits, it should be reported to the IC at the earliest of a mutually agreed-upon time during which the Investment Committee could convene with a quorum, or at the next regularly scheduled Investment Committee meeting, along with a report on how the breach was addressed, or a recommendation to address the breach.

Manager Selection

Manager Selection Process

A. The process used to select an investment manager shall, at a minimum, include the following elements:

1. Imposition of a Quiet Period / No Contact policy. Board members and non-investment staff shall not have contact with parties who are under consideration for engagement by the System in response to an RFP, RFI, purchase order, other solicitation or other contracting process that has reached the point of specific focus on such parties, except in accordance with the published terms of the contracting process or except for, and limited to, contact necessary in connection with ongoing System business with a party. The System's communications with such parties shall include notice that a no-contact "quiet period" will be in place from a specified date until the contracting decision is finalized with respect to such parties, such that these communications shall not occur, except as provided above. As part of the contracting process, potential contracting parties (a) shall be informed by investment staff of the quiet period requirements and that violations of the quiet period

contracting process, potential contracting parties (a) shall be informed by investment staff of the quiet period requirements and that violations of the quiet period requirements will cause immediate disqualification from their being engaged by the System; (b) shall be required to disclose potential conflicts of interest; and (c) shall make the placement agent disclosures required by law and System policies. Board members and non-investment staff shall not influence or attempt to influence, the System's decision-making process, outside of their authorized actions on behalf of the System.

2. Identification of a mandate to implement the Board's SAA Policy Portfolio.

3. Comprehensive **operational due diligence** performed by the investment staff, qualified investment consultant, or qualified quasi-discretionary investment manager;

4. **Legal review** by qualified investment counsel of the manager agreement and related documentation;

5. **An internal meeting of investment officers, including the CIO** and the officer responsible for the asset class in question, during which staff's due diligence analysis is reviewed and debated and a staff recommendation is made;

6. **Approval by the CIO;**

7. Concurrence by a qualified investment consultant or quasi-discretionary investment manager as to the reasonableness of the selection decision;

8. At the request of the Investment Committee, written affirmation by the CIO that the process used to select the manager complied with all applicable policies and the Procedures, which affirmation, if requested, shall be included in the due diligence records for the manager. The CIO shall provide the Investment Committee with a summary of all active manager level transactions semi-annually.

B. The Procedures shall include any **checklists and templates** to be used in the due diligence process. Such Procedures shall be presented to the Investment Committee for review and input at least every three years, or sooner upon request of the Investment Committee or any member of the Board.

C. Whenever amendments are made to the Procedures, a copy shall be provided to the Investment Committee at its next regularly scheduled meeting.

D. Should any Investment Officer responsible for performing manager due diligence and preparing manager selection and termination recommendations to the CIO cease to be employed by the City for any reason, the CIO shall inform the Investment Committee immediately.

E. The selection of an investment manager that would contravene a provision of this policy or the Procedures shall require Investment Committee approval.

F. A file or files shall be established to serve as a permanent record of the due diligence process for each investment manager hired and shall contain a summary of the due diligence information and analysis generated during the search process, as well as the legal documentation.

PENSION (continued)

G. The **internal audit plan** of the internal auditor shall include a review of a random sample of investment manager selection decisions at least once per year to confirm compliance with this policy and the Procedures approved by the CIO, the scope of which shall not include the investment performance of such selection decisions. The results of such review shall be reported to the Audit Committee and the Investment Committee.

H. A "**Watch List**" will be established for underperforming managers and managers under extraordinary review for qualitative reasons, and will be maintained by the General Consultant.

1. Quantitative criteria for underperformance which would trigger placement on the Watch List includes manager underperformance versus the appropriate benchmark over a three and / or five year period.
2. Potential actions resulting from placement on the Watch List include finding appropriate resolution of outstanding issues, renewed confidence in the manager or strategy, or determination that the termination of the manager or strategy is appropriate.
3. Investment staff will identify underperforming managers in conjunction with consultants.
4. As necessary, nuanced investment strategies or fund types may require customized review.

I. The System will seek alignment of interests when negotiating fees while pursuing the best net of fees performance results. Investment costs shall be monitored, controlled, and whenever possible negotiated to ensure cost effectiveness. The Board shall give consideration to the impact of administrative expenses, external management fees and performance fees when establishing the asset mix policy of the System. The Board will be provided reports on investment costs of the System at least annually.

J. The System's staff, in coordination with its investment consultants and legal counsel, will negotiate, monitor, and report on fees with investment managers regularly to ensure market competitiveness and appropriateness.

K. The System will seek to ensure that excessive fees are not being paid for alternative assets by reviewing manager fees at least annually. Fee structures could incorporate fixed fees, performance based fees, high water marks, waterfall, hurdles, floors and caps. The System may also incorporate multi-year performance periods with clawbacks as needed.

Manager Termination Procedures

A. City of San José Department of Retirement Services investment staff is aware that the ongoing review and analysis of investment managers is just as important as the due diligence implemented during the investment manager selection process. The performance of the investment managers will be monitored on an ongoing basis and it is at the CIO's discretion to take corrective action by terminating and / or replacing an investment manager if it is deemed appropriate at any time for any reason.

The CIO, in agreement with the appropriate consultant for the manager / asset class in question, may terminate an investment manager or product due to a variety of reasons.

These reasons can include but are not limited to the following:

1. System asset allocation change
2. limited market opportunity
3. style drift
4. violation of policies or guidelines
5. key personnel turnover
6. failure to achieve performance or risk objectives
7. legal or regulatory action
8. any change deemed likely to impact or impair investment performance
9. any other material adverse events, whether reputational or financial, that could be expected to cause significant headline risk

Termination of private funds is typically not possible. If the CIO wishes to exit a private fund, they may evaluate opportunities for secondary market sales of fund interests.

The CIO will report any termination actions at the next Committee meeting, detailing the rationale for action.

XIII. RISK POLICY

Purpose and scope

The purpose of this Risk Policy is to ensure that the total portfolio investment risk is consistent with the investment beliefs and strategic goals set forth by the San José Federated City Employees’ Retirement System Board. This document defines the roles and responsibilities for maintaining this Risk Policy, management of the investment risks of the System, and monitoring the results. It also articulates the Board’s philosophy towards investment risk. The System intends to use risk management to make more informed decisions and improve the likelihood of achieving its strategic goals and objectives within the appendix, specific risk targets and limits are established.

The Risk Policy will cover investment risk, liquidity risk, credit risk, and funding risk. The Risk Policy will not cover enterprise risk concepts such as operational risk, regulatory risk, legal risk, and counterparty risks.

Objectives

The objectives of the risk management program are:

- **A.** To communicate the System’s commitment to risk management and the central role in achieving System goals and objectives;
- **B.** To formalize and communicate a consistent approach for managing risk;
- **C.** To ensure the investment risks assumed by the System are appropriate given the financial health of the Sponsor;
- **D.** To ensure the System operates within the agreed risk tolerance and risk limits.

Definitions

To aid with the interpretation of this policy, a glossary of terms is included in the Appendix C, which defines all the technical terms used in this policy.

PENSION (continued)

Governance

Consistent with the Board's governance model, which delegates specific authority, responsibility, and accountability to others based on areas of expertise, this Risk Policy defines the following roles and responsibilities. The Board retains sole responsibility of governing the System, setting investment policy and risk policy, and monitoring the Investment Program. The Board delegates specific areas of responsibility while retaining appropriate oversight of the delegated activity.

Board of Administration

The Board maintains the sole and plenary authority and fiduciary responsibility for the Investment Program. The Board also understands it may delegate certain responsibilities under the Investment Program for purposes of administrative efficiency and expertise. The areas of the Investment Program the Board may not delegate include:

- **A.** Engaging Board consultants and service providers
- **B.** The governance model of the Investment Program
- **C.** Monitoring the Investment Program
- **D.** Establishing and maintaining investment policy, including:
  - **1.** The Investment Policy Statement ("IPS")
  - **2.** This Risk Policy
  - **3.** Investment objectives
  - **4.** Strategic asset allocation
  - **5.** Allocation-level performance benchmarks
  - **6.** Risk philosophy

Investment Committee

The Investment Committee ("IC") is a subset of the Board assigned to review investment related matters in greater detail. The IC has been assigned authority to assist the Board in its duties by meeting on at least a quarterly basis regarding matters of investment policy, risk management, portfolio structure, vendor selection, real estate operations, human resources, reporting, and monitoring. Please refer to the IC Charter for specific detail.

Staff

San José Retirement Services Staff ("Staff"), including the Chief Executive Officer (CEO) and Chief Investment Officer (CIO), is broadly responsible for supporting the Board in the effective execution of the Investment Program. The CIO has been delegated authority to execute specific elements of the Investment Program as outlined herein.

General Investment Consultant

The General Investment Consultant ("GC") is appointed by the Board to provide independent, objective investment advice. The GC is a fiduciary to the System under California law. The GC works with Staff and specialty consultants in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The GC provides advice without discretionary authority to execute on its advice. With regard to this Risk Policy, the GC contributes to the following:

- **A.** Asset allocation recommendations among classes and subclasses
- **B.** Investment manager selection, evaluation, and termination
- **C.** Investment performance monitoring
- **D.** Investment risk monitoring

- **E.** Capital markets projections
- **F.** Coordination with the System’s actuary in conducting periodic asset / liability studies and other required reporting
- **G.** Recommend changes to the actual portfolio to achieve compliance with this Risk Policy
- **H.** Board education

Specialty Investment Consultants

A. Absolute Return Consultant

The Absolute Return Consultant (“AC”) is appointed by the Board to provide independent, objective investment advice. The AC is a fiduciary to the System under California law. The AC works with Staff and the other consultants in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The AC provides advice without discretionary authority to execute on its advice. With regard to this Risk Policy, the AC contributes to the following:

1. Assists with providing transparency into the absolute return investment strategies, including recent holdings and transactions.
2. Assists with the analysis of recommended investment strategies that have not yet been incorporated into the System including recent holdings and transactions.
3. Board education.

B. Risk Advisory Consultant

The Risk Advisory Consultant (“RC”) is appointed by the Board to provide independent, objective investment advice. The RC is a fiduciary to the System under California law. The RC works with Staff and the other consultants in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The RC provides advice without discretionary authority to execute on its advice. With regard to this Risk Policy, the RC contributes to the following:

1. Asset allocation recommendations among classes and subclasses
2. Investment manager evaluation
3. Risk policy development and maintenance
4. Investment risk monitoring
5. Recommend changes to the actual portfolio to achieve compliance with this Risk Policy
6. Board education

Investment Managers

Investment Managers are delegated the responsibility of investing and managing System assets in accordance with the IPS, Risk Policy, and all other applicable laws and the terms of the applicable investment documents evidencing the System’s acquisition of an interest in an investment vehicle, and other controlling documents. Investment Managers are responsible for making all investment decisions on a discretionary basis regarding assets placed under their jurisdiction and will be accountable for achieving their investment objectives. Such discretion shall include decisions to buy, hold, and sell investments in amounts and proportions that are reflective of the stated investment mandate.

Custodian Bank

The Custodian Bank, selected by the Board to act as the principal custodian of assets of the trust, is delegated the responsibility of holding the assets and evidence of interests owned by the System in investment vehicles and cash (and equivalents). The Board may authorize the Custodian Bank to invest in temporary short-term fixed income investments both for the investment strategies and as a part of the cash portion of System assets. Such investments will be managed in general accordance with short-term fixed income investment guidelines as detailed in the Custodial Agreement. Cash managed for investment strategies shall be considered to be sub-portions of the assets managed by the directing Investment Managers.

Philosophy

An institutional investment program is inherently exposed to many types of risk. This Risk Policy focuses primarily on the investment risks caused by the markets to which the System is exposed (e.g. domestic equities, real estate, domestic fixed income, and others). Related risks such as counterparty, geo-political, and fraudulent or unethical behavior, among others, are not addressed in this Risk Policy.

This Risk Philosophy represents the foundational principles on which the Investment Program is based. Every investment decision should be made with these foundational principles in mind to promote the fulfillment of fiduciary obligations. The statements below set forth the Board's Risk Philosophy, in order of importance:

Investment Risk Policy Should Consider the Financial Health of the Sponsor

Contribution volatility (i.e. the volatility of annual contributions made to the System by the Sponsor) represents a significant budgetary constraint on the Sponsor's financial planning with important implications for taxpayers. The Investment Program shall, therefore, assume a level of volatility that can be tolerated by the Sponsor in both normal as well as stressed market conditions.

The funded status (i.e. funded ratio), viewed as a general proxy for the health of the System, is reviewed on both actuarial and market value of assets bases. While a higher funded ratio is always preferred, the Investment Program shall not accept a level of risk that for a given probability could cause the funded ratio to fall below the limit identified in Appendix B.

The System will manage funding risk in three main ways:

- **A.** Actuarial review: The actuary will periodically review the System's liabilities
- **B.** Asset / Liability studies: The general consultant will periodically perform this study to identify changes in the relationship between assets and liabilities
- **C.** Asset Allocation: The System will periodically conduct asset allocation studies to ensure:
  - **1.** portfolio diversification
  - **2.** expected portfolio returns over the long-term (i.e. 10 years or more) in combination with projected contributions are sufficient to meet expected liabilities

Volatility and Drawdown are the Primary Measures of Investment Risk

Because the System must satisfy long-term liabilities and receives regular contributions from the Sponsor, the Investment Program invests for the long-term appreciation of assets. It is, therefore, able to withstand short-term volatility spikes without undue impairment of capital. For this reason, long-term volatility (i.e. 8 years or more) is considered the appropriate timeframe. Volatility is forecasted through the System's strategic asset allocation and risk reporting processes and is measured and monitored as outlined in Appendix B and C.

PENSION (continued)

Market corrections due to economic recession, geo-political instability, and other causes have historically proven detrimental to the funded status of the System. Drawdown and tail-risk metrics are designed to assess potential investment returns during such periods of market stress. Historical drawdown scenario analysis provides insight into how the portfolio would respond if it were exposed to prior stressed market conditions. Tail-risk analysis provides insight into the probabilities of experiencing a negative investment return with a small (e.g. 5%) probability. These metrics provide insight into how much may be lost during a stressed market environment. Because market corrections are statistically infrequent and typically caused by unforeseen events, neither approach can be used with certainty, but each provides insight into the potential impact a worst-case scenario may represent to the System and Sponsor.

Active Risk, Factor Exposures, and Liquidity must be Monitored

Implementation of any strategic asset allocation introduces deviations between the System's actual portfolio and its policy index. While it is generally desired to minimize these differences to achieve efficiency, deviations from the policy index may be desirable for various reasons. To ensure the actual portfolio is appropriately adhering to the policy index, active risk must be measured and monitored through tracking error statistics.

Factor exposures capture the underlying economic drivers supporting asset class returns. While the policy index and actual portfolio are constructed primarily through asset class forecasts, factor exposures provide important insight into the underlying economic drivers supporting the Investment Program. Each security owned within each investment strategy has some exposure to various economic drivers. The Investment Program's total exposure to the economic drivers is, therefore, driven by the exposures inherent in those securities as well as the correlations across the factor exposures. To understand better the System's exposure to the economic drivers and anticipate how the Investment Program will perform under various economic environments, factor exposures must be measured and monitored.

In addition to benefit payments, the System must meet its obligations to pay its expenses and satisfy capital calls. Generally, these cash outflows are predictable and can be met through the normal administration of the System. Under stressed market conditions, however, liquidity within the Investment Program can change significantly and with little advance notice while the System must continue to meet its obligations. Liquidity must, therefore, be monitored and measured to ensure that the System can continue to meet its financial obligations during periods of market stress without being forced to sell assets at stressed prices.

Monitoring

Reporting processes are designed to provide the Board with the information needed to execute its oversight function. As such, the Board has developed the following monitoring structure.

The Investment Committee, CIO and RC will monitor the Investment Program's risk exposures quarterly. This detailed review process will include security-level exposure analysis of the Investment Program's factor exposures; asset class exposures; tracking error; tail-risk and drawdown scenario analysis, and geographic exposures.

The Board, Staff, and RC will monitor the Investment Program's adherence to this Risk Policy on a quarterly basis. This review process will summarize the detailed reporting used by the Investment Committee and also include the ranges and targets outlined in Appendix B.

Management

Aside from liquidity management responsibilities assigned to the CIO in the System's IPS, the Board retains full authority and responsibility for ensuring adherence of the Investment Program to this Risk Policy.

PENSION (continued)

The System's risk management function is expected to evolve through time. The objective of the risk management function is to ensure the System operates within the Board's agreed risk tolerance and limits. The main goals of the risk management function are:

- **A.** Identify: risks that will impact the System's ability to meet its goals and objectives;
- **B.** Estimate the significant risks to which the System is exposed;
- **C.** Manage: risk must be managed and should be commensurate with the rewards;
- **D.** Communicate: risks must be reported and monitored on a regular basis.

To a large extent, many factors that impact future benefits and contributions are uncontrollable, however, the potential impacts are considered in strategy development. The System uses three approaches (actuarial valuation, asset / liability studies, and asset allocation studies, as discussed above) to address and manage risk.

The Board may delegate authority to the CIO and Staff for certain functions as detailed below. Delegation of authority will be coordinated with workflow, compliance and reporting procedures that are clearly defined, reviewed, and approved. The Board shall be notified timely of all investment decisions made by the CIO and their implications to the System.

- **A. Rebalancing**
  Portfolio rebalancing may occur by adjusting allocations to individual investment strategies or managers or through the use of an overlay provider using derivatives.
- **B. Relative Risk**
  While the Board recognizes that the majority of investment risk over the long-term is dependent on the asset allocation decision, it recognizes the cost of precisely matching the strategic asset allocation is considerable and not always optimal. In addition to asset class weightings versus policy, annualized tracking error will be used to measure the disparity of returns between the actual positions in the Investment Program compared to the strategic asset allocation.

IX. INVESTMENT COSTS

The Board members intend to monitor and control investment costs at every level of the San José Federated City Employees' Retirement System.

- **A.** Professional fees will be negotiated whenever possible.
- **B.** Where appropriate, passive portfolios will be used to minimize management fees and portfolio turnover.
- **C.** If possible, assets will be transferred in-kind during manager transitions and System restructurings to eliminate unnecessary turnover expenses.
- **D.** Managers will be instructed to minimize brokerage and execution costs.

Appendix A [1]

ASSET ALLOCATION TARGETS [2]

	Target (%)	SAAP Asset Class Benchmarks	LCPP Asset Class Benchmarks	Tracking Error Target Range (basis points)
Growth	**75**			
Public Equity	49	Custom Public Equity Benchmark[3]	LCPP Custom Public Equity Benchmark[3]	0 - 400
Total Private Markets	21	Actual Return		N/A
Private Equity	8		Russell 3000	
Venture / Growth Capital	4		Russell 3000	
Growth Real Estate	3		Global NAREIT	
Private Debt	3		Bloomberg Barclays Aggregate	
Private Real Assets	3		S&P Global Natural Resources	
Emerging Market Bonds	3	50 / 50 JPM EMBI GD / JPM GBI-EM GD	50 / 50 JPM EMBI GD / JPM GBI-EM GD	0 - 300
High Yield Bonds	2	Bloomberg Barclays High Yield	Bloomberg Barclays High Yield	0 - 300
Low Beta	**8**			
Immunized Cash Flows	5	Actual Return	Bloomberg Barclays Gov / Credit 1-3 Year	N/A
Market Neutral Strategies	3	SOFR + 1.5%	SOFR	0 - 1,000
Other	**17**			
Investment Grade Bonds	6	Custom IG Bonds Benchmark[4]	Custom IG Bonds Benchmark[4]	0 - 200
Core Real Estate	5	NCREIF ODCE Cap Weighted - Net (Lagged 1 quarter)	Global NAREIT	0 - 400
Long-Term Government Bonds	4	Bloomberg Barclays US Long Treasury	Bloomberg Barclays US Long Treasury	0 - 100
TIPS	2	Bloomberg Barclays 0-5 Year TIPS	Bloomberg Barclays 0-5 Year TIPS	0 - 100

LIABILITY BENCHMARK PORTFOLIO: Bloomberg Barclays U.S. Long Treasury Index.

1 Appendix A shall be revised as new Asset Allocation targets are approved by the Board.
2 Approved by the Board of Administration on April 18, 2024.
3 51% MSCI US IMI, 24.5% MSCI World ex US IMI Net, 24.5% MSCI EM IMI Net.
4 25% Bloomberg Barclays 1-3 Year Government / Credit, 56% US Aggregate, 19% US Securitized MBS / ABS / CMBS Index.

Appendix B

SCHEDULE LIMIT TARGETS

Characteristic	Measurement	Board Approved Limit
Funded ratio	Probability that the Actuarial funded ratio will fall below the Board Approved Limit	5% probability of falling below 48%
Sponsor contributions	Probability that Sponsor contributions in a single year will exceed a specified limit	5% probability of exceeding $335mm
Interest on UAL	Probability that the Interest cost of unfunded actuarial liability will increase above a specified limit	5% probability of exceeding $150mm
Total fund absolute volatility	Forecast Annualized standard deviation of returns of the actual portfolio	13%
Total fund relative volatility	Forecast Tracking error of the actual portfolio vs. the strategic asset allocation policy index	4%
Drawdown exposure	Average of three worst historical scenario drawdown events	(36)%
Liquidity	Liquidity Coverage Ratio (LCR) 5-year projection	1.2

Appendix C

DEFINITIONS

Actuarial Assumptions: Assumptions made by the actuary that influence the valuation of liabilities.

Active Risk: Measures the volatility of an investment strategy versus its benchmark.

Concentration Risk: Lack of diversification in exposure to markets or managers.

Confidence Interval: A range of values so defined that there is a specified probability that the value of a parameter lies within it.

Counterparty Risk: The risk that a party in a transaction does not fulfill its contractual obligation. Both sides of a contract are exposed to this risk.

Credit Risk: Also referred to as default risk. This is the risk the borrower fails to repay a loan or meet a contractual obligation.

Currency Risk: The potential loss on the price of an asset due to fluctuating foreign currency exchange rates.

Drawdown: A measure of both returns and time over which an investment experienced a decline in value from a peak to a trough. It is based on actual historical results.

Duration: Measures how long (in years) it takes to be repaid the bond's price by the bond's total cash flows. This measure is used to determine the interest rate sensitivity of the portfolio.

Funded Ratio: The ratio of assets to liabilities. Assets can be defined in terms of the fair value of assets or the actuarial value of assets. Liabilities are defined as all future benefit payments discounted at the actuarial assumed return.

Funding Risk: Also referred to as surplus risk, this is the risk of assets and liabilities not matching.

Inflation Risk: The risk that general prices of goods and services are rising, which erodes the purchasing power of money.

Interest Rate Risk: The risk that an investment will decline in value as a result of a change in interest rates. This risk is measured by its duration.

Investment Risk: The risk associated with investing in capital markets.

Liquidity: Is comprised of both the time required to complete the transaction and the impact that the transaction has on the price of the asset. There are two types of liquidity risk: Market liquidity risk and funding liquidity risk. Market liquidity risk refers to the risk that an asset cannot be sold without loss of value. Funding liquidity risk refers to the risk that the System will not be able to meet financial obligations as they come due.

Liquidity Coverage Ratio: The ratio of liquidity available to liquidity needs.

PENSION (continued)

Portfolio Construction Engine: A software program relying on mean-variance portfolio optimization. Portfolio optimization requires inputs of asset class returns, standard deviations, and correlations in order to develop an output of total portfolio expected returns and standard deviations, which can be compared along with their Sharpe ratios.

Risk: The uncertainty of an event occurring.

Standard Deviation: The square root of the average squared deviation of the returns from its mean.

Strategic Asset Allocation: The asset classes and weights that are targeted for the policy benchmark.

Tail Risk: Tail-risk measures both the probability and expected returns of a significant loss. When assuming normally distributed returns, tail-risk is the left tail of the return distribution. The normal distribution used for mean-variance optimization underestimates the risk of rare events when markets exhibit fat tails (for example, during the Global Financial Crisis).

Volatility: The standard deviation of returns. Standard deviation (SD) is the square root of the average squared deviation of the returns from its mean.

Statement of Investment Policy

HEALTHCARE

This investment policy was approved on January 20, 2022. The asset allocation was approved on April 21, 2022.

I. SAN JOSÉ FEDERATED CITY EMPLOYEES' RETIREE HEALTH CARE TRUST FUND GOALS

The City of San José Federated City Employees' Retiree Health Care Trust Fund (the "Fund") was established to subsidize postretirement healthcare benefits for San José Federated City Employees' Retirement System members and their families. The Fund's assets are structured to provide growth from capital gains and income, while maintaining sufficient liquidity to meet beneficiary payments.

II. INVESTMENT OBJECTIVES

The investment strategy of the Fund is designed to ensure the prudent investment of System assets in such a manner as to provide real growth of assets over time while protecting the value of the assets from undue volatility or risk of loss.

A. Risk Objectives

1. To accept the optimal level of risk required to achieve the Fund's return objective as stated immediately below.
2. To target total portfolio investment risk consistent with the investment beliefs and strategic goals set forth by the San José Federated City Employees' Retirement System Board.
3. To consider the financial health of the Sponsor when assuming investment risks.
4. To use diversification to minimize exposure to company and industry-specific risks in the aggregate investment portfolio.

B. Return Objective

1. In a manner consistent with the goals stated in Section I above, to manage the Fund's assets as to achieve the highest, reasonably prudent return possible.

III. INVESTMENT CONSTRAINTS

A. Legal and Regulatory

The terms of the Fund are described in the San José Municipal Code.

B. Time Horizon

The Fund will be managed on a going-concern basis. The assets of the Fund will be invested with a long-term time horizon (ten to twenty years or more), consistent with the participant demographics and the purpose of the Fund.

C. Liquidity

The Board members intend to invest only in public markets assets, which are typically liquid on a daily or monthly basis, and in core real estate funds, which are typically liquid within one year.

D. Tax Considerations

The Fund is a tax-exempt entity. Therefore, investments and strategies will be evaluated only on the basis of expected risks and potential returns.

HEALTHCARE (continued)

IV. RISK AND RETURN CONSIDERATIONS

The Board members accept the risks associated with investing in the capital markets (market risks), but will minimize wherever possible those risks for which the Fund is unlikely to be compensated (non-market or diversifiable risks).

V. DIVERSIFICATION

The Board members of the San José Federated City Employees' Retirement System recognize that an important element of risk control is diversification. Therefore, investments will be allocated across multiple classes of assets, chosen in part for their low correlation of expected returns. Within each asset type, investments will be distributed across many individual holdings, with the intention of further reducing volatility.

The specific degrees of diversification within asset classes will be addressed in each separate account manager's investment guidelines, or in each commingled manager's fund documents.

The purpose of the functional classifications and major asset classes are defined in the language and table below.

A. Functional Sub-portfolios

The investment strategy for the Investment Program employs three functional sub-portfolios to construct the comprehensive asset allocation. The allocation to the sub-portfolios is assessed at least annually and is based on projected capital market assumptions. The Chief Investment Officer ("CIO") shall review the relative size and composition of these sub-portfolios and advise the Investment Committee ("IC") of any necessary revisions to the allocation among the sub-portfolios.

1. **Growth Sub-portfolio:** The purpose of the Growth Sub-portfolio is to grow invested assets over the long-term in order to pay future benefits. This portfolio is characterized by a long investment horizon and can, therefore, accept a higher level of volatility. Assets in this portfolio may be volatile, have reduced liquidity, and derive the bulk of their return from capital appreciation. These assets include public equity. The success of this portfolio will be measured primarily by compounded annual growth rates in conjunction with the annualized standard deviation of returns as the primary measure of risk. Performance evaluation will, therefore, focus on the long-term total risk-adjusted return of the portfolio.

2. **Low Beta Sub-Portfolio**: The purpose of the Low Beta Sub-portfolio is to ensure that the overall (total portfolio) a) is relatively immune from market fluctuations while providing a source of alpha b) is a source of capital for purchasing undervalued assets in the Growth sub-portfolio, and c) has adequate assets available to pay benefits over an extended timeframe. It will contain cash and cash-like assets such as short-term bonds and other investments that provide fixed, contractual cash flows with a minimum level of credit risk. The Low Beta portfolio is expected to provide a stable offset to the rest of the portfolio during periods of severe market stress and to effectively dampen the market volatility across the entire portfolio. The success of the Low Beta Sub-portfolio will be measured by its ability to offset declines in value in the Growth Sub-portfolio, as well as its ability to provide liquidity during times of market stress.

3. **Other Sub-Portfolio:** The purpose of the Other Sub-portfolio is to ensure that the overall portfolio is specifically protected against inflation risks while also providing for further diversification. The success of the Other sub-portfolio will be measured by its ability to protect the portfolio from inflation risk while also providing an additional source of return and diversification.

B. Interaction between the Functional Sub-portfolios

The allocations to the Growth, Low Beta, and Other sub-portfolios will vary over time. When Growth assets are undervalued, the Low Beta Sub-portfolio will act as a source of funds and when Growth assets are overvalued the Low Beta sub-portfolio will act as a use for harvested Growth portfolio returns. The Growth and Other sub-portfolios will be subject to the volatility of the markets in which each functional sub-portfolio invests. In order to reallocate between the functional sub-portfolios, the CIO and the General Consultant will conduct an annual capital review to assess the relative value and risks associated with each asset class and deliver a review of the capital markets to the Board. The Consultant will provide the Board current forward-looking risk and return assumptions for all major asset classes. In conjunction with this review, the CIO will provide a recommendation of how best to allocate assets within each functional sub-portfolio. If necessary, the CIO will recommend changes in target allocations to the underlying asset classes in order to deploy the Investment Program's assets effectively in the upcoming year. While considering changes to the allocation to each functional sub-portfolio, the CIO will view the totality of all functional portfolios, and consider the impact of changes to the overall risk and return profile of the total portfolio.

Public Equity – *Growth*
The purpose of Public Equity is to provide the Fund exposure to the total return due to equity capital owners, including exposure to capital appreciation from economic growth, while managing volatility relative to the equity market.
Short-Term Investment Grade Bonds – *Low Beta*
The purpose of Short-Term Investment Grade Bonds is to provide the Fund a return while mitigating risk.
Cash – *Low Beta*
The purpose of Cash is to maintain sufficient liquidity for Fund benefit payments and expenses.
Core Real Estate – *Other*
The purpose of Core Real Estate is to produce the Fund income and price appreciation while maintaining a low correlation to both stocks and bonds.
Commodities - *Other*
The purpose of Commodities is to increase the Fund's portfolio diversification and provide a hedge against unexpected inflation.
Investment Grade Bonds - *Other*
The purpose of Investment Grade Bonds is to produce returns and income for the Fund by providing exposure to rates and credit risk.
Long-term Government Bonds - *Other*
The purpose of Long-term Government Bonds is to provide a positive return in highly stressed market environments, with a low correlation to equity risk.

VI. ASSET ALLOCATION POLICY

Asset Allocation and Portfolio Construction

A. The Board recognizes that establishing an appropriate strategic asset allocation portfolio (SAAP) is critical to the long-term success of the investment program, as asset allocation is the single biggest determinant of the expected risk and return of the Fund.

B. The Policy Benchmark is a weighted average of the underlying benchmarks for each asset class, as outlined in Appendix A.

Asset Allocation Tools & Methods

A. The SAAP will be re-evaluated annually following the results of the annual actuarial study. A formal asset allocation study will be performed approximately every three years or when a significant market correction occurs. The capital market assumptions (CMA) used in such studies shall be reviewed and updated annually or when the S&P 500 experiences a decrease of more than 20% from peak. The Board shall consult with the general investment consultant in connection with such asset allocation studies and CMA reviews.

B. Asset allocation studies shall be designed to ensure rigorous and objective analysis, and minimize decision-making bias by:

1. Requiring the use of a portfolio construction engine (“Engine”); and
2. Requiring that the Board and IC always focus first on establishing the most reasonable and defensible inputs to the Engine. That is, if the Board is uncomfortable with the results of the Engine, it shall respond by reviewing the reasonableness of the inputs to the Engine, rather than simply modifying the results.

C. When arriving at the SAAP, asset allocation studies shall include the four basic steps outlined below:

1. Step 1: Inputs
   a. For each study, the Board shall approve the inputs to the Engine including:
      - Permitted asset classes (Permitted asset classes for the LCPP shall include only public markets and permitted asset classes for the SAA Portfolio shall include both public and private markets);
      - CMAs; and
      - Material constraints (e.g. maximum allocations to certain asset classes), along with supporting rationale.

   b. The CIO shall propose the inputs to the IC, with prior input from the Board’s general investment consultant, and work with the investment consultant throughout the process to make subsequent revisions to inputs, based on feedback from the IC.
   c. The Board, IC, CIO and investment consultant are expected to reach a consensus regarding the above inputs and the Board shall formally approve them. Staff shall document the process by which it arrives at its recommended inputs.

HEALTHCARE (continued)

2. Step 2: Modeling and Analysis

a. The investment consultant will incorporate the approved inputs into the Engine to be used to identify and analyze potential asset allocation choices for each study and present the results to the CIO.

b. The Board expects that the Engine will rely on mean-variance optimization (“MVO”).

c. The Board shall also consider the results of the MVO analysis under additional constraints to ensure adherence with approved risk limits including:

- Stress testing, including historical scenario analysis and factor-specific testing;
- Liquidity analysis under normal and stressed conditions; and
- Cash flow management requirements

3. Step 3: Recommendations

a. The CIO will present the current asset allocation and a number of reasonable alternatives along the so-called “efficient frontier” for the Board to consider.

b. In presenting the alternatives, the CIO initially will present only the return / risk characteristics of each alternative and will not reveal the underlying asset class allocations (i.e. “blind” format). This will allow the Board / IC to focus initially on the return / risk implications of each alternative, rather than the underlying asset allocations.

c. After the Board has engaged in a preliminary discussion and analysis of the alternatives, the underlying asset allocations of each alternative will be revealed for further consideration.

d. The Board / IC may provide feedback to the CIO and investment consultant, which may require further analysis and a request for revised recommendations for the Board / IC to consider.

4. Step 4: Approvals

a. The Board / IC will review the final analyses and recommendations from the CIO and general consultant and approve:

- Strategic Asset Allocation Portfolio weights, targets and ranges (maximum – minimum).

Rebalancing

A. The CIO shall adhere to the SAAP asset and sub-asset class “targets” approved by the Board and shall rebalance to within the approved range at least quarterly if the actual weights at the sub-asset class levels are not within 10% of the approved target, considering the cost of more frequent rebalancing. For example, if the target allocation for an asset class is 20%, re-balancing will be triggered quarterly when the actual allocation for the asset class deviates by +/- 2% (i.e. 10% x 20%, reaching 18% or 22%). The CIO may use discretion to rebalance to within the approved range at more frequent intervals than quarterly, and when actual weights are within 10% of the approved target, subject to an assessment of market risk, active risk, and transactions costs. When a change to the SAAP is made by the Board, the CIO and the investment team will rebalance to the new target weights as expeditiously as possible, or in tranches if directed by the Board. The

HEALTHCARE (continued)

CIO shall also use his discretion in rebalancing to the new SAAP in the event that instant liquidation of managers within an asset class may work against the interests of the System. Changes to the weights of illiquid asset classes may take several quarters to implement, and the CIO shall keep the IC apprised of progress toward the new SAAP. Synthetic rebalancing through an overlay provider may also be used when appropriate. The Immunized Cash Flows portfolio is exempt from this rebalancing provision, as it is amortizing by design.

B. Total Fund active risk (i.e. tracking error) is to be maintained below 3%. While asset class exposures may fall within acceptable capital allocation ranges as noted above, total Fund tracking error is not to exceed this 3% threshold.

VII. MANAGER SELECTION, RETENTION, EVALUATION & TERMINATION POLICY

Background

A. The Board has delegated to the CIO the authority to select and terminate all investment managers of the Fund subject to constraints and parameters contained herein. Such authority shall be further subject to Manager Selection, Retention, Evaluation & Termination Procedures ("Procedures"), approved by the CIO, that provide more detailed constraints and parameters.

B. It is the Board's intention that the CIO shall have the necessary authority and resources to effectively select, retain, evaluate, and terminate investment managers.

C. Accordingly, the CIO shall have the authority to:

1. Manage the Investment Personnel of the System, including:

a. Recommending to the CEO the appointment and duties of all professional, technical, and clerical employees of the Investment Division;

b. Directing and supervising all Investment Personnel on a day-to-day basis; and

c. Evaluating all Investment Personnel and managing their professional development.

2. Select and terminate investment consultants to assist in the selection, retention, evaluation, and termination of investment managers.

a. The CIO may use the services of the general investment consultant appointed by the Board. Alternatively, if the services of the general consultant can be unbundled to separate manager research services, the CIO may select a consultant(s) of his or her choice to carry out manager research services that would otherwise have been included in the general investment consultant scope of services.

b. The CIO shall ensure that the total fees and expenses associated with the consultants he or she selects are reasonable and shall provide a report of such fees and expenses to the Investment Committee and the Board on at least a quarterly basis.

c. While the CIO shall have the authority to select and terminate investment consultants to assist staff in selecting, retaining, evaluating and terminating investment managers, the Board shall approve all contracts with investment consultants selected by the CIO to ensure such contracts reflect fair and reasonable value for the System.

3. Delegation of authority to the CIO to select and terminate investment managers reflects the Board's desire to:

a. Promote efficiency and effectiveness in the manager selection and termination processes;

b. Focus the Board's time and attention on investment policy, asset allocation, and oversight, rather than manager selection and termination; and

c. Establish clear accountability on the part of the CIO and investment staff for manager selection, retention, evaluation, and termination.

General Constraints and Parameters

A. The CIO's authority to select and terminate investment managers shall be subject to the following general constraints and parameters:

1. Investment managers shall meet the following **minimum qualifications** to be selected to manage any assets of the fund:

a. Be **registered as an investment advisor** under the Investment Advisor's Act of 1940 or comparable legislation, unless the manager represent and warrants that it is exempt from such registration under applicable law.

b. Agree to enter into a contract with the System requiring them to perform their services consistent with the fiduciary services established under (a) the Investment Advisor's Act of 1940; (b) California law applicable to fiduciaries of public employee retirement systems, which includes the California State Constitution, Art. XVI sec. 17 and the San José Municipal Code and / or (c) terms and conditions substantially comparable to the foregoing that are satisfactory to the System.

2. The nature and size of the manager's mandate shall be consistent with:

a. The asset allocation policy of the Fund;

b. Applicable constraints (e.g. **manager or strategy concentrations**) contained in this Investment Policy Statement.

3. Notwithstanding paragraph 2) b) above, the CIO shall not approve the selection of an investment management firm for mandates that exceed the following limits:

Basis*	Description	Strategy Limit [1]
Vehicle	Separately managed accounts (active)	15%
	Commingled funds and SMAs (public, passive)	No limit [2]
	Commingled funds (public, active)	15%
	Commingled funds (private strategies)	15% [3]
Public Markets	Passive strategies	No limit
	Active strategies	15%

* To be selected, the manager must satisfy the "Vehicle" constraint and the appropriate "Public Markets" or "Private Markets" constraints

[1] Percentage (%) of total Fund assets allowable per investment strategy.

[2] Rationale: Fund is constrained by the asset allocation. This is the "default" option for investing, and scale determines pricing.

[3] For private strategies, limit applies to the capital invested plus future callable commitments.

4. When a market movement is the cause of a breach in the above limits, it should be reported to the IC at the earliest of a mutually agreed-upon time during which the Investment Committee could convene with a quorum, or at the next regularly scheduled Investment Committee meeting, along with a report on how the breach was addressed, or a recommendation to address the breach.

APPENDIX A [1]

ASSET ALLOCATION TARGETS [2]

	Target (%)	SAAP Asset Class Benchmarks
Growth	58	
Public Equity	58	Public Equity Benchmark [3]
Low Beta	6	
Short-Term Investment Grade Bonds	6	ICE BofA 91 Days T-Bills TR
Other	36	
Investment Grade Bonds	14	BBgBarc US Aggregate TR
Core Real Estate	12	NCREIF ODCE Cap Weighted – Net (Lagged 1 quarter)
Commodities	5	Bloomberg Commodity Index TR USD
Long-term Government Bonds	5	BBgBarc US Treasury Long TR

[1] Appendix A shall be revised as new Asset Allocation targets are approved by the Board.

[2] Approved by the Board of Administration on April 21, 2022.

[3] 51.72% Russell 3000, 27.59% MSCI World ex US IMI Net, 20.69% MSCI Emerging Markets IMI Net.

Investment Professionals

As of June 30, 2024

	PUBLIC EQUITY	
Artisan Partners	GQG Partners	Oberweis Asset Management
Burgundy Asset Management	Kotak Infinity Fund	RWC Partners (Redwheel)
Dimensional Fund Advisors	Morgan Stanley	Wellington Management
First Eagle	Northern Trust Asset Management	
	PRIVATE EQUITY	
Crestline Investors Inc	Neuberger Berman	Partners Group
Innovation Endeavors	Pantheon Ventures	Pathway Capital
	GROWTH REAL ESTATE	
AIG Global Real Estate Investment Corp	GCP SecureSpace Property Partners	Rockpoint Group
Centerbridge Partners	GEM Realty Capital	Torchlight Investors
DRA Advisors LLC	HIG Realty Partners	Tristan Capital Partners
Exeter Property Group	Praedium Group	
	PRIVATE DEBT	
Angelo Gordon	Cross Ocean Partners	Octagon Credit Investors
Arbour Lane Capital Management	Eagle Point	Strategic Value Partners
Blackstone / GSO Capital Partners	HPS Investment Partners	Silver Point Capital
Charlesbank Capital Partners	Invesco	White Oak Global Advisors
Crestline Investors Inc	Medley Capital LLC	
	PRIVATE REAL ASSETS	
Aether Investment Partners	Kimmeridge	Real Assets Co-Invest I
Crestline Investors Inc	Lime Rock Partners	Ridgewood Energy
Global Infrastructure Partners	Mountain Capital	Scout Energy Partners
HIG Capital	Orion Mine Finance	Seraya Partners
Hull Street Energy Partners	Paine Schwartz Partners	Tembo Capital
	VENTURE CAPITAL	
Crosslink Capital	Innovation Endeavors	Transpose Platform
Fin Capital	Soma Capital	
	EMERGING MARKET BONDS	
Payden & Rygel		Wellington Management (Iguazu)
	HIGH YIELD BONDS	
Columbia Threadneedle Investments		Insight Investment
	MARKET NEUTRAL STRATEGIES	
Crabel Capital Management	D.E. Shaw & Co, LP	Hudson Bay Capital Management
	IMMUNIZED CASH FLOWS	
	Insight Investment	
	TREASURY INFLATION-PROTECTED SECURITIES	
	Northern Trust Asset Management	
	CORE REAL ESTATE	
BlackRock Financial Management Inc	Clarion Partners	TA Realty
	COMMODITIES	
	BlackRock Financial Management Inc	
	LONG-TERM GOVERNMENT BONDS and SHORT-TERM GOVERNMENT BONDS	
	BlackRock Financial Management Inc	
	INVESTMENT GRADE BONDS	
BlackRock Financial Management Inc		Northern Trust Asset Management
Invesco Advisers		Voya Investment Management
	CONSULTANTS	
Meketa Investments Group (General Consultant)		Verus Advisory Inc. (Risk Advisory Services)
	CUSTODIAN	
	Bank of New York Mellon	
	PORTFOLIO OVERLAY SERVICES	
	Russell Investments	

Schedule of Investment Results for Pension Trust

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Period Ended June 30, 2024

	One Year	Three Years	Five Years	Ten Years
Total Fund (Net of Manager Fees)	**9.7%**	**4.0%**	**8.5%**	**5.8%**
Policy Benchmark	9.8%	4.0%	8.3%	5.8%
Inv Metrics Public DB > $1 Billion	9.6%	3.0%	7.2%	6.3%
Public Equity	**18.2%**	**3.6%**	**9.6%**	**7.4%**
Public Equity Benchmark	17.6%	3.5%	9.5%	7.8%
Private Equity	**6.4%**	**13.0%**	**17.2%**	**13.5%**
San José Custom Private Equity Benchmark	6.5%	10.2%	15.3%	13.5%
Investment Grade Bonds	**5.0%**	**(1.6)%**	**N/A**	**N/A**
Custom IG Bonds Benchmark	3.1%	(2.1)%	N/A	N/A
Core Real Estate	**(11.8)%**	**4.2%**	**4.1%**	**N/A**
Core Real Estate Benchmark	(12.0)%	2.5%	2.4%	N/A
Immunized Cash Flows	**4.4%**	**0.7%**	**1.2%**	**N/A**
Bloomberg U.S. Govt/Credit 1-3 Year Index	4.9%	0.6%	1.2%	1.4%
Growth Real Estate	**(6.0)%**	**7.6%**	**7.9%**	**N/A**
NCREIF Property Index	(5.5)%	2.3%	3.4%	6.1%
Emerging Market Bonds	**4.6%**	**2.4%**	**4.1%**	**N/A**
50% JPM EMBI GD / 50% JPM GBI-EM	4.9%	(2.9)%	(0.6)%	0.9%
Private Debt	**8.6%**	**11.6%**	**9.6%**	**4.7%**
Morningstar LSTA U.S. Leveraged Loan Index +2%	13.3%	8.3%	7.6%	6.7%
Long-Term Government Bonds	**(5.5)%**	**(10.5)%**	**N/A**	**N/A**
Bloomberg U.S. Treasury: Long	(5.6)%	(10.5)%	(4.3)%	0.6%
Treasury Inflation-Protected Securities	**5.4%**	**2.2%**	**3.0%**	**2.0%**
Bloomberg U.S. TIPS 0-5 Year	5.4%	2.2%	3.2%	2.0%
High Yield Bonds	**10.1%**	**2.1%**	**4.2%**	**2.1%**
Bloomberg U.S. Corporate High Yield Index	10.4%	1.6%	3.9%	4.3
Cash and Cash Equivalents	**4.6%**	**2.6%**	**1.9%**	**1.4%**
90 Day U.S. Treasury Bill	5.4%	3.0%	2.2%	1.5%
Market Neutral Strategies	**8.0%**	**11.9%**	**10.0%**	**6.8%**
Market Neutral Strategies Benchmark	7.0%	4.4%	3.0%	2.1%
Private Real Assets	**1.2%**	**11.9%**	**8.7%**	**N/A**
Venture / Growth Capital	**(9.4)%**	**(5.1)%**	**N/A**	**N/A**

Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Quarterly Review Report dated June 30, 2024

Schedule of Investment Results for Healthcare Trust

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Period Ended June 30, 2024

	One Year	Three Years	Five Years	Ten Years
Total Fund (Net of Manager Fees)	**9.4%**	**2.1%**	**5.8%**	**4.1%**
Policy Benchmark	9.3%	2.2%	6.1%	**4.8%**
Public Equity	**17.8%**	**3.4%**	**8.8%**	**7.4%**
Public Equity Benchmark	17.7%	3.6%	9.7%	**7.9%**
Investment Grade Bonds	**2.5%**	**(3.1)%**	**N/A**	**N/A**
Bloomberg US Aggregate Index	2.6%	(3.0)%	N/A	N/A
Core Real Estate	**(11.9)%**	**4.1%**	**4.0%**	**N/A**
Core Real Estate Benchmark	(12.0)%	2.5%	2.4%	N/A
Short-Term Investment Grade Bonds	**5.5%**	**3.2%**	**2.3%**	**N/A**
90 Day U.S. Treasury Bill	5.4%	3.0%	2.2%	N/A
Long-Term Government Bonds	**(5.6)%**	**(10.4)%**	**N/A**	**N/A**
Bloomberg U.S. Treasury: Long	(5.6)%	(10.5)%	N/A	N/A
Cash and Cash Equivalents	**4.8%**	**2.4%**	**1.7%**	**1.3%**
90 Day U.S. Treasury Bill	5.4%	3.0%	2.2%	1.5%
Commodities	**5.1%**	**6.3%**	**8.7%**	**N/A**
Bloomberg Commodity Index Total Return	5.0%	5.7%	7.2%	N/A

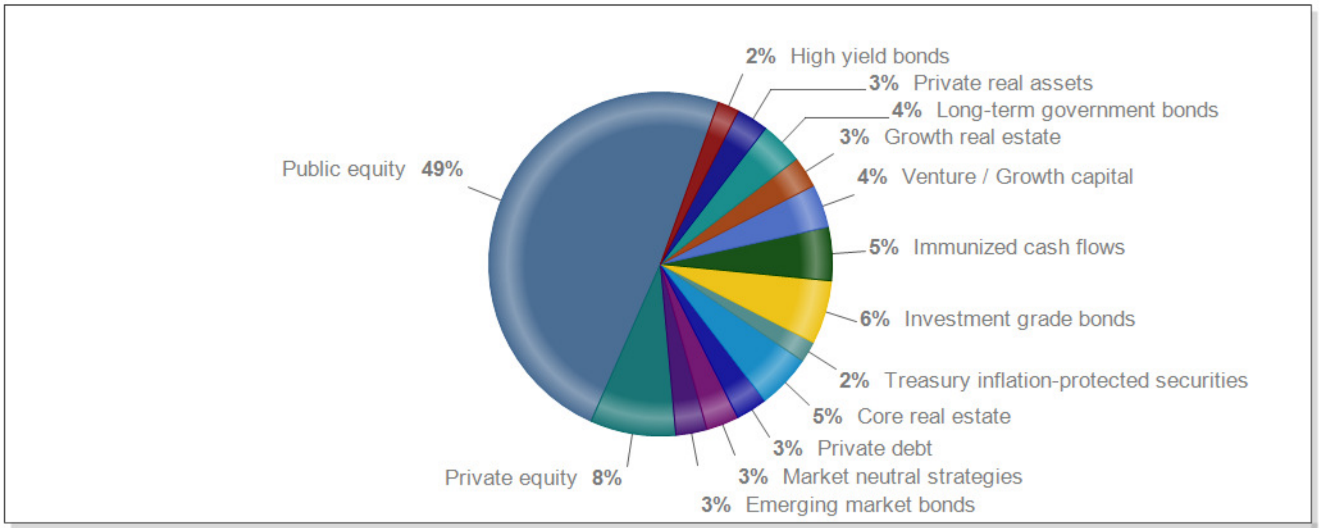
Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Quarterly Review Report dated June 30, 2024

Pension Investment Review

TARGET ASSET ALLOCATION

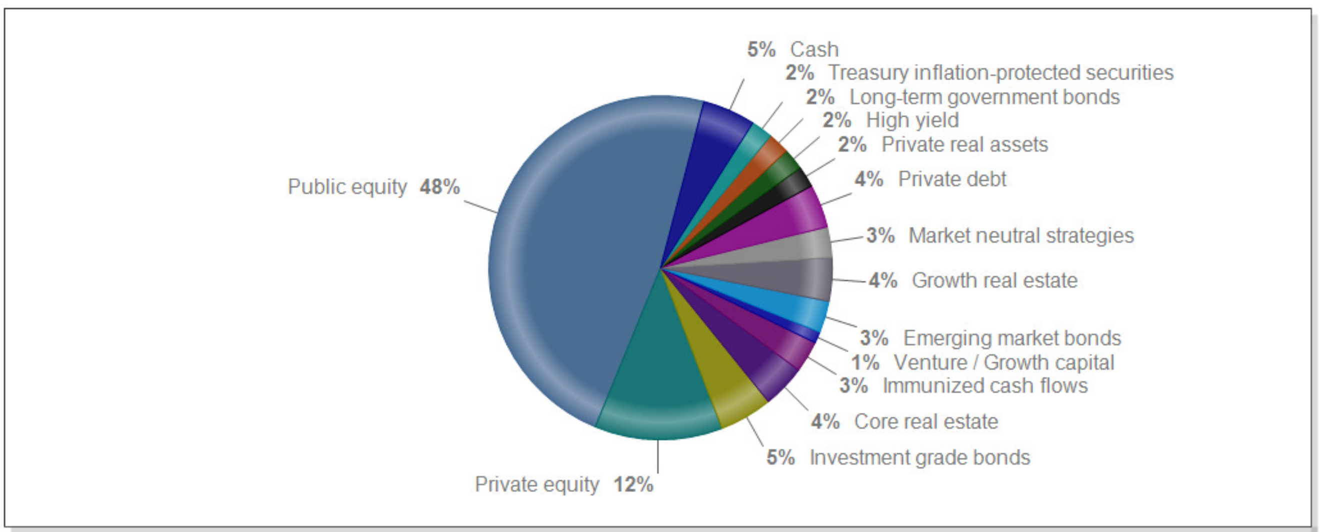
As of June 30, 2024



ACTUAL ASSET ALLOCATION

As of June 30, 2024

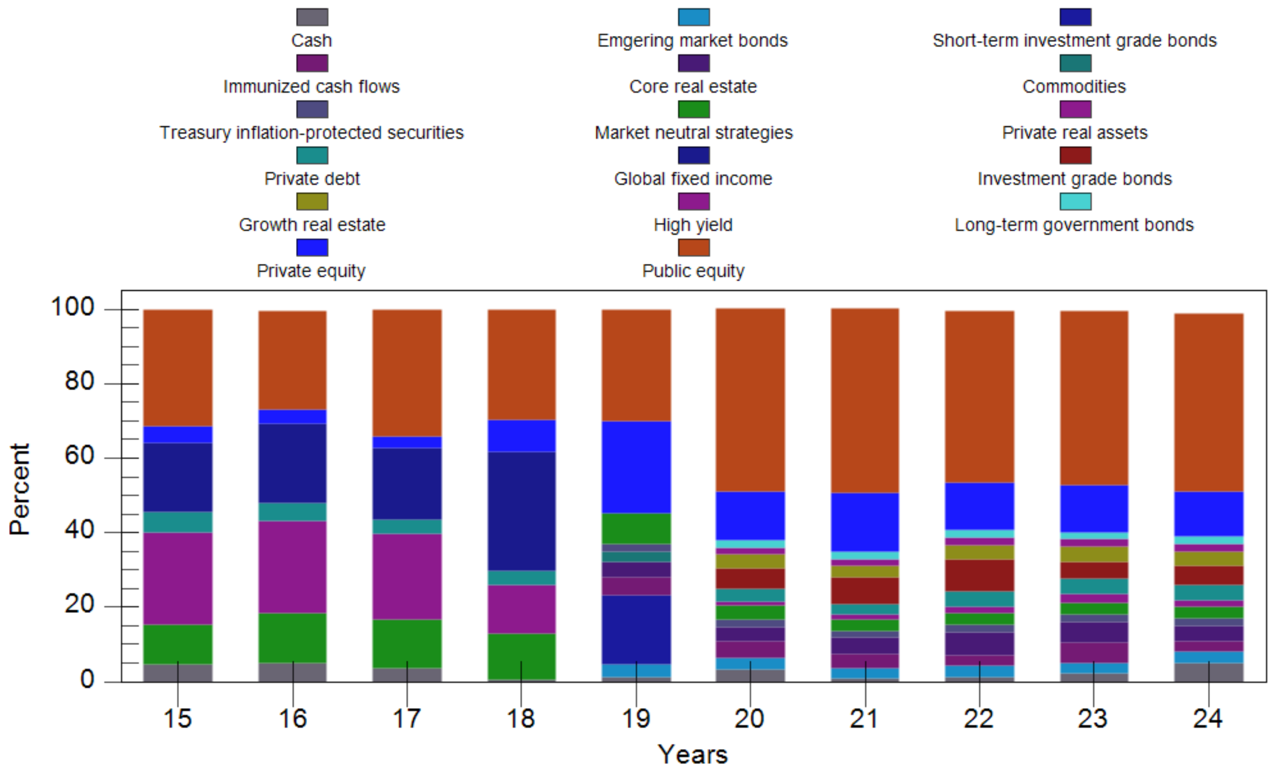
Non-GAAP Basis



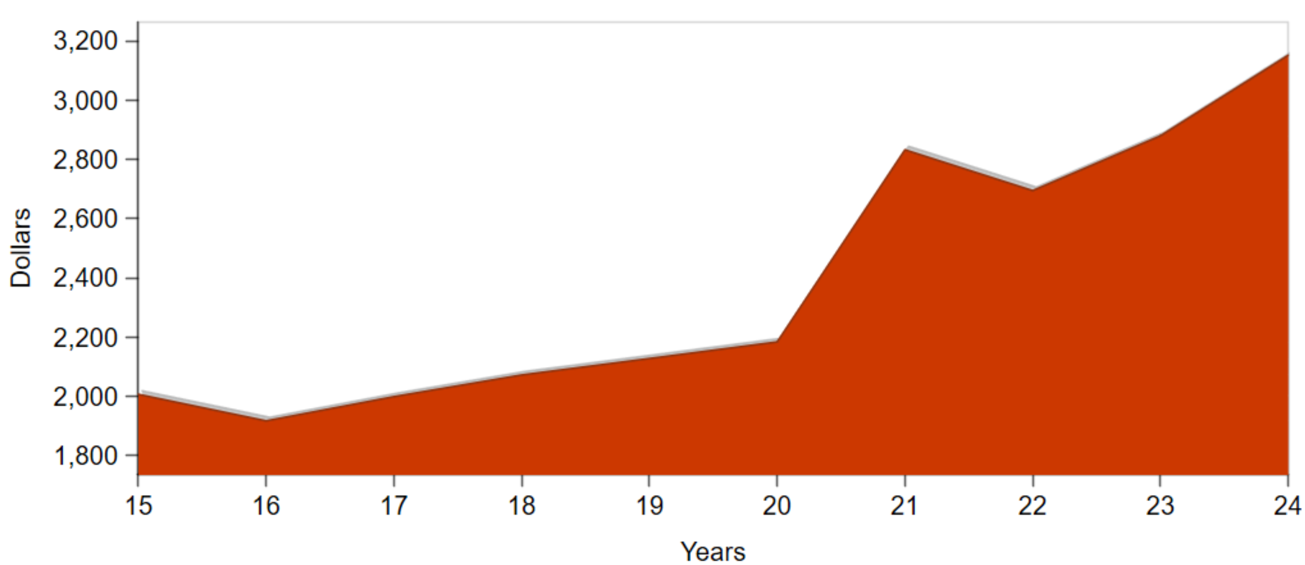
Asset Class	$ In Millions	Asset Class	$ In Millions
Public equity	$ 1,511.0	Market neutral strategies	$ 92.0
Private equity	389.0	Private debt	131.0
Investment grade bonds	151.0	Private real assets	71.0
Core real estate	139.0	High yield	65.0
Immunized cash flows	107.0	Long-term government bonds	54.0
Venture / Growth capital	27.0	Treasury inflation-protected securities	60.0
Emerging market bonds	90.0	Cash	143.0
Growth real estate	121.0		
TOTAL			**$ 3,151.0**

Source: Meketa Investment Group's Quarterly Review Report dated June 30, 2024

HISTORICAL ASSET ALLOCATION (Actual)
As of June 30, 2015 - June 30, 2024

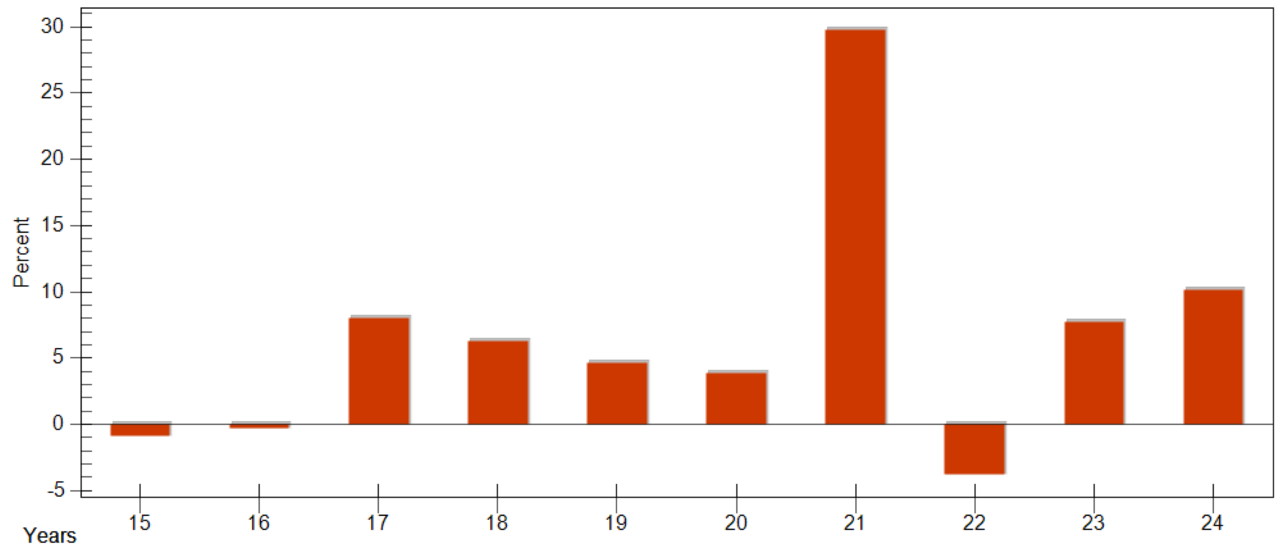


FAIR VALUE GROWTH OF PLAN ASSETS
For Ten Years Ended June 30, 2024
(Dollars in Millions)



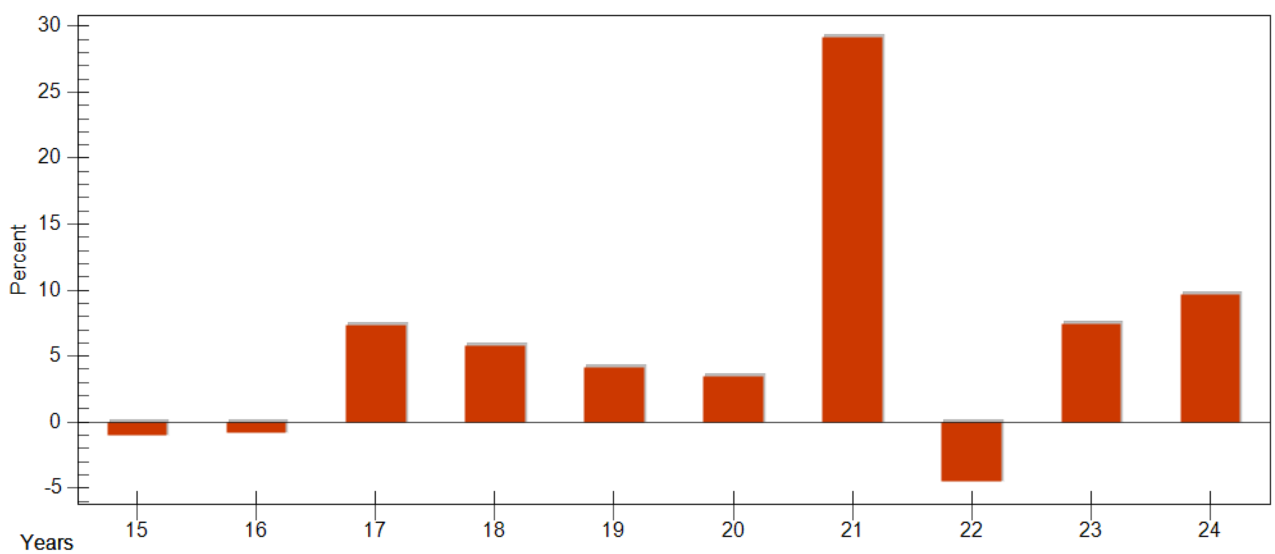
Pension Investment Review *(continued)*

HISTORY OF GROSS PERFORMANCE
For Fiscal Years 2015 - 2024
(Based on Fair Value)



Years	15	16	17	18	19	20	21	22	23	24
Percentage	-0.90	-0.28	8.00	6.28	4.60	3.90	29.80	-3.80	7.72	10.14

HISTORY OF NET PERFORMANCE
For Fiscal Years 2015- 2024
(Based on Fair Value)



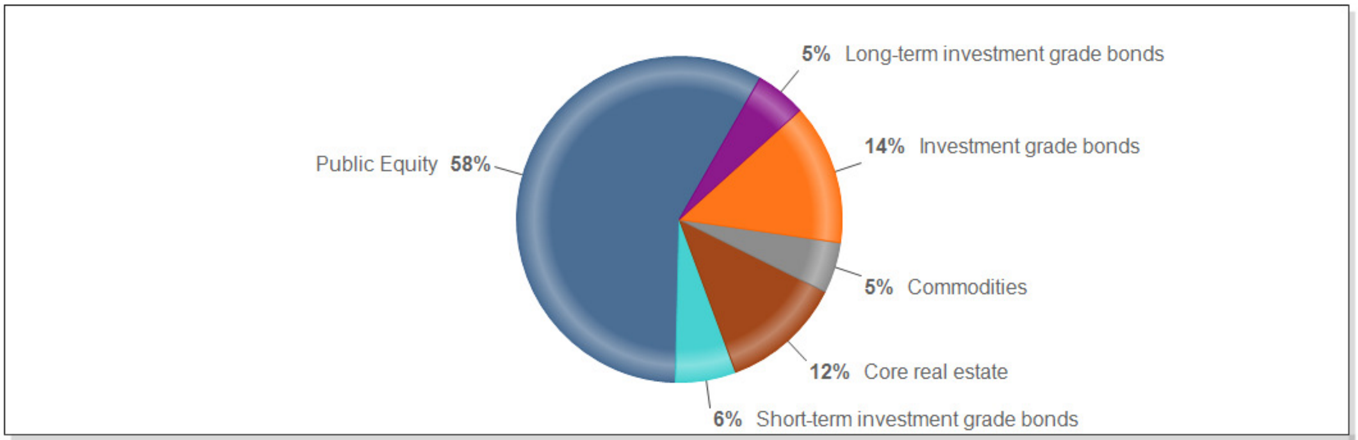
Years	15	16	17	18	19	20	21	22	23	24
Percentage	-1.00	-0.81	7.38	5.79	4.18	3.50	29.17	-4.50	7.40	9.71

Source: Bank of New York Mellon as of June 30, 2024, unaudited.

Healthcare Investment Review

TARGET ASSET ALLOCATION

As of June 30, 2024

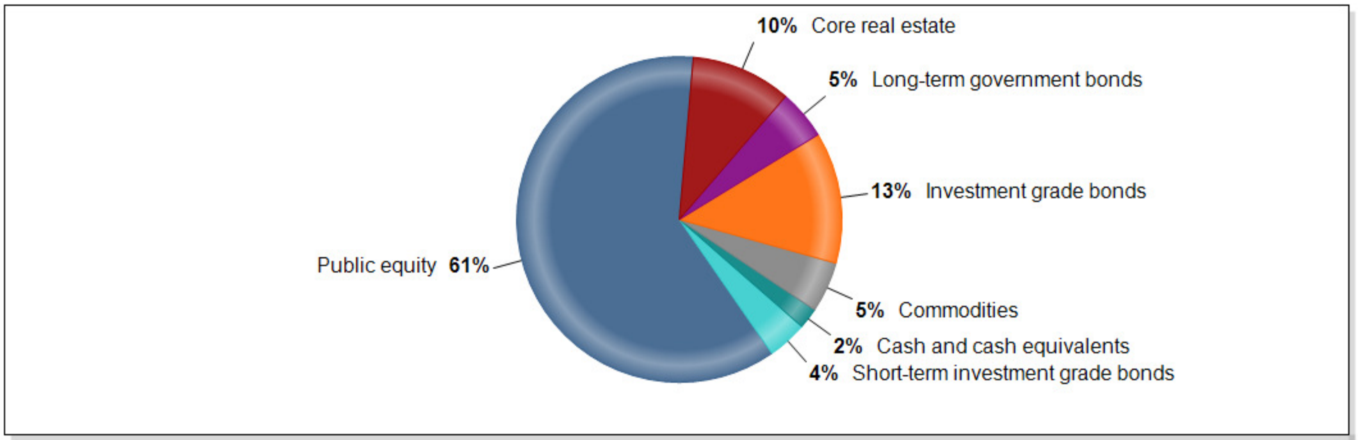


** Cash has a 0% target asset allocation*

ACTUAL ASSET ALLOCATION

As of June 30, 2024

Non-GAAP Basis



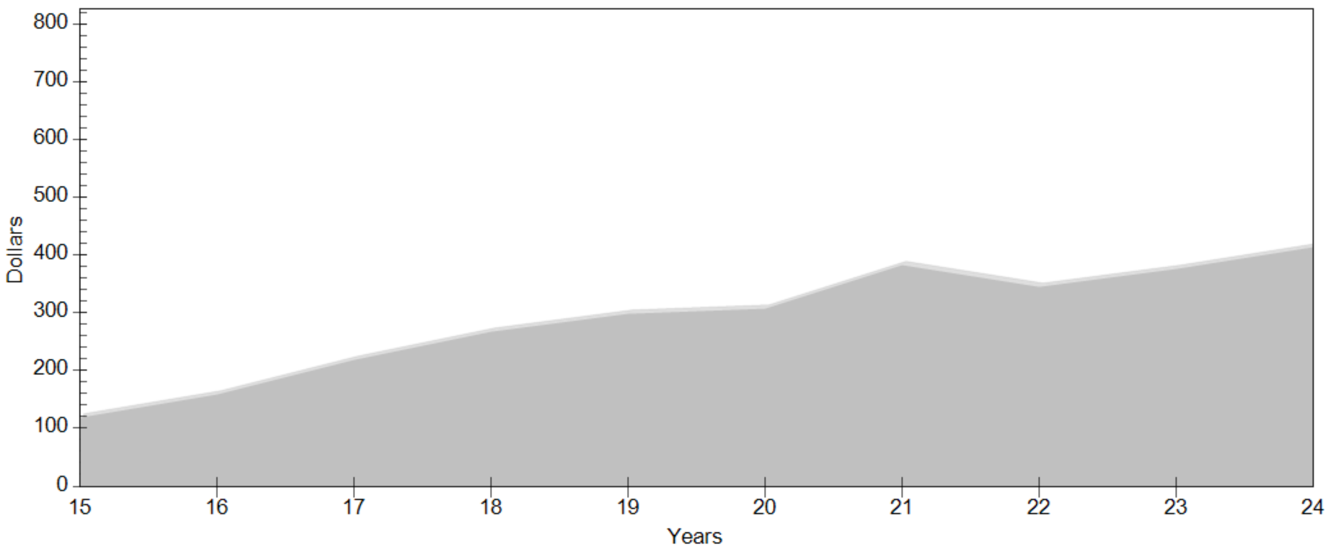
Asset Class	$ In Millions
Public equity	$ 251.0
Short-term investment grade bonds	14.0
Cash and cash equivalents	10.0
Core real estate	42.0
Commodities	21.0
Investment grade bonds	56.0
Long-term government bonds	20.0
TOTAL	**$ 414.0**

Source: Meketa Investment Group's Quarterly Review Report dated June 30, 2024

Healthcare Investment Review *(continued)*

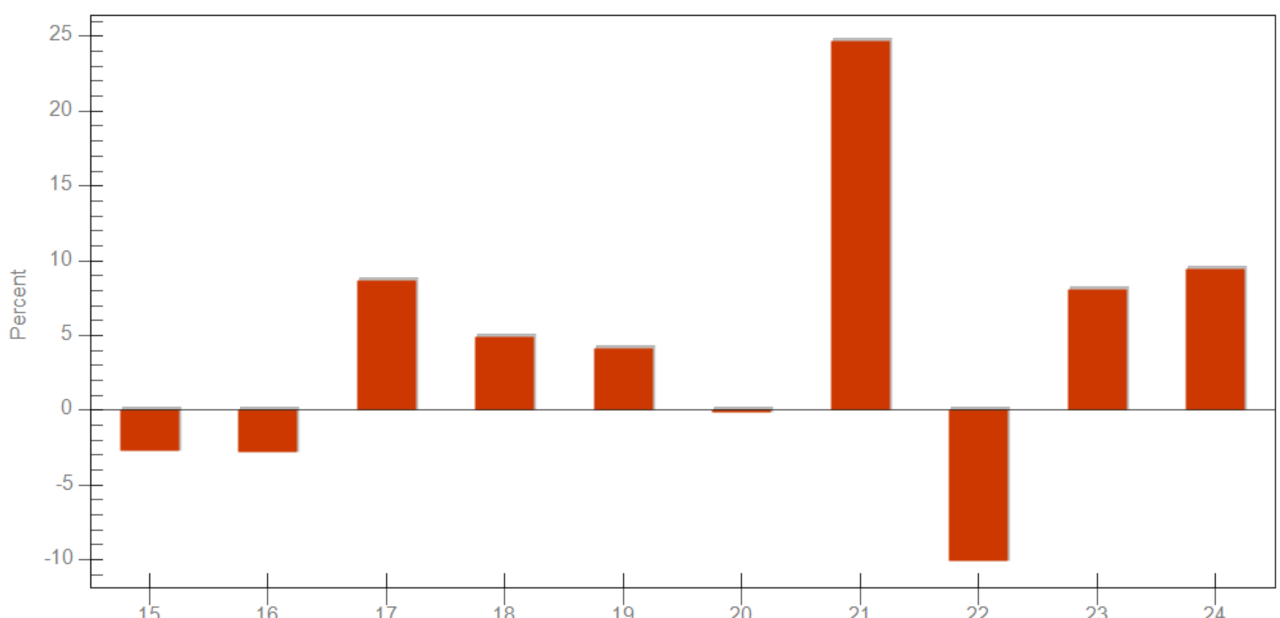
FAIR VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2024 (Dollars in Millions)



HISTORY OF NET PERFORMANCE

For Fiscal Years 2015 - 2024
(Based on Fair Value)

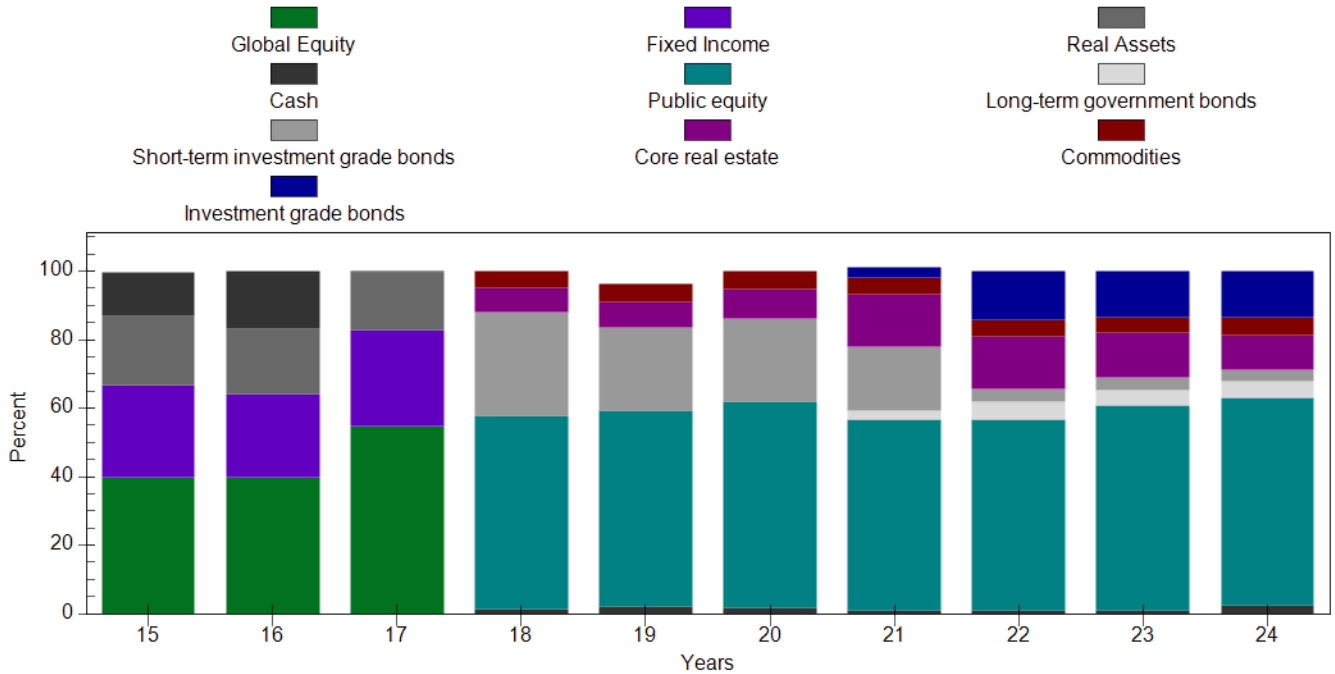


Years	15	16	17	18	19	20	21	22	23	24
Percentage	-2.70	-2.78	8.65	4.89	4.17	-0.15	24.71	-10.09	8.09	9.43

Source: Bank of New York Mellon as of June 30, 2024, unaudited.

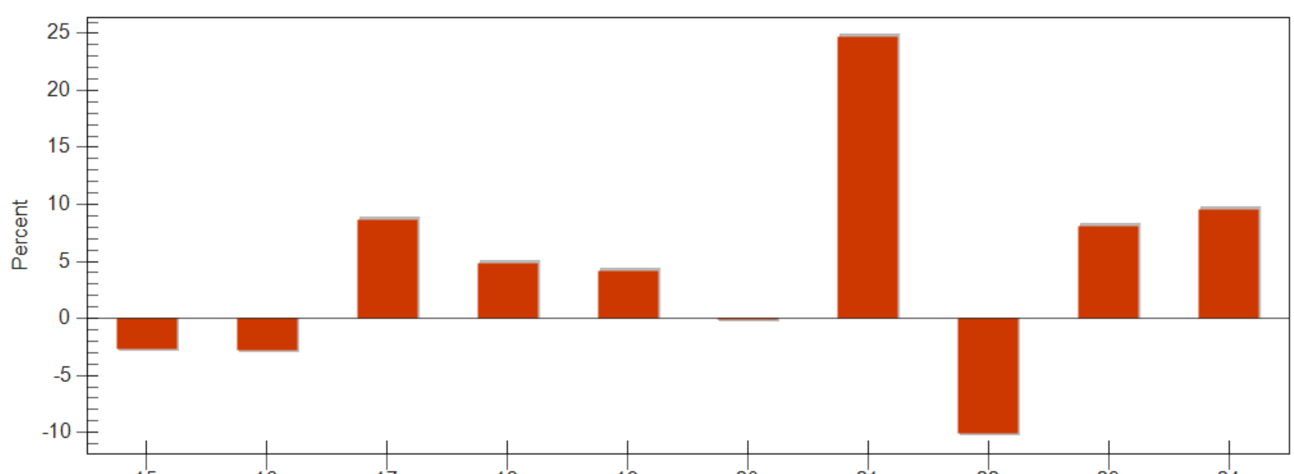
HISTORICAL ASSET ALLOCATION (Actual)

As of June 30, 2015 - June 30, 2024



HISTORY OF GROSS PERFORMANCE

For Fiscal Years 2015 - 2024
(Based on Fair Value)



Years	15	16	17	18	19	20	21	22	23	24
Percentage	-2.70	-2.78	8.65	4.89	4.17	-0.15	24.71	-10.09	8.09	9.51

Source: Bank of New York Mellon as of June 30, 2024, unaudited.

List of Largest Assets Held

LARGEST DISCLOSABLE STOCK HOLDINGS (By Fair Value) For Pension

As of June 30, 2024

Description	Country	Shares	Fair Value ($US)
ALPHABET INC	UNITED STATES	41,531	$7,564,872
HEIDELBERG MATERIALS AG	GERMANY	67,816	$7,037,052
ELEVANCE HEALTH INC	UNITED STATES	12,711	$6,887,582
NOVARTIS AG	SWITZERLAND	60,496	$6,474,405
META PLATFORMS INC	UNITED STATES	12,338	$6,221,066
DANONE SA	FRANCE	99,730	$6,101,032
AMERICAN EXPRESS CO	UNITED STATES	25,969	$6,013,122
BERKSHIRE HATHAWAY INC	UNITED STATES	14,159	$5,759,881
BANK OF NEW YORK MELLON CORP/T	UNITED STATES	93,168	$5,579,832
COMPASS GROUP PLC	UNITED KINGDOM	202,239	$5,522,047

A complete list of portfolio holdings is available upon request.

LARGEST DISCLOSABLE BOND HOLDINGS (By Fair Value) For Pension

As of June 30, 2024

Security Name	Country	Maturity Date	Interest Rate	Shares	Fair Value ($US)
US TREASURY NOTE	UNITED STATES	5/31/2026	4.875%	6,489,700	$6,502,615
US TREASURY BOND	UNITED STATES	1/15/2027	4.000%	3,743,000	$3,689,213
US TREASURY NOTE	UNITED STATES	8/15/2026	1.500%	3,776,000	$3,533,656
US TREASURY NOTE	UNITED STATES	11/30/2026	1.625%	3,775,000	$3,518,111
US TREASURY NOTE	UNITED STATES	1/31/2027	1.500%	3,767,000	$3,486,547
US TREASURY NOTE	UNITED STATES	9/30/2026	0.875%	3,782,000	$3,480,764
US TREASURY NOTE	UNITED STATES	12/31/2026	1.250%	3,773,000	$3,478,517
US TREASURY NOTE	UNITED STATES	8/31/2027	0.500%	3,875,000	$3,421,974
US TREASURY NOTE	UNITED STATES	7/31/2027	0.375%	3,867,000	$3,411,274
US TREASURY NOTE	UNITED STATES	11/30/2027	0.625%	3,876,000	$3,408,477

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

For the Fiscal Year Ended June 30, 2024

Includes the 115 Trust

	Assets Under Management at Fair Value [1]	Fees	Basis Points
Investment Managers' Fees			
Public equity	$ 1,761,471,855	$ 2,179,988	12
Private equity	388,872,380	1,481,695	38
Investment grade bonds	206,987,509	432,875	21
Core real estate	182,186,884	812,895	45
Growth real estate	120,660,529	1,538,188	127
Private debt	131,279,895	2,105,115	160
Market neutral strategies	91,627,638	-	-
Emerging market / High yield bonds	155,269,279	229,011	15
Immunized cash flows	107,591,071	71,943	7
Long-term government bonds	73,264,184	18,468	3
Cash and cash equivalents	153,347,528	-	-
Treasury inflation-protected securities	60,148,825	27,550	5
Private real assets	70,920,960	1,970,668	278
Commodities	20,700,405	-	-
Venture / Growth capital	26,777,664	399,239	149
Short-term investment grade bonds	13,913,469	2,722	2
Total Investment Managers' Fees	**$ 3,565,020,075**	**$ 11,270,357**	**32**

[1] *Includes cash in managers' accounts; non-GAAP basis*

	Fees
Other Investment Fees	
Investment consultants	$ 410,200
Custodian bank	458,143
Investment legal fees	108,177
Other investment fees	355,191
Total Other Investment Fees	**$ 1,331,711**

Schedule of Commissions

For the Fiscal Year Ended June 30, 2024

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost / Share
A			
ABG SEC AS (NORGE), FILIAL, STOCKHOLM	1,999	$ 12.79	$ 0.0064
ABN AMRO CLEARING BANK N.V, AMSTERDAM	42,599	142.91	0.0034
B			
BAIRD, ROBERT W & CO INC, MILWAUKEE	1,210	39.64	0.0328
BANQUE PARIBAS, PARIS	914,865	6,671.41	0.0073
BARCLAYS BK BCI PROP AC, BRUSSELS	300	8.53	0.0284
BARCLAYS CAPITAL INC, WHIPPANY	105,432	435.12	0.0041
BARCLAYS CAPITAL LE, NEW YORK	5,715	67.40	0.0118
BARCLAYS CAPITAL, LONDON (BARCGB33)	166,956	5,341.75	0.0320
BARRENJOEY MARKETS PTY LIMITED, SYDNEY	107,300	1,383.05	0.0129
BERENBERG GOSSLER & CIE, HAMBURG	80,581	2,088.07	0.0259
BERNSTEIN SANFORD C & CO, NEW YORK	20,114	220.24	0.0109
BKNS NY/RATES DESK	1,453,000	4.87	0.0000
BMO CAPITAL MARKETS CORP, NEW YORK	6,877	102.50	0.0149
BNP PARIBAS ARBITRAGE, PARIS	107,909	1,458.70	0.0135
BNP PARIBAS PEREGRINE SEC LTD, HONG KONG	1,100	46.47	0.0422
BNP PARIBAS SEC SRVS SA, SINGAPORE	190,400	3,297.90	0.0173
BNP PARIBAS SEC SVCS, LONDON (PARBGB2L)	1,136	32.38	0.0285
BNP PARIBAS SECS SERVS, SYDNEY	368,200	1,670.17	0.0045
BNP PARIBAS SECURITIES SVCS, HONG KONG	9,200	49.99	0.0054
BNY CONVERGEX EXECUTION SOL, NEW YORK	1,087	88.06	0.0810
BTIG LLC, NEW YORK	2,914	58.28	0.0200
C			
CACEIS BANK, MONTROUGE, FRANCE	230	209.03	0.9088
CACEIS BANK, PARIS	25,111	1,707.22	0.0680
CANACCORD GENUITY CORP, MONTREAL (CCAM)	4,700	69.51	0.0148
CANTOR FITZGERALD EUROPE, LONDON	1,727	38.35	0.0222
CARNEGIE ASA, OSLO	79,900	1,212.19	0.0152
CARNEGIE SECS LTD, HELSINKI (CASFFIH1)	7,000	219.99	0.0314
CITIBANK INTL PLC, LONDON	428	24.29	0.0568
CITIBANK, NY	16,696	333.02	0.0199
CITIGROUP GLOBAL MARKETS EURO, FRANKFURT	6,484	117.61	0.0181
CITIGROUP GLOBAL MARKETS LTD, LONDON	16,291	459.22	0.0282
CITIGROUP GLOBAL MARKETS, INC., NEW YORK	25,260	790.34	0.0313
CLSA AMERICAS, NEW YORK	2,680	46.28	0.0173

Schedule of Commissions *(continued)*

For the Fiscal Year Ended June 30, 2024

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost / Share
COWEN AND CO LLC, NEW YORK	26,013	464.57	0.0179
CREDIT INDUSTRIEL ET COMMERCIAL, PARIS	12,000	206.80	0.0172
CREDIT LYONNAIS SECS (ASIA), HONG KONG	800	16.89	0.0211
CREDIT LYONNAIS SECS, SINGAPORE	9,300	382.09	0.0411
CREDIT MUTUEL-CIC BANQUES, PARIS	382	652.31	1.7076
D			
D CARNEGIE AB, STOCKHOLM	53,149	2,254.43	0.0424
DAIWA SECS AMER INC, NEW YORK	59,400	3,181.37	0.0536
DAVY STOCKBROKERS, DUBLIN	804	32.86	0.0409
DEN DANSKE BANK, COPENHAGEN	16,404	295.12	0.0180
DEN NORSKE CREDITBANK, OSLO	41,700	685.15	0.0164
DEUTSCHE BK SECS INC, NY (NWSCUS33)	2,658	127.00	0.0478
DNB NOR MARKETS CUSTODY, OSLO	13,101	536.22	0.0409
E			
EXANE, PARIS (EXANFRPP)	29	6.07	0.2093
F			
FOKUS BANK, TRONDHEIM	12,400	102.26	0.0082
G			
GOLDMAN SACHS & CO, NY	164,493	4,675.59	0.0284
GOLDMAN SACHS INTL, LONDON (GSILGB2X)	24,774	853.43	0.0344
H			
HSBC SECURITIES (USA) INC, NEW YORK	14,458	154.90	0.0107
I			
ICHIYOSHI SEC CO LTD, TOKYO	40,600	1,861.12	0.0458
INSTINET CLEARING SER INC, NEW YORK	11,537	188.37	0.0163
INSTINET CORP, NEW YORK	52,205	800.13	0.0153
INSTINET EUROPE LIMITED, LONDON	141,240	3,222.74	0.0228
INSTINET PACIFIC LTD, HONG KONG	3,700	24.60	0.0066
INVESTEC SECURITIES (331), LONDON	51,800	845.40	0.0163
INVESTMENT TECHNOLOGY GROUP LTD, DUBLIN	26,725	969.36	0.0363
ITG CANADA CORP, TORONTO	101	0.56	0.0055
J			
J P MORGAN SECS LTD, LONDON	289,714	5,180.30	0.0179
J P MORGAN SECURITIES LLC, NEW YORK	27,813	496.14	0.0178
J P MORGAN SECURITIES, HONG KONG	18,200	73.29	0.0040
JEFFERIES & CO INC, NEW YORK	143,415	4,094.93	0.0286
JEFFERIES & CO LTD, LONDON	90,165	1,063.50	0.0118
JEFFERIES HONG KONG LIMITED, HONG KONG	13,600	152.93	0.0112
JONESTRADING INST SVCS LLC, NEW YORK	6,700	134.00	0.0200

Schedule of Commissions *(continued)*

For the Fiscal Year Ended June 30, 2024

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost / Share
JONESTRADING INSTL SVCS LLC, WESTLAKE	17,500	257.03	0.0147
L			
LIQUIDNET CANADA INC, TORONTO	181,900	2,428.05	0.0133
LIQUIDNET EUROPE LIMITED, LONDON	160,485	1,893.38	0.0118
LIQUIDNET INC, NEW YORK	22,326	268.27	0.0120
LUMINEX TRADING AND ANALYTICS, BOSTON	2,226	22.26	0.0100
M			
MACQUARIE BANK LIMITED, SYDNEY	125,400	2,163.79	0.0173
MACQUARIES SECURITIES AUSTRALIA, SYDNEY	1,700	225.58	0.1327
MERRILL LYNCH GILTS LTD, LONDON	6,811	249.57	0.0366
MERRILL LYNCH INTL LONDON EQUITIES	167,639	4,106.70	0.0245
MERRILL LYNCH PIERCE FENNER SMITH INC NY	14,837	29,337.00	1.9773
MERRILL LYNCH PIERCE FENNER, WILMINGTON	7,836	103.21	0.0132
MERRILL LYNCH PROFESSIONAL CLRG, PURCHAS	369	7.38	0.0200
MITSUBISHI UFJ SECURITIES, NEW YORK	8,800	414.89	0.0471
MIZUHO SECURITIES USA INC, NEW YORK	18,364	622.85	0.0339
MORGAN STANLEY AND CO, LLC, NEW YORK	119,210	4,185.47	0.0351
N			
NATIONAL FINL SVCS CORP, NEW YORK	6,164	35.36	0.0057
NBCN INC, TORONTO (NBCS)	19,600	288.89	0.0147
NEEDHAM AND CO LLC, NEW YORK	3,600	72.00	0.0200
NESBITT BURNS, TORONTO (NTDT)	335	2.13	0.0064
NORDEA BK PLC, HELSINKI (NDEAFIHH030)	1,133	9.63	0.0085
NUMIS SECURITIES INC., NEW YORK	160,500	2,234.62	0.0139
O			
ODDO ET CIE, PARIS	40,095	1,378.22	0.0344
OPTIVER VOF, AMSTERDAM	60	1.61	0.0268
P			
PAREL, PUTEAUX	25,318	1,188.48	0.0469
PEEL HUNT LLP, LONDON	5,100	158.38	0.0311
PERSHING LLC, JERSEY CITY	186	6.98	0.0375
PERSHING SECURITIES LTD, LONDON	860,478	8,619.03	0.0100
R			
RAYMOND JAMES & ASSOC INC, ST PETERSBURG	664	24.90	0.0375
RBC CAPITAL MARKETS LLC, NEW YORK	96,137	1,106.28	0.0115
RBC DOMINION SECS INC, TORONTO (DOMA)	23,198	289.17	0.0125
REDBURN PARTNERS LLP, LONDON	137	6.93	0.0506

Schedule of Commissions *(continued)*

For the Fiscal Year Ended June 30, 2024

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost / Share
ROYAL BANK OF CANADA EUROPE LTD, LONDON	63,591	957.89	0.0151
S			
SANFORD C BERNSTEIN & CO INC, LONDON	2,134	260.21	0.1219
SKANDINAVISKA ENSKILDA BANKEN, COPENHAGEN	4,000	341.78	0.0854
SKANDINAVISKA ENSKILDA BANKEN, LONDON	30,900	431.60	0.0140
SKANDINAVISKA ENSKILDA BANKEN, STOCKHOLM	6,287	129.12	0.0205
SMBC SECURITIES, INC NEW YORK	86,500	2,587.58	0.0299
SOCIETE GENERALE, PARIS	39,106	357.61	0.0091
SOCIETE GENERALE, PUTEAUX	96,610	4,735.29	0.0490
STIFEL NICOLAUS	1,808	33.89	0.0187
STIFEL, NICOLAUS AND CO, ST. LOUIS	10,500	115.90	0.0110
U			
UBS AG LONDON BRANCH, LONDON	787	9.78	0.0124
UBS EQUITIES, LONDON	87,004	1,100.71	0.0127
UBS SECURITIES CANADA, TORONTO (BWIT)	622	11.35	0.0182
UBS SECURITIES LLC, STAMFORD	48,891	1,108.97	0.0227
UBS WARBURG ASIA LTD, HONG KONG	205,700	3,239.49	0.0157
V			
VIRTU AMERICAS LLC, NEW YORK	359	10.16	0.0283
W			
WILLIAM BLAIR & CO, CHICAGO	1,720	64.50	0.0375
TOTAL	**7,929,408**	**$ 139,385.58**	**$ 0.0176**

Investment Summary

PENSION

As of June 30, 2024 (Dollars in thousands)

Type of Investments		Fair Value	% of Portfolio
Public equity	$	1,510,617	46.9%
Private equity		388,872	12.6
Core real estate		139,530	5.5
Investment grade bonds		150,805	4.3
Immunized cash flows		107,591	5.6
Growth real estate		120,661	4.1
Emerging market bonds		90,356	2.9
Private debt		131,280	4.2
Market neutral strategies		91,628	3.1
Cash and cash equivalents		143,620	1.8
Long-term government bonds		53,368	2.0
Private real assets		70,921	2.4
Treasury inflation-protected securities		60,149	2.0
High yield		64,913	2.0
Venture / Growth capital		26,778	0.6
Total Fair Value	**$**	**3,151,089**	**100.0%**

Non-GAAP basis

The amounts presented above may vary from the amounts presented in the financial statements due to the investment summary presenting amounts at the manager level and the financial statements presenting amounts at the security level.

Includes cash to support synthetic exposure.

HEALTHCARE - 115 TRUST

As of June 30, 2024 (Dollars in thousands)

Type of Investments		Fair Value	% of Portfolio
Public equity	$	250,854	59.7%
Core real estate		42,657	13.2
Investment grade bonds		56,183	13.4
Cash		9,727	0.8
Long-term investment grade bonds		19,896	4.7
Commodities		20,700	4.7
Short-term investment grade bonds		13,913	3.5
Total Fair Value	**$**	**413,930**	**100.0%**

Non-GAAP basis

The amounts presented above may vary from the amounts presented in the financial statements due to the investment summary presenting amounts at the manager level and the financial statements presenting amounts at the security level.

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Actuarial Section

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Pension Trust and Postemployment Healthcare Trust Funds of the City of San José, California

City of San José
Federated City Employees' Retirement System
Annual Comprehensive Financial Report for the Fiscal Years Ended
June 30, 2024 and June 30, 2023

CHEIRON

Classic Values, Innovative Advice

Via Electronic Mail

September 26, 2024

Board of Administration
City of San José Federated City Employees' Retirement System
1737 North 1st Street, Suite 580
San José, CA 95112

Dear Members of the Board:

The purpose of this letter is to provide the certification for the Actuarial Section of the Annual Comprehensive Financial Report for the City of San José Federated City Employees' Retirement System (System) with respect to pension benefits.

Actuarial Valuation Used for Funding Purposes

Actuarial valuations are performed annually, and the most recent actuarial valuation was performed as of June 30, 2023. Please refer to that report for additional information related to the funding of the System.

We prepared the following schedules for inclusion in the Actuarial Section of the Annual Comprehensive Financial Report based on the June 30, 2023 actuarial valuation.

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Analysis of Financial Experience
- Schedule of Funded Liabilities by Type
- Schedule of Funding Progress
- Summary of Plan Provisions

The funding ratios shown in the schedule of funded liabilities by type and the schedule of funding progress exhibits are ratios compared to the funding target and are for the purpose of evaluating funding progress in a budgeting context. These ratios are not appropriate for measuring or assessing the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligations.

The Board of Administration is responsible for establishing and maintaining the contribution policy for the System. The actuarial methods and assumptions used in the actuarial valuation are adopted by the Board of Administration with advice from the actuary. In our opinion, the assumptions and methods used in the actuarial valuation for funding purposes are consistent with applicable Actuarial Standards of Practice. The actuarial cost method and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes.

Board of Administration
September 26, 2024
Page 2

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2023 actuarial valuation updated to the measurement date of June 30, 2024. The Board changed the wage inflation assumption and demographic assumptions used in the June 30, 2023 valuation based on the most recent experience study covering the period through June 30, 2023. These changes are reflected effective July 1, 2023 for financial reporting purposes. There were no significant events between the valuation date and the measurement date, so the update was based upon the Total Pension Liability as of the valuation date reflecting the new assumptions and projected to the measurement date with the addition of service cost and interest cost offset by actual benefit payments.

Please refer to our GASB 67/68 report as of June 30, 2024 for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the Annual Comprehensive Financial Report based on the June 30, 2024 GASB 67/68 report.

- Change in Net Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate
- Schedule of Changes in Net Pension Liability and Related Ratios
- Notes to the Schedule of Employer Contributions

Reliance on the Information Provided by the System and Compliance with ASOPs and GAAP

In preparing our valuations and the schedules for the Annual Comprehensive Financial Report, we relied on information (some oral and some written) supplied by the City of San José Office of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future actuarial measurements for funding and financial reporting purposes may differ significantly from the current measurements presented in this Annual Comprehensive Financial Report due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and, changes in plan provisions or applicable law.

This letter and the schedules named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. The schedules provided for financial reporting purposes have been prepared in accordance with our understanding of generally accepted accounting principles as promulgated by the GASB. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. This letter does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

CHEIRON

Board of Administration
September 26, 2024
Page 3

This letter and the schedules named above were prepared for the System for the purposes described herein. Other users of this information are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

Sincerely,
Cheiron

William R. Hallmark, ASA, EA, MAAA, FCA
Consulting Actuary

Steven M. Hastings, FSA, EA, MAAA, FCA
Consulting Actuary

Jacqueline R. King, FSA, EA, MAAA
Consulting Actuary

Actuarial Assumptions and Methods

DEFINED BENEFIT PENSION

Actuarial Assumptions

The price inflation, wage inflation, amortization payment growth, and discount rates were adopted by the Board of Administration with the actuary's input at the October 19, 2023 Board meeting. All other assumptions were adopted at the November 16, 2023 Board meeting based on recommendations from the actuary's experience study covering plan experience through June 30, 2023. Please refer to the full experience study report and the November 16, 2023 Board presentation for details, including the rationale for each assumption.

1) Discount Rate

6.625%. The Board expects a long-term rate of return of 8.8% based on Meketa's 2023 20-year capital market assumptions and the System's current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate.

2) Wage Inflation and Payroll Growth

Reflect currently bargained increases for FYE 2024, 4.5% effective July 1, 2024, 3.5% effective July 1, 2025, and 3.00% thereafter. These increases approximate the bargained increases for the largest bargaining groups.

3) Amortization Payment Growth 2.75%, compounded annually.

4) Price Inflation 2.50%, compounded annually.

5) Administrative Expenses

Administrative expenses are assumed to equal the prior year's actual administrative expenses increased by the ultimate wage inflation assumption to the year of the contribution. Administrative expenses are allocated to each tier in proportion to each tier's fair value of assets.

6) Salary Increase Rate

In addition to the wage inflation component shown above, the following merit component is added based on an individual member's years of service:

Table B-1 SALARY MERIT INCREASES

Years of Service	Merit / Longevity	Years of Service	Merit / Longevity	Years of Service	Merit / Longevity
0	3.25%	7	1.60%	14	0.45%
1	3.25%	8	1.35%	15	0.40%
2	3.05%	9	1.20%	16	0.35%
3	2.75%	10	1.00%	17	0.30%
4	2.40%	11	0.85%	18+	0.25%
5	2.10%	12	0.70%		
6	1.85%	13	0.55%		

7) Rates of Termination

Termination rates do not apply once a member is eligible for retirement. Rates of termination are shown in the Table B-2 shown on the next page.

Table B-2 RATES OF TERMINATION					
Years of Service	Termination Rate	Years of Service	Termination Rate	Years of Service	Termination Rate
0	15.00%	**6**	7.75%	**12**	3.75%
1	12.75%	**7**	6.50%	**13**	3.50%
2	11.75%	**8**	5.50%	**14**	3.25%
3	10.75%	**9**	4.75%	**15+**	3.25%
4	9.75%	**10**	4.25%		
5	8.75%	**11**	4.00%		

8) Rates of Refund for Current Active Members

Applied before Rates of Reciprocity assumption

Tier 1:

Rates of vested terminated electing a refund of contributions are shown in the following Table B-3. Refund rates do not apply once a member is eligible for retirement.

Table B-3 RATES OF REFUND					
Years of Service	Younger than Age 45	Ages 45 and Older	Years of Service	Younger than Age 45	Ages 45 and Older
0 - 4	100.0%	100.0%	**10**	12.0%	5.0%
5	20.0%	15.0%	**11**	10.0%	5.0%
6	18.0%	12.5%	**12**	8.0%	5.0%
7	16.5%	10.0%	**13**	6.0%	5.0%
8	15.0%	8.0%	**14**	3.0%	2.5%
9	13.5%	6.0%	**15+**	0.0%	0.0%

Tier 2:

Future vested terminated employees are assumed to take a refund if it exceeds the actuarial present value of their deferred benefit payment. 100% of future non-vested terminated employees are assumed to receive a refund of contributions.

9) Rate of Reciprocity for Current Active Members

Applied after Rates of Refund assumption

40.0% of future terminating employees who do not take a refund are assumed to subsequently work for a reciprocal employer and receive annual pay increases equal to the ultimate wage inflation assumption (3.00%) plus 1.00%.

10) Refund and Reciprocity for Current Terminated Members

40.0% of current terminated employees who have not taken a refund are assumed to subsequently work for a reciprocal employer and receive annual pay increases equal to the ultimate wage inflation assumption (3.00%) plus 1.00%.

60.0% of non-vested terminated members are expected to take a refund, and 60.0% of vested terminated members are expected to take a deferred benefit payment.

11) Deferred Vested Member Retirement Age

Tier 1 terminated vested members are assumed to retire from age 57 and Tier 2 terminated vested members are assumed to retire at age 62.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION *(continued)*

12) Rates of Retirement for Tier 1 Members

Rates of retirement for Tier 1 members are based on age and service as shown in the following Table B-4 – Tier 1.

Table B-4 Tier 1 RATES OF RETIREMENT BY AGE AND SERVICE				
Age	Less than 15 Years of Service	15 to 24 Years of Service	25 to 29 Years of Service	30 or more Years of Service
50	0.0%	0.0%	0.0%	75.0%
51	0.0%	0.0%	0.0%	60.0%
52 - 54	0.0%	0.0%	0.0%	55.0%
55	7.0%	25.0%	55.0%	55.0%
56	7.0%	14.0%	25.0%	55.0%
57	7.0%	14.0%	25.0%	40.0%
58 - 60	7.0%	14.0%	25.0%	30.0%
61	10.0%	14.0%	25.0%	20.0%
62	15.0%	14.0%	25.0%	20.0%
63 - 64	15.0%	14.0%	20.0%	20.0%
65	20.0%	18.0%	30.0%	20.0%
66	20.0%	18.0%	40.0%	20.0%
67	20.0%	25.0%	50.0%	20.0%
68 - 69	25.0%	25.0%	50.0%	20.0%
70 +	100.0%	100.0%	100.0%	100.0%

13) Rates of Retirement for Tier 2 Members

Rates of retirement for Tier 2 members are based on age and service as shown in the following Table B-4 – Tier 2.

Table B - 4 Tier 2 RATES OF RETIREMENT BY AGE AND SERVICE								
	Age							
Years of Service	55 - 58	59	60 - 61	62	63	64	65 - 69	70 +
Less than 15	5.0%	5.0%	5.0%	15.0%	7.5%	12.5%	17.5%	100.0%
15 - 24	5.0%	7.5%	10.0%	25.0%	15.0%	15.0%	30.0%	100.0%
25 - 34	7.5%	10.0%	15.0%	50.0%	25.0%	25.0%	50.0%	100.0%
35+	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

14) Rates of Disability

Disability rates are equal to the 0.956 times the CalPERS 2021 non-industrial disability incidence rates for miscellaneous public agencies, blended 55.0% male and 45.0% female. 50.0% of disabilities are assumed to be duty related, and 50.0% are assumed to be non-duty related. Sample disability rates of active members are provided in Table B-5 shown below.

Table B-5 RATES OF DISABILITY AT SELECTED AGES									
Age	25	30	35	40	45	50	55	60	65+
Disability	0.0233%	0.0289%	0.0529%	0.1187%	0.2325%	0.3174%	0.2508%	0.2075%	0.2394%

15) Base Rates of Mortality

Base mortality rates are based on the sex-distinct employee and retiree mortality tables shown on the next page.

Table B-6 BASE MORTALITY TABLES		
Category	**Male**	**Female**
Healthy Retirees and Beneficiaries	0.995 times the 2010 Public General Mortality Table (PubG-2010) for healthy retirees	1.020 times the 2010 Public General Mortality Table (PubG-2010) for healthy retirees
Healthy Non-Annuitant	0.992 times the 2010 Public General Mortality Table (PubG-2010) for healthy employees	1.084 times the 2010 Public General Mortality Table (PubG-2010) for healthy employees
Disabled Retirees	0.990 times the 2010 Public General Mortality Table (PubG-2010) for disabled retirees	0.920 times the 2010 Public General Mortality Table (PubG-2010) for disabled retirees

16) Rates of Mortality Improvement

Future mortality improvements are reflected by applying the MP-2021 projection scale issued by the Society of Actuaries on a generational basis from the base year of 2010.

17) Family Composition

Percentage married is shown in the following Table B-7. Male retirees are assumed to be two years older than their partner, and female retirees are assumed to be two years younger than their partner.

Table B-7 PERCENTAGE MARRIED		
	Males	**Females**
Percentage	80.0%	60.0%

18) Changes Since Last Valuation

The wage inflation assumption was updated to reflect currently bargained agreements for FYE 2024 through FYE 2026. Demographic assumptions were updated based on the most recent experience study covering the period through June 30, 2023. Please refer to the actuary's demographic experience study report for more detail and an explanation of the rationale for these changes.

Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below. This contribution allocation procedure, combined with reasonable assumptions, produces a reasonable actuarially determined contribution as defined in Actuarial Standard of Practice No. 4. The contribution allocation procedure was selected to balance benefit security, intergenerational equity, and the stability of actuarially determined contributions. The selection also considered the demographics of plan members, the funding goals and objectives of the Board, and the need to accumulate assets to make benefit payments when due.

1) Actuarial Cost Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund all benefits between each member’s date of hire and last assumed date of employment. The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs. Or, equivalently, it is the accumulation of normal costs for all periods prior to the valuation date. The normal cost and actuarial liability are calculated on an individual basis. The sum of the individual amounts is the normal cost and actuarial liability for the System. The actuarial liability for the System represents the target amount of assets the System should have as of the valuation date according to the actuarial cost method.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION *(continued)*

2) Asset Valuation Method

For the purpose of determining contribution rates and amounts, an actuarial value of assets is used that dampens the effects of volatility in the fair value of assets on the pattern of contributions.

The actuarial value of assets is calculated by recognizing 20.0% of the difference in each of the prior four years of actual investment returns compared to the expected return on the fair value of assets.

3) Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The Tier 1 unfunded actuarial liability as of June 30, 2009 is amortized over a closed 30-year period commencing June 30, 2009. Tier 1 actuarial gains and losses and plan changes are amortized over 20-year periods and Tier 1 assumption changes are amortized over 25-year periods beginning with the valuation date in which they first arise. Effective June 30, 2017, all prior assumption amortization base periods were increased by 5 years so they have the same remaining period as if they had originally been amortized over 25 years. Amortization payments are scheduled to increase 2.75% each year.

The Tier 2 unfunded actuarial liability as of June 30, 2017 is amortized over a closed 10-year period. Future Tier 2 actuarial gains and losses, assumption changes, and plan changes will be amortized over 10-year periods beginning with the valuation date in which they first arise. Amortization payments are scheduled to increase 2.75% each year.

4) Contributions

The Board adopted a policy in 2010 and modified it in 2015 setting the City's contribution to be the UAL contribution amount reported in the actuarial valuation plus the greater of the normal cost dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the normal cost as a percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. The City and Member contributions determined by a valuation become effective for the fiscal year commencing one year after the valuation date. Contributions are generally made on a payroll-by-payroll basis although the City retains an option to make its contribution as of the beginning of the year.

The total contribution rate is the sum of the normal cost rate, assumed administrative expenses, and the UAL rate. Under Measure F, the total contribution rate cannot be less than the normal cost rate. The normal cost rate is determined by dividing the total normal cost determined under the actuarial cost method by the payroll expected for members active on the valuation date. The UAL payments are adjusted for interest from the valuation date to the date of expected payment in the following fiscal year. The UAL rate is determined by dividing the UAL payments by the total expected payroll for the year (including members active on the valuation date and new entrants expected to replace active members who are expected to leave employment).

For Tier 1, members contribute 3/11ths of the normal cost rate (excluding reciprocity), and the City pays the remainder of the total contribution rate. Tier 1 members who were rehired into Tier 2 and then returned to Tier 1 under Measure F also pay half of the increased cost attributable to their Tier 2 service.

For Tier 2, the members and the City each pay half of the total contribution rate. However, the member's UAL contribution rate cannot increase by more than 0.33% of pay each year. The City contributes any amounts in excess of this cap that would otherwise be contributed by the member.

5) Changes Since Last Valuation

Tier 1 member contributions were updated to exclude any share in the cost of administrative expenses.

System Experiences

DEFINED BENEFIT PENSION

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Year	Active Count	Annual Payroll	Average Annual Pay	Percent Change in Average Pay
2023	4,048	$ 436,391,000	$ 107,804	6.4%
2022	3,792	384,197,000	101,318	6.5%
2021	3,775	359,061,000	95,115	4.2%
2020	3,742	341,552,000	91,275	5.4%
2019	3,617	313,310,000	86,622	3.0%
2018	3,554	298,985,000	84,126	(0.2)%
2017	3,410	287,339,000	84,264	4.1%
2016	3,297	266,823,000	80,929	4.2%
2015	3,236	251,430,000	77,698	3.3%
2014	3,121	234,677,000	75,193	3.0%

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
	Beginning of Period		Added to Rolls		Removed from Rolls		End of Period			
Period	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
2022-23	4,557	$ 241,253	185	$ 7,810	116	$ 5,251	4,626	$ 252,313	4.6%	$ 55
2021-22	4,511	232,043	173	8,440	127	5,463	4,557	241,253	4.0%	53
2020-21	4,441	221,575	188	9,246	118	5,090	4,511	232,043	4.7%	51
2019-20	4,359	210,350	208	9,499	126	4,596	4,441	221,575	5.3%	50
2018-19	4,225	198,157	230	10,394	96	3,634	4,359	210,350	6.2%	48
2017-18	4,115	187,714	223	9,133	113	3,994	4,225	198,157	5.6%	47
2016-17	4,003	177,751	225	8,843	113	3,894	4,115	187,714	5.6%	46
2015-16	3,901	168,917	212	7,907	110	3,904	4,003	177,751	5.2%	44
2014-15	3,800	159,124	200	8,266	99	3,122	3,901	168,917	6.2%	43
2013-14	3,711	150,934	194	7,274	105	3,405	3,800	159,124	5.4%	42

Dollar amounts in thousands

ANALYSIS OF FINANCIAL EXPERIENCE					
Gain or (Loss) for Year Ending on Valuation Date Due To:					
Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
6/30/2023	$ 18,329	$ (64,743)	$ (46,414)	$ (22,572)	$ (68,986)
6/30/2022	31,034	(53,747)	(22,713)	(518)	(23,231)
6/30/2021	76,461	(32,329)	44,132	(9,687)	34,445
6/30/2020	(67,979)	(32,761)	(100,740)	(36,981)	(137,721)
6/30/2019	(88,845)	(4,283)	(93,128)	39,030	(54,098)
6/30/2018	(49,921)	4,702	(45,219)	(56,306)	(101,525)
6/30/2017	(44,650)	(13,819)	(58,469)	1,813	(56,656)
6/30/2016	(81,539)	(29,989)	(111,528)	(60,233)	(171,761)
6/30/2015	(3,641)	(45,998)	(49,639)	(191,527)	(241,166)
6/30/2014	39,675	(13,600)	26,075	(103,404)	(77,329)

Dollar amounts in thousands

System Experiences *(continued)*

DEFINED BENEFIT PENSION *(continued)*

SCHEDULE OF FUNDED LIABILITIES BY TYPE							
	Actuarial Liability for:						
Actuarial Valuation	Active Member Contributions	Retirees, Beneficiaries and Other Inactives	Remaining Active Members' Liabilities	Reported Assets [1]	Portion of Actuarial Liability Covered by Reported Assets		
Date	(A)	(B)	(C)		(A)	(B)	(C)
6/30/2023	$ 262,269	$ 3,668,531	$ 1,034,868	$ 2,889,956	100.0%	72.0%	0.0%
6/30/2022	246,803	3,575,879	927,964	2,709,625	100.0%	69.0%	0.0%
6/30/2021	241,016	3,443,968	877,997	2,513,095	100.0%	66.0%	0.0%
6/30/2020	234,385	3,308,069	858,629	2,301,469	100.0%	62.0%	0.0%
6/30/2019	228,905	3,150,673	821,130	2,228,802	100.0%	63.0%	0.0%
6/30/2018	230,282	3,002,012	868,527	2,179,488	100.0%	65.0%	0.0%
6/30/2017	236,819	2,830,143	857,004	2,101,435	100.0%	66.0%	0.0%
6/30/2016	240,872	2,722,224	823,634	2,034,741	100.0%	66.0%	0.0%
6/30/2015	243,828	2,553,892	772,178	2,004,481	100.0%	69.0%	0.0%
6/30/2014	233,289	2,331,656	670,120	1,911,773	100.0%	72.0%	0.0%

[1]*Actuarial Value of Assets*

Dollar amounts in thousands

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL (UAL)	Funded Ratio	Covered Payroll	UAL as a % of Covered Payroll
6/30/2023 [10]	$ 2,889,956	$ 4,965,668	$ 2,075,712	58.2%	$ 436,391	475.7%
6/30/2022 [9]	2,709,625	4,750,646	2,041,021	57.0%	384,197	531.2%
6/30/2021 [8]	2,513,095	4,562,981	2,049,886	55.1%	359,061	570.9%
6/30/2020 [7]	2,301,469	4,401,083	2,099,614	52.3%	341,552	614.7%
6/30/2019 [6]	2,228,802	4,200,708	1,971,906	53.1%	313,310	629.4%
6/30/2018 [5]	2,179,488	4,100,821	1,921,333	53.1%	298,985	642.6%
6/30/2017 [4]	2,101,435	3,923,966	1,822,531	53.6%	287,339	634.3%
6/30/2016 [3]	2,034,741	3,786,730	1,751,989	53.7%	266,823	656.6%
6/30/2015 [2]	2,004,481	3,569,898	1,565,417	56.1%	251,430	622.6%
6/30/2014 [1]	1,911,773	3,235,065	1,323,292	59.1%	234,677	563.9%

Dollar amounts in thousands

[1] *Reducing the discount rate to 7.00% and eliminating the temporary 2.0% wage inflation increased the AL by $103 million.*
[2] *Demographic assumption changes increased the AL by $192 million.*
[3] *Reducing the discount rate from 7.00% to 6.875% increased the AL by $60 million.*
[4] *Measure F implementation increased the AL by $14 million and assumption changes decreased the AL by $16 million.*
[5] *Assumption changes, including reducing the discount rate from 6.875% to 6.75%, increased the AL by $54 million.*
[6] *Assumption changes decreased the AL by $3 million.*
[7] *Assumption changes, including reducing the discount rate from 6.75% to 6.625%, increased the AL by $37 million.*
[8] *Assumption changes increased the AL by $10 million.*
[9] *Assumption changes increased the AL by $0.5 million.*
[10] *Assumption changes increased the AL by $22.6 million.*

Summary of Pension Plan Provisions - Tier 1

1) Membership Requirement

Participation in the System is immediate upon the first day of full-time employment for members hired before September 30, 2012, including members that are rehired after September 30, 2012 and had prior service under Tier 1 and did not take a return of contributions. In addition, any person accepting employment on or after September 30, 2012 who is otherwise eligible for this system and who was a "classic" member in another California public retirement system with which this system has reciprocity, and who has a break in service of less than six months from that covered employment and employment with the City, shall be a Tier 1 member of this system.

2) Final Compensation

Members who separated from City service prior to June 30, 2001:

The highest average annual compensation earnable during any period of three consecutive years.

Members who separated from City service on or after June 30, 2001:

The highest average annual compensation earnable during any period of twelve consecutive months.

3) Credited Service

One year of service credit is given for 1,739 or more hours of Federated City service rendered in any calendar year. A partial year (fraction with the numerator equal to the hours worked, and the denominator equal to 1,739) is given for each calendar year with less than 1,739 hours worked.

4) Member Contributions

Member:

The amount needed to fund 3/11ths of benefits accruing for the current year. These contributions are credited with interest at 3.0% per year, compounded annually.

For bargaining units that have agreed to the provision, member contributions cease once a member has 30 years of City service (excluding reciprocal service).

Employer:

The Employer contributes the remaining amounts necessary to maintain the soundness of the Retirement System.

5) Service Retirement

Eligibility:

Age 55 with five years of service, or any age with 30 years of service.

Benefit – Member:

2.5% of Final Compensation for each year of credited service, subject to a maximum of 75.0% of Final Compensation.

Benefit - Survivor:

50.0% of the service retirement benefit paid to a qualified survivor.

6) Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40.0% and a maximum of 75.0% of Final Compensation. Workers' Compensation benefits are generally offset from the service-connected benefits under this system.

Benefit - Survivor:

50.0% of the disability retirement benefit paid to a qualified survivor.

7) Non-Service Connected Disability Retirement

Eligibility:

Five years of service.

Benefit - Member:

Members who were hired prior to September 1, 1998:

The amount of the service-connected benefit reduced by 0.5% for each year that the disability age preceded 55.

Members who were hired on or after September 1, 1998:

20.0% of Final Compensation, plus 2.0% of Final Compensation for each year of credited service between six and 16 years, plus 2.5% of Final Compensation for each year of credited service in excess of 16 years, subject to a maximum of 75.0% of Final Compensation.

Benefit - Survivor:

50.0% of the disability retirement benefit paid to a qualified survivor.

8) Death Before Retirement

Less than five years of service, or no qualified survivor:

Lump sum benefit equal to the accumulated refund of all employee contributions with interest, plus one month of salary for each year of service, up to a maximum of six years.

Five or more years of service:

2.5% of Final Compensation for each year of credited service, subject to a maximum of 75.0% of Final Compensation. Benefit is subject to a minimum of 40.0% of Final Compensation if member dies while an active employee. The benefit is payable until the spouse or registered domestic partner marries or establishes a domestic partnership. If the member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the member's spouse or registered domestic partner.

9) Withdrawal Benefits

Less than five years of service:

Lump sum benefit equal to the accumulated employee contributions with interest.

Five or more years of credited service:

The amount of the service retirement benefit, payable at age 55.

10) Additional Post-Retirement Death Benefit

A death benefit payable as a lump sum equal to $500 will be paid to a qualified survivor upon the member's death.

11) Post-Retirement Cost-of-Living Benefit

Benefits are increased every April 1 by 3.0%, regardless of actual inflation.

12) Changes Since the Last Valuation

None.

Summary of Pension Plan Provisions - Tier 2

1) Membership Requirement

Any person who is hired, rehired or reinstated by the City on or after September 30, 2012 except those who elect to participate in a defined contribution plan, had prior service under Tier 1 and did not take a return of contributions, or had prior service as a "classic" member in a reciprocal system with less than a six month break in service.

2) Final Compensation

The average annual compensation earnable during the highest three consecutive years of service. Final Compensation only includes base pay, excluding premium pay and any other additional compensation.

3) Credited Service

One year of service credit is given for 2,080 or more hours of Federated City service rendered in any calendar year. A partial year (fraction with the numerator equal to the hours worked, and the denominator equal to 2,080) is given for each calendar year with less than 2,080 hours worked.

4) Member Contributions

50.0% of total Tier 2 contributions to the pension plan, including, but not limited to administrative expenses, normal cost, and unfunded actuarial liability. However, the member's UAL contribution rate cannot increase by more than 0.33% of pay each year. The City contributes any amounts in excess of this cap that would otherwise be contributed by the member. The member contribution rate cannot be less than 50.0% of the normal cost rate.

5) City Contributions

50.0% of total Tier 2 contributions to the pension plan, including, but not limited to administrative expenses, normal cost, and unfunded actuarial liability. In addition, the City contributes any UAL amounts in excess of the member UAL cap until the member rate covers 50.0% of the UAL rate. The City contribution rate cannot be less than 50.0% of the normal cost rate.

6) Unreduced Service Retirement

Eligibility:

Age 62 with five years of service.

Benefit – Member:

2.0% of Final Compensation for each year of credited service attributable to Tier 2, subject to a maximum of 70.0% of Final Compensation.

Benefit - Survivor:

50.0% of the service retirement benefit paid to a qualified survivor.

7) Early Service Retirement

Eligibility:

Age 55 with five years of service.

Benefit - Member:

Benefit reduced by a factor of 5.0% for each year the member retires before age 62.

The early retirement reduction is applied to the benefit after the application of the maximum of 70.0% of Final Compensation.

8) Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Summary of Pension Plan Provisions - Tier 2 *(continued)*

Benefit - Member:

2.0% of Final Compensation for each year of credited service, subject to a minimum of 40.0% of Final Compensation and a maximum of 70.0% of Final Compensation, less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

9) Non-Service Connected Disability Retirement

Eligibility:

Five years of service.

Benefit - Member:

2.0% of Final Compensation for each year of credited service attributable to Tier 2, subject to a minimum of 20.0% of Final Compensation and a maximum of 70.0% of Final Compensation less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

10) Death Before Retirement

Not yet eligible for retirement, or no qualified survivor:

Lump sum benefit equal to the accumulated refund of all employee contributions with interest.

Eligible for retirement:

2.0% of Final Compensation for each year of credited service, subject to a maximum of 70.0% of Final Compensation. Benefit is subject to a minimum of 40.0% of Final Compensation if member dies while an active employee. The benefit is payable until the spouse or registered domestic partner marries or establishes a domestic partnership. If the member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the member's spouse or registered domestic partner.

11) Withdrawal Benefits

Less than five years of credited service:

Lump sum benefit equal to the accumulated employee contributions with interest.

Five or more years of credited service:

The amount of the service retirement benefit reduced for early retirement, and payable when retirement eligibility is reached.

12) Benefit Forms

Annuity benefits are paid in the form of a 50.0% joint and survivor annuity or an actuarially equivalent annuity with 75.0% or 100.0% continuance to a survivor.

13) Post-retirement Cost-of-Living Benefit

Benefits are increased every April 1 by the change in the December CPI-U for San José-San Francisco-Oakland, subject to a cap based on years of service as shown in the following table.

Years of Service	Maximum COLA
At least 1, but less than 11	1.25% [1]
At least 11, but less than 21	1.50%
At least 21, but less than 26	1.75%
At least 26	2.00%

[1] 1.5% for members hired before Measure F effective date

The first COLA after retirement shall be prorated based on the number of months retired.

14) Changes Since the Last Valuation

The pre-retirement death benefit, if eligible for retirement, was updated from 2.5% to 2.0% of Final Compensation for each year of service, before minimum and maximum restrictions.

Classic Values, Innovative Advice

September 26, 2024

Board of Administration
City of San José Federated City Employees' Retirement System
1737 North 1st Street, Suite 580
San José, CA 95112

Dear Members of the Board:

The purpose of this letter is to provide the certification for the Actuarial Section of the Annual Comprehensive Financial Report (ACFR) for the City of San José Federated City Employees' Retirement System (System) with respect to Other Postemployment Benefits (OPEB) provided through the City of San José Federated Postemployment Healthcare Plan ("Plan").

Actuarial Valuation Used for Funding Purposes

Actuarial valuations are performed annually, and the most recent actuarial valuation was performed as of June 30, 2023. Please refer to that report for additional information related to the funding of the Plan.

We prepared the following schedules for inclusion in the Actuarial Section of the ACFR based on the June 30, 2023 actuarial valuation.

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Member Benefit Coverage Information
- Analysis of Financial Experience
- Schedule of Funding Progress
- Summary of Key Substantive Plan Provisions

The funding ratios shown in the member benefit coverage information and the schedule of funding progress exhibits are ratios compared to the funding target and are for the purpose of evaluating funding progress in a budgeting context. These ratios are not appropriate for measuring or assessing the sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligations.

Employees hired on or after September 1, 2013 are not eligible to enter the Plan.

Historically, member and City contributions to the Plan had been negotiated through collective bargaining and were not actuarially determined. With the implementation of Measure F, member contributions are fixed at 7.5% of pay; the City's contribution toward the explicit subsidy is actuarially determined; and the City also pays the implicit subsidy on a pay-as-you-go basis as a part of active health premiums. Finally, the City can limit its contribution for the explicit subsidy to 14% of payroll.

Board of Administration
September 26, 2024
Page 2

The Board of Administration adopts the actuarial methods and assumptions used in the actuarial valuation with advice from the actuary. In our opinion, the assumptions and methods used in the actuarial valuation for funding purposes are consistent with applicable Actuarial Standards of Practice. The actuarial cost method and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes.

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total OPEB Liability is based on the June 30, 2023 actuarial valuation updated to the measurement date of June 30, 2024. The Board changed some economic and demographic assumptions for the June 30, 2023 valuation. These changes are detailed in the actuarial assumptions and methods attachment of this letter and are reflected effective July 1, 2023 for financial reporting purposes. Consequently, the update was based upon the Total OPEB Liability as of the valuation date reflecting the new assumptions and projected to the measurement date with the addition of service cost and interest cost offset by actual benefit payments.

Please refer to our GASB 74/75 report as of June 30, 2024 for additional information related to the financial reporting of the Plan. We prepared the following schedules for inclusion in the Financial Section of the ACFR as shown in the June 30, 2024 GASB 74/75 report.

- Change in Net OPEB Liability
- Sensitivity of Net OPEB Liability to Changes in Discount Rate and Healthcare Cost Trend Rates
- Schedule of Changes in Net OPEB Liability and Related Ratios
- Schedule of Employer Contributions

Reliance on the Information Provided by the System and Compliance with GAAP

In preparing our valuations and the schedules for the ACFR, we relied on information (some oral and some written) supplied by the City of San José Office of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future actuarial measurements for funding and financial reporting purposes may differ significantly from the current measurements presented in this ACFR due to such factors as the following: plan experience differing from that anticipated by the assumptions, changes in assumptions, and changes in plan provisions or applicable law.

This letter and the schedules named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial

CHEIRON

Board of Administration
September 26, 2024
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Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we collectively meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. This letter does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This letter and the schedules named above were prepared for the Plan for the purposes described herein. Other users of this information are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

Sincerely,
Cheiron

William R. Hallmark, ASA, EA, MAAA, FCA
Consulting Actuary

John L. Colberg, FSA, EA, MAAA
Principal Consulting Actuary

Jacqueline R. King, FSA, EA, MAAA
Consulting Actuary

CHEIRON

Actuarial Assumptions and Methods

POSTEMPLOYMENT HEALTHCARE

Economic Assumptions

The expected return on plan assets and per person cost trend assumptions shown below were adopted by the Board of Administration with the actuary's input at the November 16, 2023 Board meeting. Please refer to the presentation for that meeting for details, including the rationale for each assumption.

1) Expected Return on Plan Assets

6.00% per year. The Board expects a long-term rate of return of 8.0% based on Meketa's 20-year capital market assumptions and the System's current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate.

2) Per Person Cost Trends

Medical trends were developed using the 2023 Society of Actuaries Long-Run Medical Cost Trend Model with the following parameters:

Initial trend rate: Non-Medicare Eligible:	10.00%	Medicare Eligible:	6.00%
Inflation:	2.50%	*Real GDP per Capita:*	1.40%
Excess Medical Cost Growth:	1.00%	*Expected GDP Share in 2032:*	19.80%
Resistance Point:	19.00%	*Year limited to GDP growth:*	2075

ANNUAL INCREASE %															
FY Beginning	**2024[1]**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**	**2038**
Pre-Medicare	0.00	8.60	8.05	7.49	6.93	6.37	5.81	5.25	4.87	4.75	4.73	4.71	4.70	4.68	4.67
Medicare Eligible	0.00	5.72	5.60	5.49	5.37	5.26	5.15	5.03	4.87	4.75	4.73	4.71	4.70	4.68	4.67
Dental	0.00	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
FY Beginning	**2039**	**2040**	**2041**	**2042**	**2043**	**2044**	**2045**	**2046**	**2047**	**2048**	**2049**	**2050**	**2051**	**2052**	**2053**
Pre-Medicare	4.66	4.64	4.63	4.62	4.61	4.60	4.59	4.58	4.57	4.56	4.55	4.54	4.53	4.52	4.52
Medicare Eligible	4.66	4.64	4.63	4.62	4.61	4.60	4.59	4.58	4.57	4.56	4.55	4.54	4.53	4.52	4.52
Dental	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
FY Beginning	**2054**	**2055**	**2056**	**2057**	**2058**	**2059**	**2060**	**2061**	**2062**	**2063**	**2064**	**2065**	**2066**	**2067**	**2068**
Pre-Medicare	4.51	4.50	4.49	4.49	4.48	4.47	4.47	4.46	4.45	4.45	4.44	4.41	4.35	4.30	4.25
Medicare Eligible	4.51	4.50	4.49	4.49	4.48	4.47	4.47	4.46	4.45	4.45	4.44	4.41	4.35	4.30	4.25
Dental	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
FY Beginning	**2069**	**2070**	**2071**	**2072**	**2073**	**2074**	**2075+**								
Pre-Medicare	4.20	4.15	4.10	4.05	4.01	3.96	3.94								
Medicare Eligible	4.20	4.15	4.10	4.05	4.01	3.96	3.94								
Dental	3.50	3.50	3.50	3.50	3.50	3.50	3.50								

[1] *Varies by Plan*

The table above shows the trend increases on a fiscal year basis; premium rates change on a calendar year basis. For the fiscal year beginning July 1, 2024, the trend was developed using actual calendar year 2024 premiums and a trend assumption for calendar year 2025. The trend factors vary by plan as shown in the table on the next page.

Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the trend rates on the next page.

FISCAL YEAR BEGINNING 2024 TREND					
Pre-Medicare		**Medicare**		**Dental**	
Kaiser Plans	9.44%	Kaiser Plan	10.63%	HMO Plan	1.76%
Anthem Plans	15.42%	Anthem PPO Plan	4.43%	PPO Plan	1.75%

3) Changes Since Last Valuation

The per-person cost trends were updated.

Demographic Assumptions

The OPEB assumptions were adopted by the Board of Administration at the November 16, 2023 Board meeting based on the actuary's recommendations. The demographic assumptions shared with the pension plan shown below were adopted at the November 16, 2023 Board meeting based on recommendations from the actuary's experience study covering system experience through June 30, 2023. Please refer to the full experience study report for details, including the rationale for each assumption.

1) Salary Increase Rate

Wage inflation component

Reflect currently bargained increases for FYE 2024, 4.5% effective July 1, 2024, 3.5% effective July 1, 2025, and 3.00% thereafter. These increases approximate the bargained increases for the largest bargaining groups.

Merit increases

In addition to the wage inflation component shown above, the following merit component is added based on an individual member's years of service.

SALARY MERIT INCREASES					
Years of Service	Merit / Longevity	Years of Service	Merit / Longevity	Years of Service	Merit / Longevity
0	3.25%	**7**	1.60%	**14**	0.45%
1	3.25%	**8**	1.35%	**15**	0.40%
2	3.05%	**9**	1.20%	**16**	0.35%
3	2.75%	**10**	1.00%	**17**	0.30%
4	2.40%	**11**	0.85%	**18+**	0.25%
5	2.10%	**12**	0.70%		
6	1.85%	**13**	0.55%		

2) Rates of Termination

Termination rates do no apply once a member is eligible for retirement. Rates of termination are shown in the following table.

RATES OF TERMINATION					
Years of Service	Termination Rate	Years of Service	Termination Rate	Years of Service	Termination Rate
0	15.00%	**6**	7.75%	**12**	3.75%
1	12.75%	**7**	6.50%	**13**	3.50%
2	11.75%	**8**	5.50%	**14**	3.25%
3	10.75%	**9**	4.75%	**15+**	3.25%
4	9.75%	**10**	4.25%		
5	8.75%	**11**	4.00%		

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE *(continued)*

3) Rates of Refund

Tier 1

Rates of vested terminated employees electing a refund of contributions are shown in following table. Refund rates do not apply once a member is eligible for retirement.

RATES OF REFUND					
Years of Service	Younger than Age 45	Ages 45 and Older	Years of Service	Younger than Age 45	Ages 45 and Older
0 - 4	100.0%	100.0%	**11**	10.0%	5.0%
5	20.0%	15.0%	**12**	8.0%	5.0%
6	18.0%	12.5%	**13**	6.0%	5.0%
7	16.5%	10.0%	**14**	3.0%	2.5%
8	15.0%	8.0%	**15+**	0.0%	0.0%
9	13.5%	6.0%			
10	12.0%	5.0%			

Tier 2:

Vested terminated employees are expected to take a refund if it exceeds the actuarial present value of their deferred benefit payment.

4) Deferred Vested Member Retirement Age

Tier 1 terminated vested members are assumed to retire at age 57 and Tier 2 terminated vested members are assumed to retire at age 62.

5) Rate of Retirement for Tier 1 Members

Rates of retirement for Tier 1 members are based on age and service according to the following table.

TIER 1 RATES OF RETIREMENT BY AGE AND SERVICE									
	Years of Service					Years of Service			
Age	Less than 15	15 to 24	25 to 29	30 or more	Age	Less than 15	15 to 24	25 to 29	30 or more
50	0.0%	0.0%	0.0%	75.0%	**61**	10.0%	14.0%	25.0%	20.0%
51	0.0%	0.0%	0.0%	60.0%	**62**	15.0%	14.0%	25.0%	20.0%
52	0.0%	0.0%	0.0%	55.0%	**63**	15.0%	14.0%	20.0%	20.0%
53	0.0%	0.0%	0.0%	55.0%	**64**	15.0%	14.0%	20.0%	20.0%
54	0.0%	0.0%	0.0%	55.0%	**65**	20.0%	18.0%	30.0%	20.0%
55	7.0%	25.0%	55.0%	55.0%	**66**	20.0%	18.0%	40.0%	20.0%
56	7.0%	14.0%	25.0%	55.0%	**67**	20.0%	25.0%	50.0%	20.0%
57	7.0%	14.0%	25.0%	40.0%	**68**	25.0%	25.0%	50.0%	20.0%
58	7.0%	14.0%	25.0%	30.0%	**69**	25.0%	25.0%	50.0%	20.0%
59	7.0%	14.0%	25.0%	30.0%	**70+**	100.0%	100.0%	100.0%	100.0%
60	7.0%	14.0%	25.0%	30.0%					

6) Rates of Retirement for Tier 2 Members

Rates of retirement for Tier 2 members are based on age and service according to the following table on the next page.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE *(continued)*

TIER 2 RATES OF RETIREMENT BY AGE AND SERVICE									
	Age								
Years of Service	55	56 - 58	59	60 - 61	62	63	64	65 - 69	70+
Less than 15	5.0%	5.0%	5.0%	5.0%	15.0%	7.5%	12.5%	17.5%	100.0%
15 to 24	5.0%	5.0%	7.5%	10.0%	25.0%	15.0%	15.0%	30.0%	100.0%
25 to 34	7.5%	7.5%	10.0%	15.0%	50.0%	25.0%	25.0%	50.0%	100.0%
35+	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

7) Base Rates of Mortality

Base mortality rates are based on the sex-distinct employee and retiree mortality tables shown below.

BASE MORTALITY TABLES		
Category	Male	Female
Healthy Retirees and Beneficiaries	0.995 times the 2010 Public General Mortality Table (PubG-2010) for healthy retirees	1.020 times the 2010 Public General Mortality Table (PubG-2010) for healthy retirees
Healthy Non-Annuitant	0.992 times the 2010 Public General Mortality Table (PubG-2010) for healthy employees	1.084 times the 2010 Public General Mortality Table (PubG-2010) for healthy employees
Disabled Retirees	0.990 times the 2010 Public General Mortality Table (PubG-2010) for disabled retirees	0.920 times the 2010 Public General Mortality Table (PubG-2010) for disabled retirees

8) Rates of Mortality Improvement

Future mortality improvements are reflected by applying the MP-2021 projection scale issued by the Society of Actuaries on a generational basis from the base year of 2010.

9) Dependent Age

For current retirees, actual spouse date of birth was used when available. For future retirees, male retirees are assumed to be two years older than their partner, and female retirees are assumed to be two years younger than their partner.

10) Disability Rates

Disability rates are equal to the 0.956 times the CalPERS 2021 non-industrial disability incidence rates for miscellaneous public agencies, blended 55.0% male and 45.0% female. 50.0% of disabilities are assumed to be duty related, and 50.0% are assumed to be non-duty related. Sample disability rates of active members are provided in the following table.

RATES OF DISABILITY AT SELECTED AGES									
Age	25	30	35	40	45	50	55	60	65+
Disability	0.0233%	0.0289%	0.0529%	0.1187%	0.2325%	0.3174%	0.2508%	0.2075%	0.2394%

11) Percent of Futures Retirees Electing Coverage Versus In-Lieu Credits

Upon retirement, members are assumed to elect coverage or enter the In-Lieu credit program according to the following table.

FUTURE RETIREE PARTICIPATION		
	Coverage	In-Lieu
Active members	80.0%	20.0%
Terminated vested members	60.0%	40.0%

POSTEMPLOYMENT HEALTHCARE *(continued)*

12) Dependent Coverage Elections

Upon retirement, members who elect coverage are assumed to cover dependents according to the following table. 100.0% of members eligible for dental are assumed to elect spousal coverage.

ASSUMED FUTURE RETIREE TIER ELECTIONS				
	Pre-Medicare		Medicare	
Coverage Tier	Male	Female	Male	Female
Retiree only	31.0%	55.0%	35.0%	64.0%
Retiree and children	4.0%	9.0%	0.0%	0.0%
Retiree and spouse	37.0%	24.0%	65.0%	36.0%
Retiree and family	28.0%	12.0%	0.0%	0.0%

13) In-Lieu Assumptions

Members who elect to receive the In-Lieu credits are assumed to remain in the In-Lieu credit program for five years, after which they are assumed to elect coverage and use their In-Lieu credits. The amount of the In-Lieu credit is 25.0% of the subsidy for the tier of coverage for which the retiree qualifies. Future retiree medical tier qualification assumptions are provided in the following table.

ASSUMED FUTURE RETIREE IN-LIEU CREDIT TIER				
	Pre-Medicare		Medicare	
Coverage Tier	Male	Female	Male	Female
Retiree only	30.0%	30.0%	50.0%	50.0%
Retiree and children	0.0%	0.0%	0.0%	0.0%
Retiree and spouse	30.0%	30.0%	50.0%	50.0%
Retiree and family	40.0%	40.0%	0.0%	0.0%

14) Health Plan Election

Retirees who are not yet age 65 are assumed to be eligible for Medicare when they reach age 65 and are assumed to enroll in the Medicare-eligible plan corresponding to their current Pre-Medicare plan election. Future retirees are assumed to elect plans in the proportion shown in the following table.

ASSUMED PLAN ELECTIONS FOR FUTURE RETIREES[1]			
	% Electing		% Electing
Pre-Medicare Medical Plans		Medicare-Eligible Medical Plans	
Kaiser DHMO	8.0%	Kaiser Senior Advantage	61.0%
Kaiser $25 co-pay	67.0%	Anthem Medicare PPO	39.0%
Kaiser HDHP	8.0%		
Anthem DHMO	1.0%		
Anthem Select $20 co-pay	5.0%		
Anthem Traditional $20 co-pay	2.0%		
Anthem HDHP PPO	5.0%	Dental Plans (All Retirees)	
Anthem Select PPO	3.0%	Delta Dental PPO	98.0%
Anthem Classic PPO	1.0%	DeltaCare HMO	2.0%

[1] *Eligible for coverage and elect coverage*

15) Married Percentage

PERCENTAGE MARRIED		
Gender	Males	Females
Percentage	80.0%	60.0%

16) Voluntary Employees' Beneficiary Association Balance Drawdown

Members are assumed to draw down their VEBA balances by the blended active and retiree member plus spouse premium, without factoring in the lowest cost premium, and increased by a factor of 1.65 to estimate the adjustment from a blended active and retiree premium to a retiree only premium.

17) Administrative Expenses

$105 per member for FYE 2025, increasing at the ultimate wage inflation assumption of 3.00% per annum.

18) Changes Since Last Valuation

Plan elections assumptions and the administrative expense assumption were updated.

The wage inflation assumption was updated to reflect currently bargained agreements for FYE 2024 through FYE 2026.

Demographic assumptions were updated based on the most recent experience study covering the period through June 30, 2023. Please refer to the actuary's demographic experience study report for more detail and an explanation of the rationale for these changes.

Claim and Expense Assumptions

The claim and expense assumptions shown below were adopted by the Board of Administration at the November 16, 2023 Board meeting based upon the actuary's recommendations.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population in 2023 and 2024. For non-Medicare adults, the premiums for each coverage tier (retiree only, retiree plus spouse, retiree plus child(ren) and retiree plus family) were blended based on enrollment data for the 2023 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. The resulting per person per month (PPPM) cost was then adjusted using age curves. The pre-Medicare adult claims curves were then loaded for the cost of children; the load for children decreases by retiree age since older retirees have fewer children. The impact of children on Medicare costs was assumed to be de minimis. All claims costs are developed jointly for the Federated, Police, and Fire Postemployment Healthcare Plans of the City of San José.

The Inflation Reduction Act of 2022 (the Act) contains provisions that may impact the cost of benefits provided to Medicare eligible retirees. The Act provides for changes that could reduce costs and changes that could increase costs. Implementing regulations and market responses are likely to affect the net impact. Based on information currently available, the actuary doesn't expect the Act to have a material impact on costs. However, the actuary may adjust their assumptions in the future as more information emerges.

1) Average Annual Claims and Expense Assumptions

The following claim and expense assumptions were developed as of July 1, 2023 based on the premiums for 2023 and 2024. The explicit subsidy amount (100.0% of the premium for the lowest cost health plan available to active City employees) is assumed to grow based on the pre-Medicare cost trend rates.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE *(continued)*

The following tables show the claims costs for each medical plan as of the valuation date:

SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE						
	Kaiser		Anthem HMO		Anthem PPO	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
40	$ 11,671	$ 14,267	$ 14,768	$ 17,885	$ 19,801	$ 24,778
45	11,857	13,862	14,839	17,247	20,676	24,520
50	12,446	14,077	15,394	17,352	22,324	25,449
55	13,684	14,834	16,728	18,109	25,216	27,420
60	15,900	15,503	19,237	18,760	29,982	29,222
64	18,649	15,180	22,415	18,250	35,666	29,017

SAMPLE CLAIMS COSTS - MEDICARE ELIGIBLE						
	Kaiser Senior Adv		Anthem HMO		Anthem Select PPO	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
65	$ 2,786	$ 2,458	$ 5,366	$ 4,734	$ 5,234	$ 4,617
70	2,959	2,506	5,699	4,826	5,558	4,707
75	3,400	2,818	6,550	5,428	6,388	5,294
80	3,861	3,196	7,437	6,155	7,253	6,003
85	4,170	3,492	8,032	6,727	7,833	6,560

SAMPLE CLAIMS COSTS - DENTAL	
Dental Blended	
Age	**Unisex**
All	$ 697.31

2) Medicare Part D Subsidy

Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.

3) Medicare Part B

All Medicare eligible retirees are assumed to participate in Medicare Part B.

4) Medicare Eligibility

All retirees who turn age 65 are assumed to be eligible for Medicare.

5) Annual Limits

Assumed to increase at the same rate as trend.

6) Lifetime Maximums

Are not assumed to have any financial impact.

7) Geography

Implicitly assumed to remain the same as current retirees.

8) Retiree Contributions

Retirees pay the difference between the actual premium for the elected medical plan and the lowest cost medical plan available to active members if the retiree is eligible to receive the explicit subsidy. No retiree contributions are required for dental.

9) Changes Since Last Valuation

All claims costs were updated to reflect the changes in plan premiums and the populations covered.

Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below.

1) Actuarial Cost Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs. Or, equivalently, it is the accumulation of normal costs for all periods prior to the valuation date. The normal cost and actuarial liability are calculated on an individual basis. The sum of the individual amounts is the normal cost and actuarial liability for the System. The actuarial liability for the System represents the target amount of assets the System should have as of the valuation date according to the actuarial cost method.

2) Asset Valuation Method

The actuarial value of assets equals the fair value of assets.

3) Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2017 is amortized as a level dollar amount over a closed 20-year period. All subsequent amortization bases are amortized over 20-year periods with a 3-year phase-in and phase-out.

4) Contributions

The City will contribute the annual implicit subsidy as part of active employee health premiums and will prefund the explicit subsidy based on the normal cost, administrative expenses, and amortization payment described above less expected employee contributions. The City has the option to limit its contribution towards the explicit subsidy to no more than 14.0% of total payroll. Active members that are eligible for full benefits will contribute 7.50% of pay.

5) Changes Since Last Valuation

None.

System Experiences

POSTEMPLOYMENT HEALTHCARE

SCHEDULE OF ACTIVE MEMBER DATA						
	Active Member Counts					
Valuation Date	Under Age 65	Age 65+	Total	Annual Payroll	Average Annual Pay	Percentage Change in Average Pay
6/30/2023 [2]	3,731	134	3,865	$ 409,009,078	$ 105,824	13.1%
6/30/2022 [2]	3,502	124	3,626	360,935,782	99,541	10.9%
6/30/2021 [2]	3,508	121	3,629	339,546,040	93,565	4.2%
6/30/2020 [2]	3,495	101	3,596	322,850,457	89,780	5.1%
6/30/2019 [2]	3,412	88	3,500	299,001,886	85,429	4.1%
6/30/2018 [2]	3,377	84	3,461	284,008,289	82,060	(2.6)%
6/30/2017 [2]	3,321	89	3,410	287,339,424	84,264	(0.9)%
6/30/2016 [1]	2,310	77	2,387	202,911,153	85,007	5.8%
6/30/2015 [1]	2,527	74	2,601	208,957,370	80,337	5.9%
6/30/2014 [1]	2,800	64	2,864	217,167,654	75,827	3.7%

[1] *Does not include Tier 2B active employees.*

[2] *Includes members that are only eligible for catastrophic disability benefits.*

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
	Beginning of Period		Added to Rolls	Removed from Rolls	End of Period		Net Change		% Increase	Average
Period	Count	Annual Subsidy	Count	Count	Count	Annual Subsidy	Count	Annual Subsidy	Annual Subsidy	Annual Subsidy
Medical										
2022-23	3,050	$ 22,818	109	105	3,054	$ 22,754	4	$ (64)	(0.3)%	$ 7,451
2021-22	3,047	23,464	112	109	3,050	22,818	3	(646)	(2.8)%	7,481
2020-21	3,057	23,648	107	117	3,047	23,464	(10)	(184)	(0.8)%	7,701
2019-20	2,909	21,588	254	106	3,057	23,648	148	2,060	9.5%	7,736
2018-19	2,923	20,566	124	138	2,909	21,588	(14)	1,023	5.0%	7,421
2017-18	2,920	23,621	139	136	2,923	20,566	3	(3,056)	(12.9)%	7,036
2016-17	2,821	21,844	210	111	2,920	23,621	99	1,777	8.1%	8,090
2015-16	2,769	21,341	183	131	2,821	21,844	52	503	2.4%	7,743
2014-15	2,737	21,941	152	120	2,769	21,341	32	(599)	(2.7)%	7,707
2013-14	2,718	22,657	151	132	2,737	21,941	19	(716)	(3.2)%	8,016
Dental										
2022-23	3,457	$ 2,936	88	100	3,445	$ 3,511	(12)	$ 575	19.6%	$ 1,019
2021-22	3,465	3,558	103	111	3,457	2,936	(8)	(622)	(17.5)%	849
2020-21	3,454	3,561	120	109	3,465	3,558	11	(3)	(0.1)%	1,027
2019-20	3,405	3,502	158	109	3,454	3,561	49	58	1.7%	1,031
2018-19	3,375	3,478	123	93	3,405	3,502	30	25	0.7%	1,029
2017-18	3,322	3,414	152	99	3,375	3,478	53	63	1.9%	1,030
2016-17	3,264	3,224	170	112	3,322	3,414	58	190	5.9%	1,028
2015-16	3,206	3,212	159	101	3,264	3,224	58	12	0.4%	988
2014-15	3,133	3,130	160	87	3,206	3,212	73	82	2.6%	1,002
2013-14	3,103	3,742	138	108	3,133	3,130	30	(612)	(16.4)%	999

Annual subsidies are explicit amounts in thousands

POSTEMPLOYMENT HEALTHCARE *(continued)*

MEMBER BENEFIT COVERAGE INFORMATION					
	Actuarial Liability				
Actuarial Valuation Date	Retirees, Beneficiaries and Other Inactives	Active Members	Reported Assets	Portion of Liability Covered by Reported Assets	
	(A)	(B)		(A)	(B)
6/30/2023	$ 498,969	$ 214,017	$ 374,611	75.0%	0.0%
6/30/2022	447,880	202,790	349,124	78.0%	0.0%
6/30/2021	452,454	210,406	384,613	85.0%	0.0%
6/30/2020	443,476	206,943	303,313	68.0%	0.0%
6/30/2019	422,108	209,644	294,489	70.0%	0.0%
6/30/2018	426,984	223,130	277,256	65.0%	0.0%
6/30/2017	408,627	221,825	248,583	61.0%	0.0%
6/30/2016	450,793	313,468	225,845	50.0%	0.0%
6/30/2015	469,903	347,770	209,761	45.0%	0.0%
6/30/2014	435,826	293,580	199,776	46.0%	0.0%

ANALYSIS OF FINANCIAL EXPERIENCE					
Gain (or Loss) for Year Ending on Valuation Date Due to:					
Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
6/30/2023	$ 2,748	$ (44,086)	$ (41,338)	$ (3,395)	$ (44,733)
6/30/2022	(62,035)	36,504	(25,531)	(9,273)	(34,804)
6/30/2021	57,618	25,838	83,456	(22,368)	61,088
6/30/2020	(17,738)	69,483	51,745	(34,497)	17,248
6/30/2019	(10,654)	(34,979)	(45,633)	14,784	(30,849)
6/30/2018	(5,915)	26,064	20,149	(11,137)	9,012
6/30/2017	117	5,259	5,376	123,632	129,008
6/30/2016	(16,044)	(11,608)	(27,652)	99,545	71,893
6/30/2015	(19,264)	6,948	(12,316)	(64,155)	(76,471)
6/30/2014	19,767	31,177	50,944	148,417	199,361

The schedule of funding progress compares the assets used for funding purposes to the comparable liabilities to determine how well the System is funded and how this status has changed over the past several years. The actuarial liability is compared to the actuarial value of assets to determine the funding ratio.

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AL) (b)	Unfunded AL (UAL) (b-a)	Funded Ratio (a / b)	Annual Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a) / c)
6/30/2023	$ 374,611	$ 712,986	$ 338,375	52.5%	$ 409,009	83.0%
6/30/2022	349,124	650,670	301,546	53.7%	360,936	83.5%
6/30/2021	384,613	662,860	278,247	58.0%	339,546	81.9%
6/30/2020	303,313	650,419	347,106	46.6%	322,850	107.5%
6/30/2019	294,489	631,752	337,263	46.6%	299,002	112.8%
6/30/2018	277,256	650,114	372,858	42.6%	298,985	124.7%
6/30/2017	248,583	630,452	381,869	39.4%	287,339	132.9%
6/30/2016	225,845	764,261	538,416	29.6%	266,823	201.8%
6/30/2015	209,761	817,673	607,912	25.7%	251,430	242.8%
6/30/2014	199,776	729,406	529,630	27.4%	234,677	225.7%

Dollar amounts in thousands for all tables on this page

Summary of Key Substantive Plan Provisions

POST EMPLOYMENT HEALTHCARE

Eligibility

Employees hired before September 2013 that did not elect to opt-in to the Voluntary Employees' Beneficiary Association (VEBA).

Medical

Employees who retire (include deferred vested members) with at least 15 years of service with the City ("OPEB benefit service"), or with a monthly pension equal to at least 37.5% of Final Compensation, are eligible to elect medical coverage upon retirement.

Tier 1 employees (hired before September 30, 2012) are eligible for retirement at age 55 with five years of service or at any age with 30 years of service. Tier 2 employees (hired on or after September 30, 2012) are eligible unreduced service retirement at age 65 with five years of service or reduced service retirement at age 55 with five years of service. Service credited through reciprocity agreements counts towards an employee's required service to retire, but only service with the City counts towards the required years of service to receive OPEB benefits. Employees who retire with less than 15 years of service can elect coverage, but receive no explicit subsidy.

Employees who become disabled with at least 15 years of service or have a monthly pension equal to at least 37.5% of Final Compensation are eligible to elect medical coverage upon retirement.

Spouses or domestic partners of retired members are allowed to participate if they were enrolled in the City's medical plan at the time of the member's retirement. Dependent children are eligible to receive coverage until the age of 26.

Surviving spouses / domestic partners / children of deceased members are eligible for coverage if the following conditions are met:

1) The employee has 15 years of service at time of death or is entitled to a monthly pension of at least 37.5% of Final Compensation; and
2) Both the member and the survivors were enrolled in the active medical plan immediately before death; and,
3) The survivor will receive a monthly pension benefit.

Dental

Employees who retire or become disabled directly from City service with at least five years of service or with a monthly pension equal to at least 37.5% of Final Compensation and are enrolled in a City dental plan at retirement are eligible to elect dental coverage upon retirement. Spouses, domestic partners, or children of retired members are allowed to participate if they were enrolled in the City's dental plan at the time of the member's retirement.

Surviving spouses / domestic partners / children of deceased members are eligible for coverage if the following conditions are met.

1) The employee has five years of service at time of death or is entitled to a monthly pension of at least 37.5% of Final Compensation; and,
2) Both the member and the survivors were enrolled in the active dental plan immediately before death; and,
3) The survivor will receive a monthly pension benefit.

Benefits for Retirees

Medical: The System pays 100.0% of the premium for the lowest cost health plan available to active City employees. The member pays the difference if another plan is elected.

Dental: The System pays 100.0% of the dental insurance premiums.

In-Lieu: Upon retirement, members may elect to receive credits equal to 25.0% of the premium subsidy the System would have paid in-lieu of the actual subsidy. These credits may be used at a future date to supplement the Plan's premium subsidy for the coverage elected.

Premiums: Monthly premiums for calendar years 2023 and 2024 are as follows.

2023 MONTHLY PREMIUMS				
Medical	**Single**	**Employee / Spouse**	**Employee / Child**	**Family**
Non-Medicare Monthly Rates				
Kaiser DHMO	$ 643.72	$ 1,287.42	$ 1,126.50	$ 1,931.14
Kaiser $25 co-pay	786.16	1,572.30	1,375.76	2,358.46
Kaiser HDHP	542.36	1,084.72	949.12	1,627.08
Anthem HMO Select $20 co-pay	761.32	1,674.88	1,370.38	2,360.04
Anthem HMO Traditional $20 co-pay	875.20	1,925.42	1,575.38	2,713.10
Anthem DHMO	586.94	1,291.32	1,056.50	1,819.58
Anthem HDHP	1,339.04	2,945.90	2,410.28	4,151.08
Anthem Select PPO	2,173.60	4,781.98	3,912.52	6,738.28
Anthem Classic PPO	2,324.74	5,114.46	4,184.52	7,206.70
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	$ 232.29	$ 464.58	$ 464.58	$ 696.87
Anthem Medicare PPO	487.81	975.62	975.62	1,463.43
Anthem Medicare HMO	444.53	889.06	889.06	1,333.59
Dental				
Delta Dental PPO	$ 50.88	$ 92.89	$ 122.12	$ 157.72
DeltaCare HMO	24.44	48.68	42.74	73.30

Anthem HMO Medicare family rates assume the children are on the Non-Medicare $20 Co-pay Anthem HMO.

2024 MONTHLY PREMIUMS				
Medical	**Single**	**Employee / Spouse**	**Employee / Child**	**Family**
Non-Medicare Monthly Rates				
Kaiser DHMO	$ 708.38	$ 1,416.74	$ 1,239.66	$ 2,125.12
Kaiser $25 co-pay	865.12	1,730.22	1,513.94	2,595.34
Kaiser HDHP	596.84	1,193.68	1,044.46	1,790.52
Anthem HMO Select $20 co-pay	940.24	2,068.48	1,692.42	2,914.64
Anthem HMO Traditional $20 co-pay	1,080.88	2,377.90	1,945.60	3,350.68
Anthem DHMO	724.88	1,594.78	1,304.78	2,247.18
Anthem HDHP	1,653.72	3,638.18	2,976.70	5,126.58
Anthem Select PPO	2,684.40	5,905.74	4,831.96	8,321.78
Anthem Classic PPO	2,871.06	6,316.36	5,167.88	8,900.28
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	$ 270.09	$ 540.18	$ 540.18	$ 810.27
Anthem Medicare PPO	502.69	1,005.38	1,005.38	1,508.07
Anthem Medicare HMO	N/A	N/A	N/A	N/A
Dental				
Delta Dental PPO	$ 50.88	$ 111.92	$ 122.12	$ 157.72
DeltaCare HMO	24.44	48.86	42.74	73.30

Summary of Key Substantive Plan Provisions

POSTEMPLOYMENT HEALTHCARE

SUMMARY OF 2024 BENEFIT PLANS								
Non-Medicare Plans	Kaiser High Deductible	Kaiser DHMO	Kaiser $25 Co-pay	Anthem $20 Co-pay HMO	Anthem DHMO	Anthem Select PPO (In-Network)	Anthem Classic PPO (In-Network)	Anthem High Deductible (In Network)
Annual Out-of-Pocket Maximum (Single / Family)	$5,950 / $11,900	$4,000 / $8,000	$1,500 / $3,000	$1,500 / $3,000	$4,000 / $8,000	$2,100 / $4,200	$2,100 / $4,200	$4,000 / $8,000
Annual Deductible (Single / Family)	$3,200 / $6,400	$1,500 / $3,000	None	None	$1,500 / $3,000	$100 / $200	$100 / $200	$2,500 / $5,000
Office Visit co-pay	30.0%[1]	$40	$25	$20	$20	$25	$25	20.0%[1]
Emergency Room co-pay	30.0%[1]	30.0%[1]	$100	$100	30.0%[1]	$100	$100	20.0%[1]
Hospital Care co-pay	30.0%[1]	30.0%[1]	$100	$100	30.0%[1]	10.0%[1]	10.0%[1]	20.0%[1]
Prescription Drug Retail Co-pay (30-day supply)								
Generic Brand	$10	$10	$10	$10	$10	$10	$10	$10
Non-Preferred	$30	$30	$25	$30	$30	$25	$25	$30
Specialty	N/A	N/A	N/A	$60	$60	$40	$40	$60

[1] *After deductible is paid.*

Medicare-Eligible Plans	Kaiser	Anthem PPO
Annual Out-of-Pocket Maximum	$1,000 per year for any one member	$0
Annual Deductible	None	None
Office Visit co-pay	$25	$0
Emergency Room co-pay	$50	$0
Hospital Care co-pay	$250	$0
Prescription Drug Retail Co-pay (30-day supply)		
Generic Brand	$10	$10
Non-Formulary	$10	$25
Specialty Drug	N/A	$40

Cost Sharing Provisions

It is assumed for the purpose of this valuation that the City of San José will in the future maintain a consistent level of cost sharing for benefits with the retirees. This may be achieved by adjusting benefit provisions, retiree-paid premiums, or both.

VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)

Eligibility: Employees who elected to opt-in to the VEBA.

Employee Group	VEBA Contribution Rate
Tier 1 and Tier 2A (Hired before September 2013)	
Management	2.5%
Non-Management	3.5%
Tier 2B	
Not Unit 99	2.0%
Unit 99	N/A

Contributions: Employees are required to make mandatory contributions into the VEBA on a pre-tax basis.

Medical: VEBA funds can be used to reimburse members for eligible healthcare expenses. VEBA members on service-connected disability receive single coverage benefits from the Postemployment Healthcare Plan up to age 65 once VEBA funds are exhausted.

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Statistical Section

Pension Trust and Postemployment Healthcare Trust
Funds of the City of San José, California

City of San José
Federated City Employees' Retirement System
Annual Comprehensive Financial Report for the Fiscal Years Ended
June 30, 2024 and June 30, 2023

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 covers Pension Plan and Postemployment Healthcare Plans, including 401(h) and 115. 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 PLAN NET POSITION FOR FISCAL YEARS 2015-2024 *(Dollars in thousands)*

DEFINED BENEFIT PENSION PLAN (Schedule 1a)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Additions										
Employee contributions	$ 33,933	$ 30,561	$ 27,464	$ 25,724	$ 25,082	$ 22,606	$ 20,501	$ 17,227	$ 15,920	$ 13,621
Employer contributions	218,313	199,440	207,598	183,964	181,327	173,006	156,770	138,483	129,456	114,751
Investment income / (loss) [1]	257,583	222,101	(169,129)	698,608	90,909	76,855	117,493	146,010	(35,010)	(16,642)
Total additions to plan net position	**509,829**	**452,102**	**65,933**	**908,296**	**297,318**	**272,467**	**294,764**	**301,720**	**110,366**	**111,730**
Deductions										
Benefit payments	236,880	228,530	219,497	210,351	201,474	190,228	179,366	169,756	160,499	152,119
Death benefits	18,352	17,213	16,373	15,641	14,389	13,719	12,970	12,411	11,530	10,724
Refunds	1,333	1,613	1,403	1,214	865	1,119	1,064	1,263	1,289	1,719
Administrative expenses and other	6,136	5,458	4,978	4,762	4,725	4,582	4,823	4,380	3,940	3,898
Total deductions from plan net position	**262,701**	**252,814**	**242,251**	**231,968**	**221,453**	**209,648**	**198,223**	**187,810**	**177,258**	**168,460**
Changes in plan net position	**$ 247,128**	**$ 199,288**	**$ (176,318)**	**$ 676,328**	**$ 75,865**	**$ 62,819**	**$ 96,541**	**$ 113,910**	**$ (66,892)**	**$ (56,730)**

[1] *Net of expenses*

POSTEMPLOYMENT HEALTHCARE PLAN BENEFITS (Schedule 1b)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Additions										
Employee contributions	$ 9,891	$ 9,841	$ 9,865	$ 10,275	$ 10,692	$ 10,578	$ 15,545	$ 16,827	$ 17,881	$ 18,645
Employer contributions	25,357	22,997	24,787	26,236	26,533	26,410	32,397	31,905	30,465	26,959
Investment income / (loss) [1]	37,149	24,268	(38,286)	77,360	3,075	9,472	12,336	17,041	(2,447)	(5,922)
Total additions to plan net position	**72,397**	**57,106**	**(3,634)**	**113,871**	**40,300**	**46,460**	**60,278**	**65,773**	**45,899**	**39,682**
Deductions										
Healthcare insurance premiums	32,635	30,869	31,088	31,871	30,779	28,826	29,724	31,007	29,577	29,443
Administrative expenses and other	832	750	765	697	686	384	170	242	237	254
VEBA transfer	-	-	-	5	13	19	13,497	-	-	-
Total deductions from plan net position	**33,467**	**31,619**	**31,853**	**32,573**	**31,478**	**29,229**	**43,391**	**31,249**	**29,814**	**29,697**
Changes in plan net position	**$ 38,930**	**$ 25,487**	**$ (35,487)**	**$ 81,298**	**$ 8,822**	**$ 17,231**	**$ 16,887**	**$ 34,524**	**$ 16,085**	**$ 9,985**

[1] *Net of expenses*

BENEFIT AND REFUND DEDUCTIONS FROM PLAN NET POSITION BY TYPE *(Dollars in thousands)*

DEFINED BENEFIT PENSION PLAN (Schedule 2a)

Type of Benefit	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Age and Service Benefits										
Retirees - services	$ 196,249	$ 190,203	$ 183,436	$ 177,009	$ 169,659	$ 160,545	$ 151,977	$144,863	$137,392	$130,512
Retirees - deferred vested	30,050	28,147	26,117	24,158	22,632	20,573	18,445	16,486	14,961	13,507
Survivors - services	11,612	10,953	10,185	9,809	9,182	8,310	7,723	7,281	6,697	6,079
Survivors - deferred vested	647	554	532	451	345	275	276	284	287	279
Deaths in service benefits	3,902	3,591	3,493	3,430	3,212	3,244	3,010	2,878	2,776	2,702
Disability Benefits										
Retirees - duty	5,067	4,783	4,585	4,747	4,935	4,355	4,235	4,241	4,017	3,980
Retirees - non-duty	2,340	2,383	2,342	2,339	2,411	2,407	2,418	2,246	2,258	2,336
Survivors - duty	722	703	709	667	441	541	537	508	456	444
Survivors - non-duty	1,363	1,302	1,311	1,246	1,209	1,228	1,197	1,168	1,132	1,072
Ex-spouse benefits	3,280	3,124	3,160	2,136	1,837	2,469	2,518	2,212	2,053	1,932
Total benefits	**$ 255,232**	**$ 245,743**	**$ 235,870**	**$ 225,992**	**$ 215,863**	**$ 203,947**	**$ 192,336**	**$182,167**	**$172,029**	**$162,843**

Type of Refund										
Separation	1,333	1,613	1,403	1,214	865	1,119	1,064	1,263	1,289	1,719
Total refunds	**$ 1,333**	**$ 1,613**	**$ 1,403**	**$ 1,214**	**$ 865**	**$ 1,119**	**$ 1,064**	**$ 1,263**	**$ 1,289**	**$ 1,719**

Source: Pension Administration System

Statistical Review (continued)

BENEFIT AND REFUND DEDUCTIONS FROM PLAN NET POSITION BY TYPE *(Dollars in thousands)*

POSTEMPLOYMENT HEALTHCARE PLAN BENEFITS (Schedule 2b)

Type of Benefit	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Age and service benefits										
Retirees - service										
Medical	$18,127	$ 17,871	$ 18,288	$18,695	$ 18,168	$17,152	$ 18,089	$ 18,668	$ 17,734	$ 18,061
Dental	3,137	2,874	2,656	3,139	3,126	3,083	3,040	2,923	2,799	2,521
Retirees - deferred vested										
Medical	1,968	1,860	1,764	1,721	1,703	1,543	1,635	1,641	1,477	1,455
Dental	6	4	6	8	10	13	10	10	10	12
Survivors - service										
Medical	1,119	1,102	1,079	1,106	1,047	966	955	949	890	921
Dental	202	182	163	190	186	181	176	174	167	148
Survivors - deferred vested										
Medical	56	46	41	34	23	19	20	26	33	31
Dental	2	2	2	2	1	1	1	1	2	2
Deaths in service benefits										
Medical	244	228	246	252	237	237	262	274	272	302
Dental	46	39	38	46	45	47	48	46	45	38
Disability benefits										
Retirees - duty										
Medical	765	748	778	787	848	838	949	957	938	981
Dental	104	92	89	106	114	116	121	116	115	109
Retirees - non-duty										
Medical	186	188	198	206	219	215	252	268	281	340
Dental	46	44	40	49	54	56	56	55	59	58
Survivors - duty										
Medical	60	64	75	80	75	82	93	105	100	111
Dental	12	12	11	13	14	15	16	17	16	15
Survivors - non-duty										
Medical	124	119	124	124	137	150	153	172	179	177
Dental	21	20	19	22	24	25	25	26	26	23
Ex-spouse benefits										
Medical	3	3	3	3	4	4	4	3	3	3
Dental	1	1	1	1	1	1	1	1	1	1
Implicit subsidy medical										
Tier 1	6,406	5,370	5,468	5,287	4,743	4,082	3,818	4,577	4,430	3,811
Tier 2	-	-	-	-	-	-	-	-	-	323
Tier 3	-	-	-	-	-	-	-	-	-	-
Total benefits	**$32,635**	**$ 30,869**	**$ 31,089**	**$31,871**	**$ 30,779**	**$28,826**	**$ 29,724**	**$ 31,009**	**$ 29,577**	**$ 29,443**

Source: Pension Administration System

EMPLOYER AND EMPLOYEE CONTRIBUTIONS RATES FOR FISCAL YEARS 2015-2024

(Schedule 3)

	Employer Rate				Employee Rate		
	Tier 1	Tier 1	Tier 2 / 2B	All Tiers	Tier 1	Tier 2 / 2B	All Tiers
	Pension %	Minimum Dollar Amount	Pension %	OPEB $	Pension %	Pension %	OPEB %
2024	20.16 %	$168,762,000	8.01 %	$ 19,095,000	7.34 %	8.01 %	7.50 %
2023	20.32 %	$162,602,000	8.13 %	$ 18,318,000	7.41 %	8.13 %	7.50 %
2022	20.25 %	$160,694,000	8.17 %	$ 19,340,302	7.39 %	8.17 %	7.50 %
2021	19.82 %	$148,460,000	7.92 %	$ 20,948,983	7.22 %	7.92 %	7.50 %
2020	19.34 %	$137,409,000 [1]	8.33 %	$ 21,790,130	7.06 %	8.33 %	7.50 %
2019	99.16 %	N/A	8.28 %	$ 20,856,125	6.81 %	8.28 %	7.50 %

The City healthcare contributions are set as a flat dollar amount that is entirely UAL and covers all Tier 1 and Tier 2 members with healthcare.

[1] *The minimum dollar amount for Tier 1 for the fiscal year ending 2020 was incorrectly shown as $90,779,270. The amount has been updated to correctly show as $137,409,000.*

	Fed Tier 1		Fed Tier 2		Fed Tier 2B	
	Employee Rate	Employer Rate	Employee Rate	Employer Rate	Employee Rate	Employer Rate
	%	%	%	%	%	%
2018	15.36	103.45	16.48	17.13	7.72	7.72
2017	15.23	87.47	14.80	15.45	6.04	18.70
2016	15.09	75.57	14.46	15.11	5.70	18.36
2015	14.40	69.66	14.29	14.94	5.53	18.19

Retired Members by Type of Benefit

PENSION BENEFITS

As of June 30, 2024

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement [1] 1	2	3	4	5	6	7	Option Selected [2] A	B	C	Total
$1 - 500	83	11	0	0	2	6	41	23	21	14	48	83
$501 - 1,000	218	48	0	0	0	32	120	18	56	42	120	218
$1,001 - 1,500	317	89	4	2	3	52	135	32	94	49	174	317
$1,501 - $2,000	312	95	2	6	10	56	120	23	86	42	184	312
$2,001 - $2,500	323	112	9	15	8	76	88	15	75	44	204	323
$2,501 - $3,000	328	159	7	15	9	56	65	17	96	42	190	328
$3,001 - $3,500	340	190	11	19	7	42	61	10	100	51	189	340
$3,501 - $4,000	332	211	3	18	10	43	41	6	105	42	185	332
$4,001 - $4,500	294	198	1	15	5	31	39	5	111	32	151	294
$4,501 - $5,000	315	253	4	10	2	14	29	3	132	42	141	315
$5,001 - $5,500	279	227	4	7	3	10	28	0	107	49	123	279
$5,501 - $6,000	286	229	4	4	1	11	36	1	119	37	130	286
$6,001 - $6,500	248	214	5	3	1	6	17	2	130	29	89	248
$6,501 - $7,000	198	177	0	1	1	6	13	0	88	31	79	198
Over $7,000	895	813	4	2	1	13	62	0	452	112	331	895
Total	**4,768**	**3,026**	**58**	**117**	**63**	**454**	**895**	**155**	**1,772**	**658**	**2,338**	**4,768**

[1] **Retirement Codes**

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

[2] **Option Descriptions**

A. Unmodified - 50% Continuance
B. Option 1: 100% Continuance / reduced pension
C. No Survivor - No Continuance

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2024

Monthly Subsidy Amount	Type of Subsidy: Health	Dental
Ineligible / Deferred	1,466	1,326
$1 - 60	0	1,649
$61 - 250	104	1,793
$251 - 500	986	0
$501 - 750	1,293	0
$751 - 1000	30	0
Over $1,000	889	0
Total	**4,768**	**4,768**

Source: Pension Administration System as reviewed by Cheiron

Average Benefit Payment Amounts *(continued)*

PENSION BENEFITS

As of June 30, 2024

	Years of Service Credit						
Time Periods	**0 - 5**	**6 - 10**	**11 - 15**	**16 - 20**	**21 - 25**	**26 - 30**	**31+**
As of June 30, 2024							
Average monthly benefit [1]	$ 1,164	$ 1,899	$ 3,162	$ 4,420	$ 5,947	$ 7,340	$ 8,372
Average final average salary	$ 8,012	$ 6,634	$ 6,552	$ 6,870	$ 7,419	$ 6,997	$ 7,590
Number of retired members [2]	217	559	592	759	755	1,061	158
As of June 30, 2023							
Average monthly benefit [1]	$ 1,140	$ 1,864	$ 3,074	$ 4,252	$ 5,777	$ 7,147	$ 7,979
Average final average salary	$ 7,813	$ 6,567	$ 6,464	$ 6,659	$ 7,291	$ 6,918	$ 7,259
Number of retired members [2]	208	553	590	763	736	1,065	158
As of June 30, 2022							
Average monthly benefit [1]	$ 1,125	$ 1,832	$ 2,991	$ 4,115	$ 5,630	$ 6,861	$ 7,719
Average final average salary	$ 7,567	$ 6,404	$ 6,346	$ 6,546	$ 7,131	$ 6,871	$ 7,167
Number of retired members [2]	201	524	586	758	722	1,067	153
As of June 30, 2021	-	-	-	-	-	-	-
Average monthly benefit [1]	$ 1,096	$ 1,784	$ 2,905	$ 3,991	$ 5,476	$ 6,705	$ 7,455
Average final average salary	$ 7,444	$ 6,248	$ 6,265	$ 6,409	$ 6,969	$ 6,784	$ 6,984
Number of retired members [2]	200	513	587	757	698	1,061	151
As of June 30, 2020	-	-	-	-	-	-	-
Average monthly benefit [1]	$ 1,071	$ 1,748	$ 2,822	$ 3,869	$ 5,309	$ 6,507	$ 7,231
Average final average salary	$ 7,171	$ 6,149	$ 6,182	$ 6,296	$ 6,785	$ 6,680	$ 6,604
Number of retired members [2]	190	495	586	759	684	1,053	140
As of June 30, 2019	-	-	-	-	-	-	-
Average monthly benefit [1]	$ 1,042	$ 1,679	$ 2,752	$ 3,743	$ 5,175	$ 6,327	$ 7,023
Average final average salary	$ 6,726	$ 5,947	$ 6,057	$ 6,178	$ 6,652	$ 6,574	$ 6,527
Number of retired members [2]	183	495	568	759	665	1,021	139
As of June 30, 2018							
Average monthly benefit [1]	$ 1,020	$ 1,642	$ 2,685	$ 3,603	$ 5,035	$ 6,202	$ 6,889
Average final average salary	$ 6,320	$ 5,872	$ 5,957	$ 6,000	$ 6,524	$ 6,461	$ 6,475
Number of retired members [2]	173	485	550	738	653	968	138
As of June 30, 2017							
Average monthly benefit [1]	$ 1,024	$ 1,588	$ 2,605	$ 3,488	$ 4,870	$ 6,039	$ 6,730
Average final average salary	$ 6,171	$ 5,737	$ 5,817	$ 5,780	$ 6,370	$ 6,334	$ 6,403
Number of retired members [2]	160	473	545	702	642	945	138
As of June 30, 2016							
Average monthly benefit [1]	$ 1,031	$ 1,544	$ 2,534	$ 3,393	$ 4,725	$ 5,966	$ 6,630
Average final average salary	$ 6,009	$ 5,602	$ 5,714	$ 5,617	$ 6,313	$ 6,243	$ 6,329
Number of retired members [2]	154	459	525	667	637	914	136
As of June 30, 2015							
Average monthly benefit [1]	$ 1,005	$ 1,506	$ 2,459	$ 3,291	$ 4,591	$ 5,801	$ 6,464
Average final average salary	$ 5,609	$ 5,492	$ 5,583	$ 5,497	$ 6,253	$ 6,134	$ 6,378
Number of retired members [2]	153	443	503	664	631	878	136

[1] *Includes cost-of-living increases*
[2] *Does not include survivors and ex-spouses*

Source: Pension Administration System as reviewed by Cheiron

Average Benefit Payment Amounts *(continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2024

	Years of Service Credit						
Time Periods	**0 - 5**	**6 - 10**	**11 - 15**	**16 - 20**	**21 - 25**	**26 - 30**	**31+**
As of June 30, 2024							
Average health subsidy	$ 766	$ 668	$ 606	$ 613	$ 656	$ 724	$ 636
Number of health participants [1]	16	23	266	726	737	1,032	154
Average dental subsidy	$ 80	$ 85	$ 87	$ 86	$ 91	$ 92	$ 88
Number of dental participants [1]	50	203	360	606	647	1,013	156
As of June 30, 2023							
Average health subsidy	$ 709	$ 615	$ 575	$ 570	$ 611	$ 680	$ 599
Number of health participants [1]	16	23	267	731	716	1,039	155
Average dental subsidy	$ 79	$ 84	$ 86	$ 85	$ 91	$ 92	$ 87
Number of dental participants [1]	51	212	365	610	637	1,018	157
As of June 30, 2022	-	-	-	-	-	-	-
Average health subsidy	$ 669	$ 555	$ 579	$ 582	$ 613	$ 684	$ 600
Number of health participants [1]	17	23	268	728	702	1,039	150
Average dental subsidy	$ 70	$ 70	$ 72	$ 71	$ 76	$ 77	$ 72
Number of dental participants [1]	52	220	371	615	629	1,021	152
As of June 30, 2021	-	-	-	-	-	-	-
Average health subsidy	$ 674	$ 565	$ 592	$ 597	$ 632	$ 712	$ 614
Number of health participants [1]	18	24	270	729	680	1,035	149
Average dental subsidy	$ 84	$ 85	$ 88	$ 87	$ 92	$ 93	$ 86
Number of dental participants [1]	54	225	378	624	611	1,018	151
As of June 30, 2020	-	-	-	-	-	-	-
Average health subsidy	$ 703	$ 562	$ 614	$ 613	$ 638	$ 710	$ 604
Number of health participants [1]	18	25	275	729	666	1,027	138
Average dental subsidy	$ 84	$ 85	$ 88	$ 87	$ 92	$ 95	$ 84
Number of dental participants [1]	55	232	393	626	602	1,010	140
As of June 30, 2019	-	-	-	-	-	-	-
Average health subsidy	$ 672	$ 567	$ 586	$ 585	$ 614	$ 680	$ 556
Number of health participants [1]	19	20	270	691	623	974	133
Average dental subsidy	$ 85	$ 85	$ 88	$ 88	$ 91	$ 94	$ 84
Number of dental participants [1]	56	238	389	629	583	972	139
As of June 30, 2018							
Average health subsidy	$ 642	$ 472	$ 570	$ 563	$ 597	$ 654	$ 550
Number of health participants [1]	18	25	266	686	618	936	133
Average dental subsidy	$ 85	$ 84	$ 89	$ 89	$ 92	$ 94	$ 84
Number of dental participants [1]	59	244	392	623	582	933	138
As of June 30, 2017							
Average health subsidy	$ 785	$ 569	$ 666	$ 667	$ 726	$ 776	$ 633
Number of health participants [1]	18	24	260	634	595	906	131
Average dental subsidy	$ 83	$ 84	$ 88	$ 89	$ 92	$ 94	$ 86
Number of dental participants [1]	59	250	394	593	574	908	138
As of June 30, 2016							
Average health subsidy	$ 605	$ 354	$ 589	$ 629	$ 707	$ 741	$ 593
Number of health participants [1]	24	44	260	595	594	874	130
Average dental subsidy	$ 79	$ 80	$ 84	$ 86	$ 89	$ 90	$ 83
Number of dental participants [1]	64	250	390	572	576	877	137

Average Benefit Payment Amounts *(continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2024

	Years of Service Credit						
Time Periods	**0 - 5**	**6 - 10**	**11 - 15**	**16 - 20**	**21 - 25**	**26 - 30**	**31+**
As of June 30, 2015							
Average health subsidy	$ 587	$ 337	$ 586	$ 635	$ 719	$ 725	$ 616
Number of health participants [1]	26	50	241	594	584	839	133
Average dental subsidy	$ 82	$ 84	$ 87	$ 86	$ 91	$ 90	$ 84
Number of dental participants [1]	66	249	375	569	571	845	137

[1] *Does not include survivors and ex-spouses*

Source: Pension Administration System as reviewed by Cheiron

Retirements During Fiscal Year 2023-2024

SERVICE RETIREMENTS		
AITKEN, JOHN M.	GREENE, S S.	MORALES-FERRAND, JACQUELINE
ANDRADE, JOSEPH	GUO, SHELLEY W.	MORRILL, STACEE L.
ANDRADE, VERONICA M.	HADNOT, RHONDA	NAVARRO, DAVID
BAYER, ROSS C.	HARLIN, CYNTHIA	NUNEZ, PAUL R.
BECKHAM, JOE T.	HELMKE, PAMELA A.	NURRE, SHIVAUN
BOWLBY, JOAN C.	HENDON, EMILY C.	OSUNA, GEORGE
BRACKETT, LORETTA	HILL, CHARLES T.	PEREZ, LISA M.
BRILLIOT, MICHAEL A.	HUBBARD, KELLY J.	PRANGE, PAUL W.
BROWN, LAURENCE G.	HURTADO, ROGER	PRECIADO, IGNACIO J.
CAMPBELL, TAD D.	JUAREZ, ALBERT	PUTNAM, PERIHAN
COLBY, STEVE	KELLETT, APRIL H.	ROZARIO, SHARONA
COLLINS, TIMOTHY J.	KELLEY, DANIEL	SALAZAR, COCO
CORDERO, TED P.	KHOSRAVIANI-ZADEH, KHOJASTEH	SCANLAN, JANIE
CROMARTIE, BONNIE L.	KILES, ANTHONY	SOLIS, AVELARDO J.
DAIN, BROOK	KRANTZ, RUTHANN	STEELE, SANDRA
DOMINGUEZ, GREGORY L.	LEATH, LINDSEY D.	STEINER, MICHELLE
DURAN, PAUL	LEWIS, PATRICK	TU, CHYI HSYAM
FICKLIN, JOHN R.	LIM-TSAO, LILY P.	URIBE, JOSE B.
FLORES, JESSICA	LOEBL, ELLEN	VU, NGOC-DIEM T.
FUKUDA, NAPP K.	MACIAS, LORETTA H.	WAGNER, LAURENCE J.
GAFFANEY, STEPHEN	MARTINEZ, EDGAR M.	WHITED, PAUL
GARRENS, MICHAEL J.	MARTINEZ, LAURA J.	WONG, ERWIN
GHOFRANIHA, BAHAR	MEFFERD, GREG L.	ZENG, HUA Q.
GOLDEN, TIMOTHY	MELCHOR, MONIQUE L.	
GONZALEZ, RUBEN F.	MENDOZA, EMILIA	

Retirements During Fiscal Year 2023-2024 *(continued)*

DEFERRED VESTED RETIREMENTS		
ARAGONA, CHRISTINE A.	HANSEN, RUSSELL	RHOADES, MICHAEL
BENNETT, STUART	HILLESLAND, SANDRA K.	RIDDLE, SCOTT J.
BERTALAN, RICHARD D.	HORLICK, CECILIA	ROBLES, GILBERTO
BREWSTER, STEVEN	KANTAK, ASHWINI	ROSE, GREGORY C.
CAMERON, DENISE M.	KEATING, PATRICK J.	SCHAFF, DAVID C.
CAMPOS, JACQUELINE	LANDERS, SHARON L.	STORZ, ROGER K.
CHARLES, BRENDA R.	LIBERTY, BARBARA	TELIHA, JOHN
CRABTREE, ANDREW D.	LOUWERS, AURELIA RENATA F.	TRAN, PHUOC
DOEBLER, SAMANTHA	MEDINA, PHILLIP	TULEE, LISA T.
EASTEP, STEPHANIE	MORREY, CATHY M.	VELEZ, ROSA M.
FERNANDES, JEANNIE	NG, SIU L.	WOLF, SUZANNE
FIERNER, MARIA L.	PAGAN, WINNIE L.	WOOD, PATRICIA D.
GIAMPAOLI, DARLEEN	RAMOS-GONZALES, LENA M.	YANG, JIANZHENG
GOMEZ, RAFAEL	REINHARDT, JAMES P.	ZOLEZZI, DAVID M.
GUERRERO, HIJINIA Q.	RENCHER, NATALIE R.	

SERVICE CONNECTED DISABILITY RETIREMENTS		
	NONE	

NON-SERVICE CONNECTED DISABILITY RETIREMENTS		
	NONE	

EARLY RETIREMENTS		
CARRUBBA JR., FRANCIS P.	INOUYE, BRYAN	LLEDO, MELINDALLEDO
FORTES, ERIC L.		

Deaths During Fiscal Year 2023-2024

DEATHS AFTER RETIREMENT		
AMADOR, CAROL L.	GEARY, LILLY Q.	RAWSON, PATRICIA A.
ANDERSEN, THOMAS S.	GIBSON, MARTHA C.	REYNOLDS, MARY E.
ANDREWS-LITTLE, AUDRAY	GIUSTI, MICHAEL	RIBBS, VICTORIA
ATCHISON, AUDIE L.	GLENZER, RICHARD E.	ROBINSON, ANTHONY
BALDWIN, RONALD G.	GRIZZLE, JODY M.	ROGERS, KATHLEEN E.
BARBACCIA JR., FRANK R.	HADDOCK, DALE L.	RUDD, PEGGY Y.
BARRETTE, KAY R.	HARTMAN, JANICE H.	RUDMAN, WILLIAM K.
BARTON, ERLE G.	HAYASHI, JUNE J.	RUIZ, MARIA
BEEBE, ROBERT D.	HAYNES, SANDRA L.	RYAN, TERRY L.
BERNABE, SANDRA	HOGAN, THOMAS	SHANNON, BARBARA E.
BERTON, JOSEPHINE E.	JONES, RAPHAEL S.	SHIH, ERIC C.
BRAGA, DOROTHY	KEECH, BARRY F.	SIROTT, JOANNE B.
BULYGO, CORINNE	KLASS, STEVEN K.	STEVENS, EDWARD J L.
CARBULLIDO, IDA E.	KNIES, CARL	STEWART, CARL W.
CARDONA, CHARLES C.	KREVOLT, GAIL A.	STRAUSBAUGH, RUSSELL P.
CARRILLO, CECILIA Y.	KUCZYNSKI, MICHAEL	TAA, LEO B.
CARRION, JEAN R.	LALOR, PATRICK W.	TAM, ROGER H.
CASTRO, RUBY L.	LELAND, EVE S.	THROWER, RACHEL E.
CHAMBERLIN, TERRY J.	LO FRANCO, JOHN A.	TORRES, MADELINE E.
CRABTREE, JAMES H.	MAC ROSTIE, THOMAS A.	TOSCHI, EUGENE R.
DALTON, DEAN B.	MAUPIN, NOLA N.	VALERIO, CARMENCITA E.
DENT, MOLLIE J.	MEIER, PAUL R.	VALVERDE, CECIL
DORMANDY, GARRY W.	MOORE, RICHARD H.	VAN DE PITTE, GARY D.
DURAN, JESS	MORENO, DAVID	VREELAND, MARY L.
EATON, GARY A.	NAVARRO, ANGEL	WALIZER, DONALD G.
ERNEST, WILLIAM	NEWMAN, KEVIN M.	WEBB, JAMES
FALKOWITZ, ROGER D.	NIERENBERG, LINDA K.	WHARTON, ROBERT
FALLON, LISA	OLIVA, JOSE A.	ZAVALA, ELIZABETH C.
GARCIA, JOSE L.	PABST, DONALD J.	ZELLER, VALERIE J.
GARCIA, LUIS	PEREZ, ALBERT	
GARCIA, ROBERT D.	PERKINS, DEAN	

DEATHS BEFORE RETIREMENT		
HERNANDEZ, JOSE D.	PAVON, MARIA D.	WELSH, JEB
OROZCO, CARINA	VEGA, CHERIESE	

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