City of San José Federated City Employees' Retirement System

Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2011

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

City of San José Federated City Employees' Retirement System

Russell U. Crosby
Director

Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2011

Department of Retirement Services
1737 North First Street, Suite 580
San Jose, California 95112-4505
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A Pension Trust Fund of the City of San José, California

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

December 16, 2011

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 members of the Board of Administration, I am pleased to present the Federated City Employees' Retirement System's (System) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011.

A major accomplishment during the fiscal year was the implementation of a new Board governance structure. The San Jose City Council passed legislation in August 2010 creating a new Board structure for the System. The new Board structure replaced the two City Council representatives and the Civil Service Commission representative with three public members for a total of four public members, including the existing public member. From August 2010 through November 2010, staff conducted extensive outreach to recruit qualified professionals to ensure that the City Council had the broadest possible range of applicants. Interviews with the City Council took place in December 2010.

A major focus of the new board structure was the addition of the public board members who are independent of the City and who have specific education and experience relevant to the administration of public retirement plans. In December 2010, the City Council appointed three of the four public members, Stuart Odell, Michael Armstrong, and Lara Druyan, who were sworn in at the Board's January 2011 meeting. In February 2011, the Board held interviews for the fourth public board member and made a recommendation to the City Council. Later in February 2011, the City Council appointed the fourth public member, Martin Dirks, who was sworn in at the Board's March 2011 meeting. The newly constituted Board met in its entirety for the first time in March 2011. The new public trustees bring a wealth of investment knowledge and experience to the Board.

Specifically, Stuart Odell, the Assistant Treasurer of Retirement Investments at Intel Corporation, has 21 years work experience including banking and venture capital work, and currently serves on the Board and chairs the investment committee for a $280 million endowment. Michael Armstrong is responsible for all business development activities in the Western U.S. related to investment managers, hedge funds, pension plans/asset owners and corporate treasury at Algorithmics Inc. and has 30 years of experience in the application of sophisticated analytic tools at large investment managers, pension plans, and insurers. Lara Druyan is the Founding Partner of G&B Partners and has over eleven years of investment management and oversight experience at G&B and at Allegis Capital. She has worked on numerous portfolio company boards and their audit committees. Martin Dirks is Director of Research at McCullough & Associates LLC, has over 20 years of experience as an institutional equity manager at large hedge funds as well as the largest university endowment, Harvard University, and is an Adjunct Professor of Finance for the MBA program at Golden Gate University.

The System earned a time-weighted gross of fees rate of return of 19.0% and net of investment fees rate of return of 18.8% on investments, compared to a 21.8% return for its policy benchmark and a 22.0% return for the Master Trust Public Funds Median. Additionally, the System earned a time-weighted gross of fees rate of return of 4.1% and 4.9% for the three-year and five-year periods ending June 30, 2011 respectively, while the Master Trust Public Funds Median earned a time-weighted rate of return of 4.3% and 4.9% for the same periods.

Net of investment, administrative, securities lending, and SRBR expenses, the System earned a time-weighted return of 18.6%, 3.5%, and 4.2% for the fiscal year, three-year, and five-year periods ending June 30, 2011 respectively. In contrast, the net rate of return assumed by the System's actuary is 7.95%.

Moreover, the net asset value of the System increased from $1,620,813,000 to $1,896,072,000 net of pending purchases and sales (see the Financial Section beginning on page 21). The net increase in System net assets for fiscal year 2010-2011 was $275,259,000.

After conducting extensive searches, the Board hired RS Investments as an active U.S. small cap value equity manager, Artisan Partners and Tradewinds Global Investors as active global value equity managers, Credit Suisse Asset Management and First Quadrant as active risk parity commodities managers, and Blackstone/GSO, Medley Capital, and White Oak Global Advisors as active opportunistic direct lending managers. In addition, American Realty Advisors was hired to take over management and disposition of the individually owned real estate and Cheiron was hired as Board Actuary.

The Board believes that the professional services rendered by the staff, the auditors, investment counselors, the actuarial consultants, and the System's performance evaluators have produced a sound fund capable of continued growth. The Board of Administration and its staff are available to provide additional information when requested.

Sincerely,

Matt Loesch, Chairman
Board of Administration

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Introductory Section

City of San José
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2011

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

December 16, 2011

Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San Jose, CA 95112

Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Federated City Employees' Retirement System (System) for the fiscal year ended June 30, 2011. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the System's management. This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the System are reported on the accrual basis of accounting. For an overview and analysis of the financial activities of the System for the fiscal years ended 2010 and 2011 refer to the Management's Discussion and Analysis on page 24.

Macias Gini & O'Connell LLP, the System's independent auditor, has audited the accompanying financial statements. 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.

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 misstatements. 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.

Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2010. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This report must satisfy both generally accepted accounting principles and applicable legal requirements. We believe our current report continues to conform to the Certificate of Achievement Program Requirements and staff will submit it to the GFOA to determine its eligibility for another certificate for the fiscal year ended June 30, 2011. 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.

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

Funding

The System's funding for both its defined benefit pension plan and its defined benefit other postemployment healthcare (OPEB) plan is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2010, the funding ratio of the defined benefit pension plan was approximately 69% based on the actuarial value of assets and 59% based on market value of assets. As of June 30, 2010, the funding ratio of the defined benefit OPEB plan was 12% based on the actuarial value of assets and on the market 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 7.95% and 6.71%, respectively. The impact of the difference between the actual net rate of return earned by the System, 18.8%, and the 7.95% and 6.71% assumptions will result in an investment gain that will be reflected in the pension and OPEB, respectively, unfunded liabilities in next year's CAFR. The net increase in System assets for fiscal year 2010-2011 was $275,259,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 36. A six-year history of the defined benefit pension plan's funding progress is presented on page 58. A four-year history of the defined benefit OPEB plan's funding progress is presented on page 59.

Financial and Economic Summary

The 2010-2011 fiscal year began with signs of stabilization in the global economy. During the third quarter of 2010, the U.S. Federal Reserve began openly considering another major round of quantitative easing and emerging markets led the rebound in September. During the fourth quarter of 2010, the economy continued to improve sparking renewed investor optimism. Congress announced a two-year extension of Bush-era tax cuts as well as a reduction in social security taxes for 2011 and the U.S. Federal Reserve announced QE2. During the first quarter of 2011, investor optimism persisted despite major events such as geopolitical uncertainty in the Middle East, renewed sovereign debt concerns, and the March earthquake and tsunami in Japan. The U.S. Federal Reserve continued to maintain an accommodative monetary policy in the U.S., but many policymakers worldwide began raising interest rates to combat inflationary concerns. The fiscal year's fourth quarter saw a reversal in the trends from the first three quarters as concerns over the future of the global economy began to weigh on riskier assets. QE2 ended in June and U.S. policymakers debated the various means of reducing the U.S. budget deficiency as a prerequisite to raise the U.S. Treasury's debt ceiling, but failed to reach a resolution by fiscal year end.

Fiscal year 2012 promises continued volatility in the markets and, while the System is diversified in a way that provides the best possible chance for achieving long-term returns to meet its obligations and objectives, it is of critical importance that the System continues to focus on low volatility and stability of returns going forward.

Investment Summary

The Board of Administration has exclusive control of all investments of the System and is responsible for the establishment of 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.

Over the past fiscal year, the System's gross of fees rate of return was 19.0% and net of investment fees rate of return was 18.8%, while the policy benchmark returned 21.8% and the Master Trust Public Funds Median returned 22.0%. Additionally, the System's gross of fees rate of return were 4.1% and 4.9% for the three-year and five-year periods ended June 30, 2011 respectively, while the Master Trust Public Funds Median were 4.3% and 4.9% for the same periods.

The System's net of expenses rate of return, which includes investment, administrative, securities lending, and SRBR expenses, for the fiscal year was 18.6%, and for the three-year and five-year periods ended June 30, 2011 were 3.5% and 4.2%, respectively. Moreover, the net asset value of the System increased from $1,620,813,000 to $1,896,072,000, net of pending purchases and sales (see the Financial Section beginning on page 22).

At the beginning of the fiscal year 2011, much of the System's assets were invested in index funds and optimized portfolios designed to earn index returns. The Trustees selected active managers for U.S. small cap value equity, global value equity, risk parity commodities, and opportunistic direct lending. During the fiscal year, the Trustees continued implementation of the new asset allocation, which aims to better position the System for potential future market environments.

Major Initiatives

During the fiscal year 2010-2011, a new Board governance structure was implemented. In order to ensure that the retirement boards on balance will possess sufficient and relevant expertise to effectively guide and oversee the retirement systems and to ensure that the retirement board will be free of significant conflicts of interest and be able to focus freely on the administration of the System and the best interests of the members and beneficiaries, the City Council approved changes to the retirement board in August 2010. Specifically, the two City Council board members and the Civil Service Commission board member were replaced with three public board members creating a total of four public board members, with the inclusion of the existing public board member, on the seven-member board. Interviews for the three new public members were held in December 2010 and the three public members selected were sworn in at the January 2011 Board meeting. At a special February 2011 Board meeting, the Board conducted interviews for the seventh Board member and the City Council approved the seventh Board member later in February 2011. After swearing in the seventh board member, the newly constructed Board met for the first time in March 2011.

After conducting extensive searches, the Board hired RS Investments as an active U.S. small cap equity manager, Artisan Partners and Tradewinds Global Investors as active global value equity managers, Credit Suisse Asset Management and First Quadrant as active risk parity commodities managers, and Blackstone/GSO, Medley Capital, and White Oak Global Advisors as active opportunistic direct lending managers. In addition, American Realty Advisors was hired to take over management and disposition of the individually owned real estate and Cheiron was hired as Board Actuary.

The Retirement Services Department participated in the Medical, Dental, and Voluntary Insurance Provider (Trustmark) selections for the City in conjunction with the City's Human Resources Department and Labor Groups. Staff implemented the new Adult Dependent guidelines under the PPACA (Healthcare Reform), and was a key instrument for the application of the Early Retiree Reinsurance Program (ERRP), which so far brought in $1.2 million. There was higher retiree participation during Open Enrollment due to the new $25 co-pay plans that were introduced. Staff also organized free flu shots for retirees for the duration of the Retiree Health Fair and for the first time welcomed a representative from Social Security Administration, who provided valuable information regarding Medicare and the Windfall Elimination Provision.

During the fiscal year, staff streamlined the retirement group counseling process, which resulted in efficiencies that allowed service to be provided to a greater number of customers. The Retirement Services Department has experienced incremental growth in the number of retirements processed for the past two fiscal years. The number of retirements processed during the fiscal year ended June 30, 2010 had increased 20% over the preceding year, followed by a 31% increase in the fiscal year ended June 30, 2011.

In addition, the Retirement Services Department offered 40 educational classes with over 1,303 Federated, Police, and Fire active and retired members participating. Staff successfully completed the Business Continuance Plan Mock Event and issued a Request for Proposals for Pension and Business Administration System with LR Wechsler being the vendor selected.

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

Conclusion

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

Respectfully Submitted,

Russell U. Crosby
Director, Retirement Services

Certificate of Achievement for Excellence in Financial Reporting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Federated

City Employees' Retirement System

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

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

President

Executive Director

Certificate of Meeting Professional Standards in Public Pensions

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2010

Presented to

San Jose 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

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 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 Jose Municipal Code.

As of June 30, 2011, the members of the Board were as follows:

MATT LOESCH, CHAIR , CHAIR
Employee Representative appointed to the Board in December 2007. His current term expires November 30, 2011.

EDWARD F. OVERTON, VICE CHAIR
Retired Plan member appointed in January 2009. His current term expires November 30, 2012.

ARN ANDREWS, TRUSTEE
Employee Representative appointed to the Board in December 2009. His current term expires November 30, 2013.

MARTIN DIRKS, TRUSTEE
Public member appointed to the Board in March 2011. His current term expires February 28, 2015.

MICHAEL ARMSTRONG, TRUSTEE
Public member appointed to the Board in December 2010. His current term expires December 31, 2014.

LARA DRUYAN, TRUSTEE
Public member appointed to the Board in December 2010. Her current term expires December 31, 2014.

STUART ODELL, TRUSTEE
Public member appointed to the Board in December 2010. His current term expires December 31, 2014.

PETE CONSTANT,
COUNCIL LIAISON

DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION

RUSSELL U. CROSBY
DIRECTOR OF RETIREMENT SERVICES

DONNA BUSSE
DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER

CARMEN RACY-CHOY
DEPUTY DIRECTOR
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 http://sjretirement.com/fed/meetings/agendas.asp or they can be obtained from the retirement office at 1737 North First Street, Suite 580, San Jose, CA 95112. Meeting times and locations are subject to change; please call our office at (408) 794-1000 for current information.

OUTSIDE CONSULTANTS

ACTUARY
Cheiron, Inc.
Encinitas, CA

ATTORNEY, BOARD
Saltzman & Johnson
San Francisco, CA

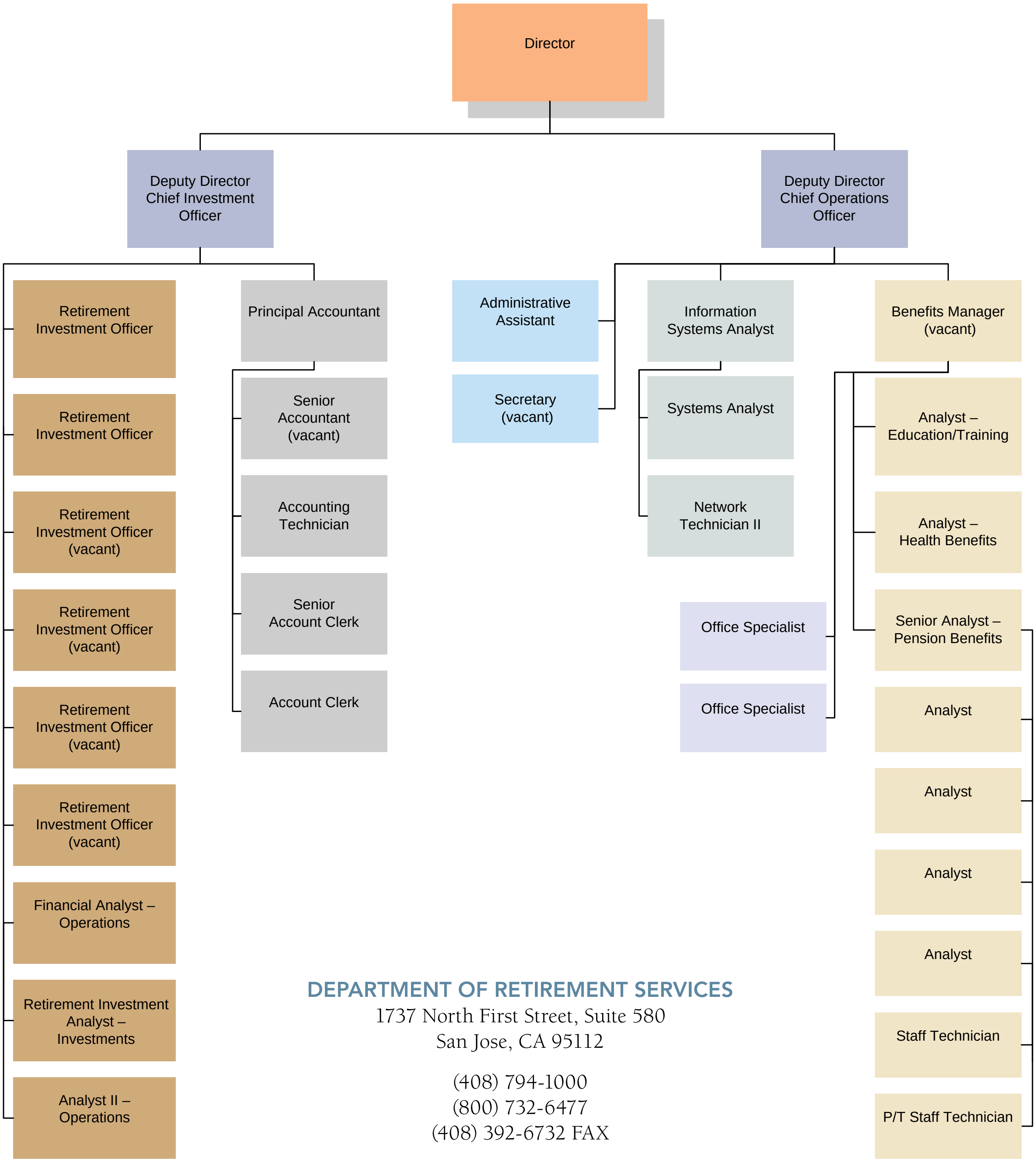
ATTORNEY, INVESTMENT
Hanson Bridgett, LLP
San Francisco, CA

CONSULTANT, INVESTMENT
Meketa Investment Group, Inc.
Carlsbad, CA

AUDITOR
Macias Gini & O'Connell LLP
Walnut Creek, CA

A list of Investment Professionals begins on page 81 of the Investment Section of this report.

2011 Department of Retirement Services Organizational Chart



DEPARTMENT OF RETIREMENT SERVICES
1737 North First Street, Suite 580
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Summary of the Principal Plan Provisions

Membership

Mandatory for all full-time non-safety employees.

Member Contribution

All members contribute 10.30% of base salary. Note: Some Bargaining units negotiated temporary higher rates.

City's Contribution

The City contributes 32.16% of the base salary. The financing is designed to provide reserves sufficient to meet the accrued and accruing liabilities under the prescribed benefit schedule. (Rates are reviewed following each actuarial survey.) Note: Some bargaining units negotiated temporary higher member contribution rates, which directly offset the City's contribution rate.

Service Retirement

Members may retire at age 55 with five or more years of service or at any age with 30 years of service. The monthly retirement allowance payable is the Final Average Salary multiplied by 2.5% per year of service (Maximum Benefit: 75% of the Final Average Salary).

Final Average Salary

The average monthly salary for the highest twelve (12) consecutive months.

Disability Retirement

Non-Service-Connected

A non-service-connected disability retirement is available to members with five (5) or more years of service if the disability is permanent and prevents the member from performing any work in his/her present classification. The base non-service-connected disability retirement allowance is the greater of 40% of the Final Average Salary or the earned retirement allowance (Final Average Salary x 2.5% x Number of Years of Service, maximum benefit of 75% of Final Average Salary). The allowance will be reduced by 0.5% for each year of age under 55.

For those entering the system September 1, 1998 or later, the calculation is as follows:

20% of Final Average Salary for 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 benefit of 75% of Final Average Salary.

Service-Connected

A service-connected disability is available if the disability is permanent and directly due to and caused by actual performance of employment within the City. The minimum service-connected disability retirement allowance is 40% of the final average salary. There is no minimum service requirement for a service-connected disability nor reduction factor due to age. The disability benefit is offset by certain workers' compensation payments. If a member has more than 16 years of service with the City of San Jose, they will also receive 2.5% of the Final Average Salary for each year in excess of 16 in addition to the 40% benefit for a Service-Connected Disability. (Maximum Benefit: 75% of the Final Average Salary)

Termination Benefits

Upon termination, the member will be paid all of his or her accumulated contributions and interest in full satisfaction of all rights and benefits under this Retirement System except that a member terminating with at least five (5) years of service may elect to leave the accumulated contributions and interest on deposit with option of reciprocity.

Deferred Retirement

Contributions left on deposit by a member terminating with at least five (5) years of service (vesting) entitle the employee to a retirement allowance upon attaining age 55.

Reciprocity

Effective December 9, 1994, the City entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal benefits to members. In certain situations, this agreement results in improved retirement benefits for members who move from one eligible retirement system to another. If a member terminates and goes to a California PERS agency or a reciprocal agency and claims reciprocity, they may leave their accumulated contributions and interest on deposit regardless of years of service.

Cost Of Living

Effective April 1, 2006, the cost-of-living (COL) provision provides a flat 3% annual adjustment in April for retirees and survivors.

Summary of the Principal Plan Provisions *(Continued)*

Death Before Retirement

The surviving spouse of an eligible employee who dies before retirement will receive a retirement allowance determined by the years of service times 2.5% times the final average salary (minimum of 40% and maximum of 75%). Unmarried children are entitled to an allowance to age 18 (22 if they are full time students) if there is no spouse. The allowance is as follows:

1 child receives 25% of the spousal benefit
2 children share 50% of the spousal benefit
3+ children share 75% of the spousal benefit

The beneficiary, in the event that no family members are eligible for a monthly allowance, is entitled to a return of the member's contributions and interest plus a death benefit of one month's salary for each year of service (up to six years).

If the employee is 55 and has 20 or more years of service at the time of death, his/her spouse will retain the survivorship allowance for life. If not, the spouse loses the allowance upon a remarriage.

Death After Retirement

The surviving spouse receives one-half* of the member's retirement allowance until death and a $500 death benefit (*At the time of retirement, the member may select an alternative option allowing for a survivorship allowance of up to 100% of the member's allowance). If there is no surviving spouse, dependent children are eligible for an allowance. The allowance is:

1 child receives 25% of the spousal benefit
2 children share 50% of the spousal benefit
3+ children share 75% of the spousal benefit

Administration

A full-time Director is employed by the City. He serves as Secretary and Chief Executive Officer to the Board of Administration.

The Fund pays the cost of the personnel who are employed for the purpose of managing the Retirement System. It also pays any directly related administrative costs.

The Northern Trust is employed as custodian of fund assets and collector of investment income.

Actuarial Soundness

Cheiron, Inc. is retained for regular, continuing actuarial services. Plan and benefit provisions are periodically reviewed to ensure continuing soundness.

Management

The System is under the management of a seven member Board of Administration consisting of two active employees, one member who has retired under the provisions of the System; and four public members.

The Board of Administration is a policy-making body and responsible for the proper operation of the Plan. The System operates as an independent trust, separate and distinct from the City and other entities. The administration of the System is under its guidance and direction and is subject to such rules, regulations and directives as it may adopt from time to time. The City Attorney provides legal advice and counsel.

Investment Authority and Policy

The investment authority is broad and allows maximum utilization of the System's resources. Nationally known investment advisory services from managers listed on page 81 are retained for full-time investment counsel. Meketa Investment Group is retained as the investment consultant.

Financial Section

City of San José
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2011

Independent Auditor's Report

MGO Certified Public Accountants.

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

mgocpa.com

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

We have audited the accompanying statements of plan net assets of the City of San José Federated City Employees' Retirement System (System), a pension trust fund of the City of San José, California, as of June 30, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion

As discussed in Note 2(a), the financial statements of the System are intended to present only the plan net assets and changes in plan net assets of the System. They do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2011 and 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2011 and 2010, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5, based on the most recent actuarial valuation as of June 30, 2010, the System's independent actuaries determined that, at June 30, 2010, the value of the defined benefit pension plan's actuarial accrued liability exceeded the actuarial value of its assets by $781 million. The most recent actuarial value of assets as of June 30, 2010 does not reflect the impact of deferred investment losses of $245 million that will be recognized in future valuations. As described in Note 6, based on the most recent actuarial valuation as of June 30, 2010, the System's independent actuaries determined that, at June 30, 2010, the value of the postemployment healthcare plan's actuarial accrued liability exceeded the actuarial value of its assets by $818 million.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 30, 2011 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 for the year ended June 30, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

3000 S Street, Suite 300, Sacramento, CA 95816 · 2121 N. California Blvd., Suite 750, Walnut Creek, CA 94596 · 505 14th Street, 5th Floor, Oakland, CA 94612 · 2029 Century Park East, Suite 500, Los Angeles, CA 90067 · 4675 MacArthur Ct, Suite 600, Newport Beach, CA 92660 · 225 Broadway, Suite 1750, San Diego, CA 92101

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedules of Funding Progress and Employer Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory section, other supplementary information in the financial section, investment section, actuarial section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information in the financial section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. . The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 30, 2011

Management's Discussion and Analysis (Unaudited)

Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San José, California 95112-4505

The Department 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, 2011, and 2010. 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 11 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2011

- As of June 30, 2011, the System had $1,896,072,000 in total net plan assets held in trust for pension benefits and postemployment healthcare benefits. All of the net assets are available to meet the System's ongoing obligations to plan participants and their beneficiaries except the Supplemental Retiree Benefit Reserve of $30,677,000.
- The System's total net assets held in trust for pension benefits and postemployment healthcare benefits increased by $275,259,000 or 17.0%, primarily as a result of the appreciation in the fair value of investments caused by the continued recovery in the investment market and the further implementation of the System's diversified asset allocation adopted by the Board in fiscal year 2010, that included a more diversified structure that includes commodities, absolute return, and opportunistic investments.
- Additions to plan net assets for the year were $425,990,000 which includes member and employer contributions of $116,969,000, net investment income excluding securities lending of $308,534,000 and net securities lending income of $487,000.
- Deductions in plan net assets increased from $133,800,000 to $150,731,000 from the prior year, or approximately 12.7%, due to an increase in retirement benefits and healthcare premiums, which were attributable to an increased number of beneficiaries and increased health premium costs.

Overview of the Financial Statements

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

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

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

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

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

Both statements are in compliance with Generally Accepted Accounting Principles (GAAP) as set forth by the Governmental Accounting Standards Board. GAAP requires certain disclosures and state and local government pension plan and other postemployment benefit plan reports use the full accrual method of accounting. The System complies with all material requirements of these pronouncements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets 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 due pursuant to formal commitments as well as statutory and contractual commitments and benefit and refunds of contributions when due and payable under the provision of the System. All of the current year's additions and deductions are taken into account regardless of when cash is received or paid. All investment gains and losses are reported at the trade date, not the settlement date. In addition, both realized and unrealized gains and losses on investments are reported.

These two statements report the System's net assets held in trust for pension benefits and postemployment healthcare benefits (net assets)—the difference between assets and liabilities. Over time, increases and decreases in the System's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as the System's funding progress and funded status, should also be considered in measuring the System's overall health (see the schedules of funding progress and schedules of employer contributions on pages 58-60 of this report).

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 on page 38 of this report).

Other Information In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the System's progress in funding its obligations to provide pension and other postemployment healthcare benefits to members and employer contributions (see Required Supplementary Information beginning on page 58 of this report).

The schedule of funding progress of the Defined Benefit Pension Plan prepared using the market value of plan assets, combining schedules of Defined Benefit Pension Plan net assets and changes in net assets, schedules of administrative expenses and other, investment expenses, and payments to consultants are presented immediately following the required supplementary information.

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the System's financial position (see Tables 1a and 1c on page 26). At the close of fiscal year's 2011 and 2010, the System's total assets exceeded the System's total liabilities. The System's total liabilities do not include the actuarial accrued liability for the Defined Benefit Pension Plan and other Postemployment Healthcare Plan.

The funded status of the System should also be considered when evaluating the System's financial health. As of June 30, 2010, the System's most recent valuation, the funded status of the System decreased from 71% to 69% and increased from 11% to 12% for the Defined Benefit Pension Plan and other Postemployment Healthcare Plan, respectively. On a market value of assets basis as of June 30, 2010, the funded status of the Defined Benefit Pension Plan was 59% (excluding SRBR reserves) resulting in a variance of 10% between the funded ratios calculated under the two bases. A schedule of funding progress for the Defined Benefit Pension Plan on a market value of assets basis and a description of the variance between the actuarial value of assets and market value of assets is presented in the other supplemental information on page 61. The decrease in pension funded status was primarily due to the increase in the unfunded actuarial accrued liability (UAAL). The increase in the UAAL was due to the recognition of fiscal years' 2008 and 2009 deferred investment losses in accordance with the System's asset smoothing policy and changes in actuarial assumptions as recommended by the Board's actuary and adopted by the Board for the June 30, 2010 valuations. For more information on the results and impact of the June 30, 2010 valuations, please see Notes 5 and 6 to the financial statements on pages 51-57.

NET ASSETS FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN
(Table 1a) *As of June 30, 2011, and 2010 (In Thousands)*

	2011	2010	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 18,714	$ 10,199	$ 8,515	83.5%
Investments at Fair Value	1,894,775	1,669,536	225,239	13.5%
Total Assets	**1,913,489**	**1,679,735**	**233,754**	**13.9%**
Current Liabilities	152,871	166,933	(14,062)	-8.4%
Total Liabilities	**152,871**	**166,933**	**(14,062)**	**-8.4%**
Net Assets	**$ 1,760,618**	**$ 1,512,802**	**$ 247,816**	**16.4%**

NET ASSETS FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN
(Table 1b) *As of June 30, 2010, and 2009 (In Thousands)*

	2010	2009	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 10,199	$ 40,811	$ (30,612)	-75.0%
Investments at Fair Value	1,669,536	1,378,143	291,393	21.1%
Total Assets	**1,679,735**	**1,418,954**	**260,781**	**18.4%**
Current Liabilities	166,933	62,316	104,617	167.9%
Total Liabilities	**166,933**	**62,316**	**104,617**	**167.9%**
Net Assets	**$ 1,512,802**	**$ 1,356,638**	**$ 156,164**	**11.5%**

NET ASSETS FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN
(Table 1c) *As of June 30, 2011, and 2010 (In Thousands)*

	2011	2010	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 2,507	$ 2,125	$ 382	18.0%
Investments at Fair Value	144,820	117,920	26,900	22.8%
Total Assets	**147,327**	**120,045**	**27,282**	**22.7%**
Current Liabilities	11,873	12,034	(161)	-1.3%
Total Liabilities	**11,873**	**12,034**	**(161)**	**-1.3%**
Net Assets	**$ 135,454**	**$ 108,011**	**$ 27,443**	**25.4%**

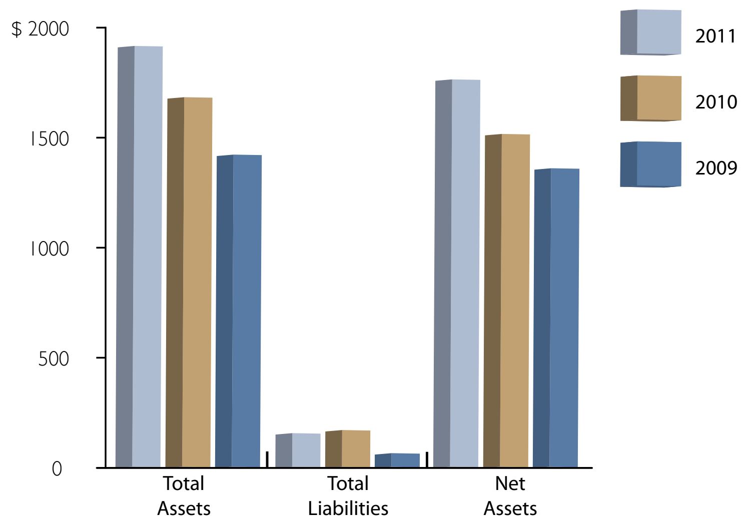
NET ASSETS FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN
(Table 1d) *As of June 30, 2010, and 2009 (In Thousands)*

	2010	2009	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 2,125	$ 4,515	$ (2,390)	-52.9%
Investments at Fair Value	117,920	84,974	32,946	38.8%
Total Assets	**120,045**	**89,489**	**30,556**	**34.1%**
Current Liabilities	12,034	3,925	8,109	206.6%
Total Liabilities	**12,034**	**3,925**	**8,109**	**206.6%**
Net Assets	**$ 108,011**	**$ 85,564**	**$ 22,447**	**26.2%**

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PENSION PLAN NET ASSETS

(Table 1a)

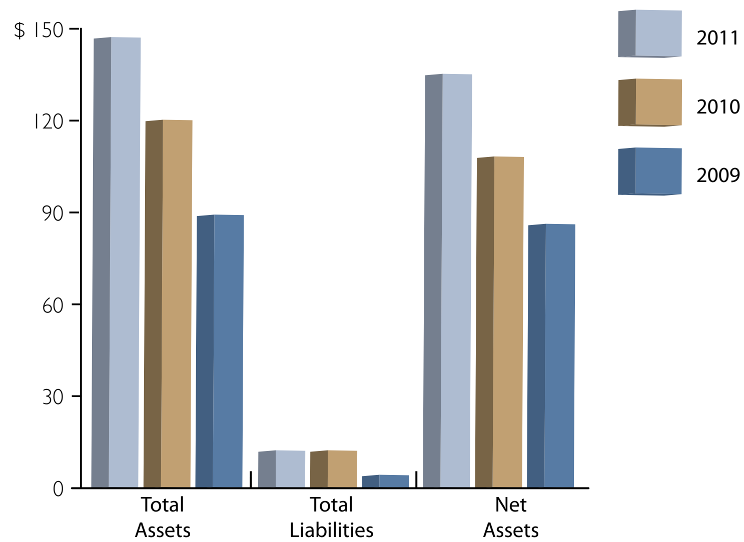
As of June 30, 2011, 2010, and 2009 (in Millions)



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN BENEFITS NET ASSETS

(Table 1c)

As of June 30, 2011, 2010, and 2009 (in Millions)



As of June 30, 2011, $1,760,618,000 and $135,454,000, in total net assets are held in trust for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 26). All of the net assets are available to meet the System's ongoing obligation to plan participants and their beneficiaries, except assets held in the supplemental retiree benefit reserve (a reserve in the defined benefit pension plan), of $30,677,000, which is used to provide supplemental benefits to retirees on a discretionary basis.

As of June 30, 2011, total net assets for the pension benefits and postemployment healthcare benefits plan increased by 16.4% and 25.4% from the prior year primarily due to the net appreciation in the fair value of investments of $252,848,000 and $19,238,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was caused by the recovery in the investment market and the System's implementation of a new diversified asset allocation, adopted by the Board in fiscal year 2010, which included an asset allocation to a more diversified structure that includes commodities, absolute return, and opportunistic investments. The System's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 40.

As of June 30, 2010, $1,512,802,000 and $108,011,000 in total net assets were held in trust for pension benefits and postemployment healthcare benefits, respectively (see Tables 1b and 1d on page 26). The total net assets held in trust increased by 11.5% and 26.2% from the prior year primarily due to the net appreciation in the fair value of investments of $165,376,000 and $11,613,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was caused by the recovery in the investment market and the System's transition to a new diversified asset allocation that included an asset allocation to a more diversified structure that includes commodities, absolute return, and opportunistic investments.

As of June 30, 2011, receivables increased by $8,515,000 or 83.5% and $382,000 or 18.0% in the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively, due to a increase in receivables from the City for contributions and brokers and others for year-end investment trades. The increase for the Defined Benefit Pension Plan was due to a year-end contribution receivable from the City to fund the annual required contribution for the fiscal year. In the previous year, receivables for the Defined Benefit Pension Plan and Postemployment Healthcare Plan decreased by $30,612,000 or 75.0% and $2,930,000 or 52.9%, respectively, also due to the amount of receivables from brokers and others for year-end investment trades.

As of June 30, 2011, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan decreased by $14,062,000 or 8.4% and $161,000 or 1.3%, respectively, compared with June 30, 2010, due to decreases in payables for administrative and health expenses and securities lending collateral due to borrowers. The System's investment in securities lending fluctuates with demand for the System's securities.

As of June 30, 2010, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan increased by $104,617,000 or 167.9% and $8,109,000 or 206.6%, respectively, compared with June 30, 2009, due mainly to an increase in securities lending collateral due to borrowers. The securities lending collateral due to borrowers increased by $150,089,000 from the previous year due to the System's return to Northern Trust's securities lending program in full. The System previously decreased securities lending activity due to deficiencies in Northern Trust's Core USA collateral pool due to the bankruptcy of Lehman Brothers. As a result of the deficiency, Northern Trust froze their collateral pool so that investors would not suffer losses in the event that other investors in the pool withdrew funds forcing Northern Trust to sell securities into an illiquid market. Northern Trust continues to offer their clients several securities lending options. Upon the review and analysis of the securities lending options performed by the System's investment consultant, Meketa Investment Group, the Board decided to return to the securities lending program in full. As of June 30, 2010, the Northern Trust Core USA Fund cash collateral investment pool net asset value was equal to $1.00 per unit. For more information on the System's securities lending activity see Note 4 of the financial statements on page 49.

System Activities

The continued recovery of the equity market and the System's implementation of a liability driven asset allocation, adopted by the Board in fiscal year 2010, were the primary cause of the increase in net assets, which increased by $275,259,000 thereby accounting for an 17.0% increase from the prior year. Key elements of the System's financial activities are described in the sections that follow.

Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plan for the fiscal year ended June 30, 2011, were $370,961,000 and $55,029,000, respectively (see Tables 2a and 2c on pages 30-31).

By fiscal year ended June 30, 2011, overall additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan had increased by $105,244,000 and $8,335,000, or 39.6% and 17.9%, respectively. The primary cause of the increase from the prior year was due to increases of $91,139,000 and $8,105,000, respectively, in net investment income excluding securities lending income, which was as a result of general market increases and the System's implementation a diversified asset allocation adopted by the Board in fiscal year 2010. The System's time-weighted gross rate of return for the fiscal year ended June 30, 2011, was 19.0% compared to 14.3% (corrected from 15.9% previously reported) for fiscal year 2010. Fiscal year 2010 gross and net returns were amended by the System's Investment Consultant due to corrections in their market value and cash flow data for the System. On a net of manager fee basis, the System's time-weighted rate of return for the fiscal year ended June 30, 2011, was 18.8% compared to 13.7% (corrected from 15.3% previously reported) for the fiscal year 2010.

Additions to the Defined Benefit Pension Plan for fiscal year ended June 30, 2010, had increased by $490,622,000 and $33,793,000, or 218.1% and 261.9%, respectively, from the prior year primarily due to an increases of $490,430,000 and $32,188,000, respectively, in net investment income excluding securities lending income, which was as a result of general market increases and the System's transition to a new diversified asset allocation. In addition, as of June 30, 2010, the System's investment in securities lending had positive returns compared to securities lending losses in 2009. The System's time-weighted gross rate of return for the fiscal year ended June 30, 2010, was 14.3% (corrected from 15.9% as discussed above) compared to negative 16.8% for fiscal year 2009. On a net of expenses basis, the System's time-weighted rate of return for the fiscal year ended June 30, 2010, was 13.7% (corrected from 15.3% as discussed above) compared to a negative 17.6% for the fiscal year 2009.

Deductions from Plan Net Assets

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

Deductions for the fiscal year ended June 30, 2011, totaled $123,145,000 and $27,586,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 12.4% from the previous year due to an increase in retirees and beneficiaries and final average salaries (see Table 2a on page 30). Deductions for the Postemployment Healthcare Plan, increased by 13.8% from the previous year due to increased healthcare insurance premiums for retirees and beneficiaries (see Table 2c on page 31).

Deductions for the fiscal year ended June 30, 2010, totaled $109,553,000 and $24,247,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 9.3% from the previous year due to an increase in retirees and beneficiaries and final average salaries (see Table 2b on page 30). Deductions for the Postemployment Healthcare Plan, of $24,247,000, increased by 10.9% from the previous year due to increased healthcare insurance premium (see Table 2d on page 31).

Reserves

The System is required by the City of San José Municipal Code to establish various reserves in the System's net assets. The System's net assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. Within the Defined Benefit Pension Plan Retirement Fund there are three reserves: the General Reserve, Employee Contributions Reserve, and Supplemental Retiree Benefit Reserve. The Defined Benefit Pension Plan Cost-of-Living Fund and the Postemployment Healthcare Plan both have a General Reserve and Employee Contributions Reserve (see table on page 41 for a complete listing and year-end balances of the System's reserves).

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

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

For the Fiscal Years Ended June 30, 2011 and 2010 (In Thousands)

	2011	2010	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 24,602	$ 13,396	$ 11,206	83.7%
Employer Contributions	59,180	54,566	4,614	8.5%
Net Investment Income*	286,726	195,587	91,139	46.6%
Net Securities Lending Income/(Loss)	453	2,168	(1,715)	-79.1%
Total Additions	**370,961**	**265,717**	**105,244**	**39.6%**
* *Net of Investment Expenses of $3,387 and $5,026 in 2011 and 2010, respectively.*				
Retirement Benefits	110,415	98,110	12,305	12.5%
Death Benefits	7,883	7,583	300	4.0%
Refund of Contributions	1,980	1,219	761	62.4%
Administrative	2,867	2,641	226	8.6%
Total Deductions	**123,145**	**109,553**	**13,592**	**12.4%**
Net Increase in Plan Net Assets	**247,816**	**156,164**	**91,652**	**58.7%**
Beginning Net Assets	**1,512,802**	**1,356,638**	**156,164**	**11.5%**
Ending Net Assets	**$ 1,760,618**	**$ 1,512,802**	**$ 247,816**	**16.4%**

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

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

	2010	2009	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 13,396	$ 13,848	$ (452)	-3.3%
Employer Contributions	54,566	57,020	(2,454)	-4.3%
Net Investment Income*	195,587	(294,843)	490,430	166.3%
Net Securities Lending Income/(Loss)	2,168	(930)	3,098	333.1%
Total Additions	**265,717**	**(224,905)**	**490,622**	**218.1%**
* *Net of Investment Expenses of $5,026 and $6,803 in 2010 and 2009, respectively.*				
Retirement Benefits	98,110	89,767	8,343	9.3%
Death Benefits	7,583	6,923	660	9.5%
Refund of Contributions	1,219	1,395	(176)	-12.6%
Administrative	2,641	2,108	533	25.3%
Total Deductions	**109,553**	**100,193**	**9,360**	**9.3%**
Net Increase/(Decrease) in Plan Net Assets	**156,164**	**(325,098)**	**481,262**	**148.0%**
Beginning Net Assets	**1,356,638**	**1,681,736**	**(325,098)**	**-19.3%**
Ending Net Assets	**$ 1,512,802**	**$ 1,356,638**	**$ 156,164**	**11.5%**

CHANGES IN PLAN NET ASSETS FOR THE POSTEMPLOYMENT HEALTHCARE PLAN
(Table 2c)
For the Fiscal Years Ended June 30, 2011 and 2010 (In Thousands)

	2011	2010	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 16,041	$ 15,815	$ 226	1.4%
Employer Contributions	17,146	17,027	119	0.7%
Net Investment Income*	21,808	13,703	8,105	59.1%
Net Securities Lending Income/(Loss)	34	149	(115)	-77.2%
Total Additions	**55,029**	**46,694**	**8,335**	**17.9%**
* *Net of Investment Expenses of $256 and $345 in 2011 and 2010, respectively.*				
Healthcare Insurance Premiums	27,370	24,066	3,304	13.7%
Administrative	216	181	35	19.3%
Total Deductions	**27,586**	**24,247**	**3,339**	**13.8%**
Net Increase in Plan Net Assets	**27,443**	**22,447**	**4,996**	**22.3%**
Beginning Net Assets	**108,011**	**85,564**	**22,447**	**26.2%**
Ending Net Assets	**$ 135,454**	**$ 108,011**	**$ 27,443**	**25.4%**

CHANGES IN PLAN NET ASSETS FOR THE POSTEMPLOYMENT HEALTHCARE PLAN
(Table 2d)
For the Fiscal Years Ended June 30, 2010 and 2009 (In Thousands)

	2010	2009	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 15,815	$ 15,076	$ 739	4.9%
Employer Contributions	17,027	16,368	659	4.0%
Net Investment Income*	13,703	(18,485)	32,188	174.1%
Net Securities Lending Income/ (Loss)	149	(58)	207	356.9%
Total Additions	**46,694**	**12,901**	**33,793**	**261.9%**
* *Net of Investment Expenses of $345 and $425 in 2010 and 2009, respectively.*				
Healthcare Insurance Premiums	24,066	21,725	2,341	10.8%
Administrative	181	132	49	37.1%
Total Deductions	**24,247**	**21,857**	**2,390**	**10.9%**
Net Increase/(Decrease) in Plan Net Assets	**22,447**	**(8,956)**	**31,403**	**350.6**
Beginning Net Assets	**85,564**	**94,520**	**(8,956)**	**-9.5%**
Ending Net Assets	**$ 108,011**	**$ 85,564**	**$ 22,447**	**26.2%**

The System's Fiduciary Responsibilities

The System's Board of Administration and management staff are fiduciaries of the defined benefit pension and other postemployment healthcare trust funds. Under the California Constitution and the San José Municipal Code, the assets can only be used for the exclusive benefit of plan participants and their beneficiaries.

Economic Factors and Rates Affecting Next Year

The System transitioned from biennial to annual actuarial valuations beginning June 30, 2010. The System's most recent valuation as of June 30, 2010, was used to determine the annual contribution rates effective for payroll periods beginning on June 26, 2011, for fiscal year 2011-2012. The June 30, 2010 valuations were prepared by the Board's actuary, Cheiron, Inc. In addition, to preparing the June 30, 2010 valuations, Cheiron performed a high level review of the System's valuation assumptions and recommended a few changes that were adopted by the Board. See Notes 5 and 6 of the financial statements on pages 51-57 for a full listing of the actuarial assumption changes.

Defined Benefit Pension Plan

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2010, the System's most recent valuation, the funded status of the pension plan decreased from 71% to 69%. The decrease in the pension plan funded status was due to a combination of assumption changes and amortization and the smoothing of actuarial investment gains and losses from prior years.

The June 30, 2010 valuation included a change in the expected rate of return from 7.75% to 7.95% and a change in the payroll wage inflation assumption from 3.83% to 3.90%. The increase in the discount rate and payroll wage inflation rate assumptions are due to the Board's transition to phasing in the discount and wage inflation rate over two-years (ending June 30, 2011) instead of phasing in the impact of the assumption changes on the contribution rates over a five-year period as previously adopted by the Board. The discount rate and wage inflation rates scheduled for the June 30, 2011 valuation are 7.75% and 3.83%, respectively.

Beginning with the June 30, 2010 valuation, the Board adopted a 30/20 layered amortization methodology. Previously the unfunded actuarial accrued liability was amortized over a 30-year open amortization basis. The new unfunded actuarial accrued liability resulting from the June 30, 2010 valuation will be amortized over a closed 20-year period while the unfunded accrued liability from the June 30, 2009 valuation will be amortized over 29 years. All subsequent valuation gains or losses will be amortized over a closed 20-year period from the date first recognized. See Note 5 for additional information on the actuarial assumption changes.

In addition, the System's actuarial valuation uses a five year smoothing method for investment returns. This means that the current year's gains or losses in excess of the actuarially assumed rate of return, as calculated at year-end, are recognized over five years. The unfunded actuarial accrued liability of $781 million, as of June 30, 2010, does not include the impact of approximately $245 million of deferred investment losses primarily resulting from unfavorable investments returns in fiscal years 2008 and 2009. The net deferred investment loss also includes 80% of the investment gains for fiscal year 2010 that will be recognized over the next four valuations. It is anticipated that future actuarial valuations will recognize the remaining deferred investment losses of approximately $245 million as described above.

In fiscal year 2010-2011, the employer and employee contribution rates were impacted by both the June 30, 2009 actuarial assumption changes and the effect of the agreement between the bargaining units representing the Association of Maintenance Supervisory Personnel (AMSP), Association of Engineers and Architects (AEA), Operating Engineers Local No. 3 (OE#3), City Association of Management Professionals (CAMP), and the International Brotherhood of Electrical Workers (IBEW) with the City. The bargaining units agreed to make ongoing and one-time additional pension retirement contributions that were applied to reduce the contributions of the City. See note 5 for additional information.

Contribution rates for fiscal year 2012-2013 will be impacted by the effect of a layered 20-year closed amortization period, the expected decrease in the discount and wage inflation rates, continued decreases in covered payroll due to budget cuts, and the smoothing of the remaining deferred investment losses of approximately $245 million. The Board's actuary presented an Experience Study Report for the period from July 1, 2005 through June 30, 2010 in May 2011 and made several recommendations regarding changes to the actuarial assumptions. Any assumption changes adopted by the Board will also impact the contribution rates for fiscal year 2012-2013.

Additionally, the System is exposed to general market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the Defined Benefit Pension Plan assets could be below the actuarially assumed rate of return, which is 7.95%, net of SRBR transfers and investment and administrative expenses. Underperforming the assumed rate of return would negatively impact the financial condition of the System and the City's required contribution to the plan. The contribution rate impact from general market risk depends in large measure on how deep any future market downturn is and how long it lasts.

To mitigate the risk of not collecting sufficient funds to amortize the unfunded actuarial liability, in November 2010, the Board adopted a funding policy setting the annual required contribution to be the greater of the dollar amount reported in the actuarial valuation and the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll for the fiscal year. The annual required contribution determined in the June 30, 2010 valuation for fiscal year ending June 30, 2012 is the greater of $86,887 (if paid on 07/01/2011) or 28.34% of actual payroll for the fiscal year. On July 1, 2011, the City funded the fiscal year 2011-2012 annual required contribution.

Postemployment Healthcare Plan

The System's fourth GASB Statement No. 43 compliant Other Postemployment Benefits (OPEB) valuation study as of June 30, 2010, was prepared by Cheiron, Inc., the System's actuary. A summary of the results is presented in Note 6 to the Financial Statements. The June 30, 2010 OPEB valuation included increased OPEB contributions for active System members as a result of the Memorandum of Agreement (MOA) entered into by the bargaining units representing the System members and the City to increase the contribution rates for retiree health and dental benefits in order to phase-in to full funding of the GASB Statement No. 43 annual required contributions over a five year period. Fiscal year ended June 30, 2011 was the second year of the phase-in. The MOA also provides that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions.

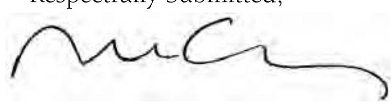
On June 24, 2011 a new Internal Revenue Code Section 115 trust was established by the San José City Council (Ordinance number 28914) to provide an alternative to the existing 401(h) account within the pension fund for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. Employer contributions to the new trust were made in fiscal year 2012. It is anticipated that employee contributions to the 115 trust will commence upon the receipt of a private letter ruling from the Internal Revenue Service on the tax qualified status of the new trust and the pre-tax treatment of employee contributions to the trust.

Requests for Information

This financial report is designed to provide the Board of Administration, Mayor and City Council, our membership, taxpayers, and investment managers with a general overview of the 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 580
San José, California 95112-4505

Respectfully Submitted,



Russell U. Crosby
Director

Basic Financial Statements

STATEMENTS OF PLAN NET ASSETS

June 30, 2011 and 2010 (In Thousands)

	2011		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Assets:			
Receivables:			
Employee contributions	$ 1,165	$ 842	$ 2,007
Employer contributions	11,731	1,211	12,942
Brokers and others	2,206	173	2,379
Accrued investment income	3,612	281	3,893
Total receivables	**18,714**	**2,507**	**21,221**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	378,497	28,862	407,359
International fixed income	2,096	160	2,256
Collective short-term investments	33,206	2,532	35,738
Corporate convertible bonds	48,943	3,732	52,675
Pooled fixed income	19,912	1,518	21,430
Global equity	444,594	33,903	478,497
Pooled global equity	461,370	35,182	496,552
Private equity	86,079	6,564	92,643
Forward international currency contracts	84	6	90
Opportunistic investments	30,462	2,323	32,785
Real assets	155,126	11,829	166,955
Real estate	84,141	6,532	90,673
Securities lending collateral investment pool	150,265	11,677	161,942
Total investments	**1,894,775**	**144,820**	**2,039,595**
TOTAL ASSETS	**1,913,489**	**147,327**	**2,060,816**
Liabilities:			
Payable to brokers	1,304	101	1,405
Securities lending collateral due to borrowers	150,265	11,677	161,942
Other liabilities	1,302	95	1,397
TOTAL LIABILITIES	**152,871**	**11,873**	**164,744**
Net Assets Held In Trust For:			
Pension benefits	1,760,618	-	1,760,618
Postemployment healthcare benefits	-	135,454	135,454
TOTAL NET ASSETS	**$ 1,760,618**	**$ 135,454**	**$ 1,896,072**

See accompanying notes to basic financial statements.

(Continued)

Basic Financial Statements *(Continued)*

STATEMENTS OF PLAN NET ASSETS (continued)

June 30, 2011 and 2010 (In Thousands)

	2010		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Assets			
Receivables:			
Employee contributions	$ 647	$ 780	$ 1,427
Employer contributions	2,750	855	3,605
Brokers and others	1,380	100	1,480
Accrued investment income	5,422	390	5,812
Total receivables	**10,199**	**2,125**	**12,324**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	600,005	42,264	642,269
International fixed income	6,436	454	6,890
Collective short-term investments	59,043	4,159	63,202
Corporate convertible bonds	42,543	2,997	45,540
Pooled fixed income	18,861	1,329	20,190
Global equity	282,601	19,906	302,507
Pooled global equity	367,133	25,861	392,994
Private Equity	65,423	4,608	70,031
Forward international currency contracts	453	32	485
Real estate	65,416	4,700	70,116
Securities lending collateral investment pool	161,622	11,610	173,232
Total investments	**1,669,536**	**117,920**	**1,787,456**
TOTAL ASSETS	**1,679,735**	**120,045**	**1,799,780**
Liabilities			
Payable to brokers	1,149	83	1,232
Securities lending collateral due to borrowers	161,622	11,610	173,232
Other liabilities	4,162	341	4,503
TOTAL LIABILITIES	**166,933**	**12,034**	**178,967**
Net Assets Held In Trust For:			
Pension benefits	1,512,802	-	1,512,802
Postemployment healthcare benefits	-	108,011	108,011
TOTAL NET ASSETS	**$ 1,512,802**	**$ 108,011**	**$1,620,813**

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2011 and 2010 (In Thousands)

	2011		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Additions			
Contributions:			
Employee	$ 24,602	$ 16,041	$ 40,643
Employer	59,180	17,146	76,326
Total contributions	**83,782**	**33,187**	**116,969**
Investment income:			
Net appreciation in fair value of investments	252,848	19,238	272,086
Interest income	26,157	1,984	28,141
Dividend income	8,293	629	8,922
Net rental income	2,815	213	3,028
Less investment expense	(3,387)	(256)	(3,643)
Net investment income before securities lending income	**286,726**	**21,808**	**308,534**
Securities lending income:			
Earnings	520	39	559
Rebates	84	6	90
Fees	(151)	(11)	(162)
Net securities lending income	**453**	**34**	**487**
Net investment income	**287,179**	**21,842**	**309,021**
TOTAL ADDITIONS	**370,961**	**55,029**	**425,990**
Deductions			
Retirement benefits	110,415	-	110,415
Healthcare insurance premiums	-	27,370	27,370
Death benefits	7,883	-	7,883
Refund of contributions	1,980	-	1,980
Administrative expenses and other	2,867	216	3,083
TOTAL DEDUCTIONS	**123,145**	**27,586**	**150,731**
NET INCREASE	**247,816**	**27,443**	**275,259**
Net Assets Held In Trust For Pension Benefits and Postemployment Healthcare Benefits			
BEGINNING OF YEAR	**1,512,802**	**108,011**	**1,620,813**
END OF YEAR	**$ 1,760,618**	**$ 135,454**	**$ 1,896,072**

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS (continued)

For the Fiscal Years Ended June 30, 2011 and 2010 (In Thousands)

	2010		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
Additions			
Contributions:			
Employee	$ 13,396	$ 15,815	$ 29,211
Employer	54,566	17,027	71,593
Total contributions	**67,962**	**32,842**	**100,804**
Investment income:			
Net appreciation in fair value of investments	165,376	11,613	176,989
Interest income	24,781	1,713	26,494
Dividend income	8,215	567	8,782
Net rental income	2,241	155	2,396
Less investment expense	(5,026)	(345)	(5,371)
Net investment loss before securities lending income	**195,587**	**13,703**	**209,290**
Securities lending income:			
Earnings	2,113	145	2,258
Rebates	155	11	166
Fees	(100)	(7)	(107)
Net securities lending income	2,168	149	2,317
Net investment income	197,755	13,852	211,607
TOTAL ADDITIONS	**265,717**	**46,694**	**312,411**
Deductions			
Retirement benefits	98,110	-	98,110
Healthcare insurance premiums	-	24,066	24,066
Death benefits	7,583	-	7,583
Refund of contributions	1,219	-	1,219
Administrative expenses and other	2,641	181	2,822
TOTAL DEDUCTIONS	**109,553**	**24,247**	**133,800**
NET INCREASE	**156,164**	**22,447**	**178,611**
Net Assets Held In Trust For Pension Benefits and Postemployment Healthcare Benefits:			
BEGINNING OF YEAR	**1,356,638**	**85,564**	**1,442,202**
END OF YEAR	**$1,512,802**	**$ 108,011**	**$ 1,620,813**

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

Notes to Financial Statements

NOTE 1 – DESCRIPTION OF THE PLAN

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

(a) General

The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1941 and last amended by City Council Ordinance number 28914 adopted on May 24, 2011, to provide retirement benefits for certain employees of the City of San José (City). On January 27, 2011, the System submitted a request for compliance statement and favorable determination letter from the IRS under the streamline procedures of the voluntary compliance program for the Defined Benefit Pension Plan and a Postemployment Healthcare Plan.

All full-time and eligible part-time employees of the City, except employees who are members of the City's Police and Fire Department Retirement Plan, are required to be members of the System.

The Postemployment Healthcare Plan was established under Internal Revenue Code Section 401(h) and is an account within the pension fund for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. As a 401(h) plan the healthcare plan benefits must be subordinate to the pension plan benefits. The medical benefits are considered subordinate if the actual contributions for medical benefits are no greater than 25% of actual contributions to both pension and medical benefits, ignoring contributions for past service benefit. The System's actuary performs periodic reviews and projections of the Internal Revenue Code 25% subordination test.

On June 24, 2011, a new Internal Revenue Code Section 115 trust was established by the San José City Council (Ordinance number 28914) to provide an alternative to the existing 401(h) account within the pension fund for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. A request for private letter ruling was filed with the Internal Revenue Service on October 17, 2011 on the tax qualified status of the new trust and the pre-tax treatment of employee contributions to the trust. Employer contributions to the new trust were made in fiscal year 2011-2012.

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 trust fund. The System is administered by the Director of Retirement, an employee of the City, under the direction of the Federated City Employees' Retirement System Board of Administration (Board of Administration). The contribution and benefit provisions and all other requirements are established by City ordinance. The System is responsible for all direct administrative costs, which are funded by investment earnings, 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.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2011 and 2010, employee membership data related to the System was as follows:

Defined Benefit Pension Plan:	2011	2010
Retirees and beneficiaries currently receiving benefits *	3,430	3,101
Terminated vested members not yet receiving benefits	672	626
Active members	3,519	3,929
Total	**7,621**	**7,656**
Postemployment Healthcare Plan:	**2011**	**2010**
Retirees and beneficiaries currently receiving benefits	3,073	2,795
Terminated vested members not yet receiving benefits	86	89
Active members	3,519	3,929
Total	**6,678**	**6,813**

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

(b) Pension Benefits

An employee with five or more years of service who reaches the normal retirement age of 55, or an employee of any age with 30 years of service, is entitled to annual pension benefits equal to 2.5% of final average annual salary for each year of service up to a maximum benefit of 75% of final compensation. Final compensation is the average annual salary during the highest 12 months of consecutive service, not to exceed 108% of compensation paid to the member during the second highest consecutive 12 month period, excluding the months used to calculate the highest 12 months. Final average salary excludes overtime pay and expense allowances. In addition, retirement benefits are adjusted for an annual cost-of-living allowance (COLA). The current maximum increase in the COLA is 3% per year.

If employees terminate employment and elect to receive a return of contributions, the accumulated plan benefits

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

attributable to the City's contributions is forfeited; however, an employee's accumulated contribution plus earnings thereon is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the System. In the case of reciprocity, a member with less than five years of service may leave contributions in the system.

Effective December 9, 1994, the System entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal retirement benefits to members. In certain situations, this agreement results in improved retirement benefits for members who move from one eligible retirement system to another.

(c) Death Benefits

If an employee's death before retirement is service related, or is non-service related (employee has at least five years of service), a surviving spouse or domestic partner is paid an annual annuity benefit equal to 2.5% of final compensation multiplied by the number of years of service (minimum of 40% and maximum of 75% of final compensation) until he or she remarries or dies. Deferred vested members are not eligible for the 40% minimum. The allowance will continue even if the spouse or domestic partner remarries if the member was at least 55 years old and had at least 20 years of service. If there is no surviving spouse or domestic partner, unmarried children up to 18 years of age, or up to 22 years of age if a full-time student, are entitled to a benefit payment based on the spousal or domestic partner benefit such that no one child shall receive more than 25% of the spousal or domestic partner benefit and the sum for all eligible children shall not exceed 75% of the spousal or domestic partner benefit. If no family members are eligible, the employee's contributions plus one month's salary for each year of service up to a maximum of six years of service are returned to the employee's beneficiary or estate.

If an employee dies after retirement, $500 is paid to the employee's beneficiary or estate. In addition, the employee's surviving spouse or domestic partner continues to receive, for life, 50% of the employee's annual pension benefit as defined above. If there is no surviving spouse or domestic partner, 25% of the spouse or domestic partner's benefit payment is made to each eligible child as defined above, but the maximum benefit to children cannot exceed 75% of the benefit that would have been paid to a surviving spouse or domestic partner.

(d) Disability Benefits

If an employee suffers a service related disability before retirement, the annual disability benefit paid is 40% of the final average salary. For members with more than 16 years of service, the monthly retirement allowance is the final average salary multiplied by 40% plus the final average salary multiplied by 2.5% for each year over 16. The maximum benefit is 75% of the final average salary.

If an employee with at least five years of service suffers a non-service related disability, the annual disability benefit is equal to the greater of: (1) 2.5% of final compensation multiplied by the number of years of service, up to a maximum of 30 years; or (2) 40% of final compensation. The benefit is reduced by 0.5% of final compensation for each year an employee's age is under 55.

If an employee was hired on or after September 1, 1998, the benefit is calculated using the following formula: 20% of final compensation, plus 2% for each year of service in excess of six but less than 16, plus 2.5% for years of service in excess of 16.

(e) Postemployment Healthcare Benefits

The City of San José Municipal Code provides that retired employees with 15 or more years of service, their survivors, or those retired employees who are receiving at least 37.5% of final compensation are entitled to payment of 100% of the lowest priced medical insurance plan available to an active System City employee. Members and eligible survivors must pay for the difference between the amount of the premium for their selected plan and the portion paid by the System. However, the System pays the entire premium cost for dental insurance coverage if the member retires directly from City service.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The System is reported in a pension trust fund in the City of San José's basic financial statements. The financial statements of the System present only the financial activities of the System and are not intended to present the financial position and changes in financial position of the City of San José in conformity with accounting principles generally accepted in the United States of America (GAAP).

(b) Basis of Accounting

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

The preparation of the financial statements in conformity with 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 reinvest 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.

In fiscal year 2010, the Board approved a new asset allocation to target higher expected returns at similar risk levels by changing the asset allocation to a more diversified structure that includes commodities, absolute return, and opportunistic investments. The System's investment asset allocation is as follows:

Global Equity – Target of 49%, minimum 43% and maximum 55% of the fair value of the aggregate portfolio.

Fixed Income – Target of 20%, minimum 15% and maximum 25% of the fair value of the aggregate portfolio.

Alternatives – Target of 31%, minimum 26% and maximum 36% of the fair value of the aggregate portfolio.

- Real Estate – Target 5%
- Real Assets – Target 10%
- Hedge Funds – Target 5%
- Private Equity – Target 6%
- Opportunistic – Target 5%

The System's investment policy authorizes the System to invest in global equity; global fixed income; alternatives including real estate, real assets, hedge funds (absolute return), private equity, and opportunistic assets; short-term investments; and securities lending. 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 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. Derivative investments are reported at fair value. 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 as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period. The fair value of the separate real estate properties are based on annual independent appraisals. Per the System's Real Estate Investment Guidelines, mortgage loans at fair value on the separate real estate properties are not allowed to exceed 50% of the property's fair value. As of June 30, 2011 and 2010, the System held a warehouse located in Northern California with no outstanding mortgage loans.

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

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

The System is required by the City of San José Municipal Code to establish various reserves in the plan net assets. The Plan Net Assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cost-of-Living Fund) and the Postemployment Healthcare Plan, which is a 401(h) Account within the Retirement Fund. As of June 30, 2011 and 2010, the net assets, totaling $1,896,072,000 and $1,620,813,000, respectively, are allocated as follows (in thousands):

	Retirement Fund	Cost-of-Living Fund	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
June 30, 2011:					
Employee contributions	$ 192,822	$ 41,739	$ 234,561	$ 32,719	$ 267,280
Supplemental retiree benefit	30,677	-	30,677	-	30,677
General reserve	1,067,986	427,394	1,495,380	102,735	1,598,115
TOTAL	**$ 1,291,485**	**$ 469,133**	**$ 1,760,618**	**$ 135,454**	**$ 1,896,072**
June 30, 2010:					
Employee contributions	$ 201,166	$ 46,192	$ 247,358	$ 19,605	$ 266,963
Supplemental retiree benefit	21,381	-	21,381	-	21,381
General reserve	885,775	358,288	1,244,063	88,406	1,332,469
TOTAL	**$ 1,108,322**	**$ 404,480**	**$ 1,512,802**	**$ 108,011**	**$1,620,813**

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 their return to the member upon separation from City employment.

Supplemental Retiree Benefit Reserve (SRBR) is a reserve that represents funds required by statute to be set aside from the Retirement Fund's net investment earnings to provide supplemental benefits to eligible retirees and beneficiaries. The reserve represents the accumulation of 10% of total accumulated excess earnings of the Retirement Fund plus credited interest on the reserve balance at the lesser of the Plan's actual rate of return or the actuarial rate of return for the fiscal year, but never less than 0%, minus distributions to eligible retirees and beneficiaries from the reserve. Transfer amounts to the SRBR have been prepared by the System's actuary from the fiscal year ended June 30, 2009 onward. Interest on the SRBR balance is calculated and transferred at the end of the fiscal year. Excess earnings transfers are computed based on audited financial statements and if applicable the transfer is made effective on the first day of next fiscal year by Board Resolution.

In fiscal year 2011, the System's actuary, Cheiron, prepared the excess earnings and SRBR primary interest amounts based on the audited June 30, 2010 financial statements. Cherion prepared and the Board adopted and declared an excess earnings transfer amount of $6.95 million from the pension general reserve to the SRBR effective July 1, 2010. In addition, Cheiron computed an SRBR distribution in accordance with Board policy of approximately $1.60 million to eligible retirees and beneficiaries as per San José Municipal Code for fiscal year ended June 30, 2010, based on primary interest credits. However, due to San José City Council resolution number 75635, adopted on November 16, 2010, distribution of funds from the SRBR was suspended for fiscal year 2011.

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

(e) Reclassifications

Certain amounts in fiscal year 2010 have been reclassified to conform to the fiscal year 2011 presentation.

NOTE 3 – INVESTMENTS

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

Interest Rate Risk – The fair value of fixed income investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest-sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. As of June 30, 2011, $23,145,000 of bank loan securities were floating rate securities tied to the one and three month London Interbank Offered Rate (LIBOR). The System also had exposure to interest rate risk on its fully collateralized infrastructure swaps.

The System invested in infrastructure swaps with a notional amount of $37,408,000 in which it receives the total return S&P Global Infrastructure Index, net of the 3-month US London Interbank Offered Rate plus 55 basis points. As of June 30, 2010, the System invested in commodity swaps with a notional amount of $34,000,000 and receives total return Dow Jones UBS Commodity Index and pays the 3-month Treasury bill rate plus a pay spread of 12.75 bps. The System also invested in infrastructure swaps with a notional amount of $33,902,000 in which it receives the total return S&P Global Infrastructure Index, net of the 3-month US London Interbank Offered Rate plus 25 bps. The System does not have a policy regarding interest rate risk, however, the System does settle swap activity on a transaction plus one day basis (T+1), therefore limiting the System's exposure to counterparty risk.

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in years) as of June 30, 2011 and 2010, concerning the fair value of investments and interest rate risk:

Investments at Fair Value as of June 30, 2011

(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								
Domestic fixed income								
Asset backed securities	$ -	$ -	$ -	$ 960	$ -	$ 408	$ 1,368	$ 1,059
Bank loans	-	-	1,635	21,595	1,103	-	24,333	21,684
Corporate bonds	-	1,122	-	19,751	15,412	3,534	39,819	34,249
FHLMC	-	-	2,179	6,104	-	-	8,283	8,155
FNMA	-	-	-	7,290	-	-	7,290	7,125
Other U.S. Government agency	-	3,341	1,519	-	-	-	4,860	5,057
TIPS	-	-	-	83,297	85,061	28,656	197,014	179,921
U.S. Treasury	-	-	19,085	55,934	49,373	-	124,392	120,365
Total Domestic fixed income	**-**	**4,463**	**24,418**	**194,931**	**150,949**	**32,598**	**407,359**	**377,615**
International Fixed Income	**-**	**-**	**-**	**565**	**1,133**	**558**	**2,256**	**1,865**
Collective short-term investments	**35,738**	**-**	**-**	**-**	**-**	**-**	**35,738**	**35,774**
Corporate convertible bonds	**-**	**-**	**3,244**	**38,330**	**4,330**	**6,771**	**52,675**	**47,883**
Pooled fixed income	**-**	**-**	**-**	**-**	**-**	**21,430**	**21,430**	**19,500**
TOTAL FIXED INCOME	**$ 35,738**	**$ 4,463**	**$ 27,662**	**$ 233,826**	**$ 156,412**	**$ 61,357**	**$ 519,458**	**$ 482,637**

NOTE 3 – INVESTMENTS (Continued)

Investments at Fair Value as of June 30, 2010
(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								
Domestic fixed income								
Asset backed securities	$ -	$ -	$ -	$ 941	$ -	$ -	$ 941	$ 783
Bank loans	-	207	1,847	30,280	2,058	-	34,392	32,213
Corporate bonds	-	-	1,161	31,768	19,479	4,394	56,802	51,187
FHLMC	-	-	-	15,126	4,581	-	19,708	19,404
FNMA	-	-	-	6,797	4,287	-	11,084	10,838
Other U.S. Government agency	-	-	-	13,638	-	-	13,638	13,659
TIPS	-	-	-	94,203	98,065	65,255	257,523	249,660
U.S. Treasury	-	-	9,322	172,802	66,058	-	248,181	242,688
Total Domestic fixed income	**-**	**207**	**12,330**	**365,555**	**194,528**	**69,649**	**642,269**	**620,432**
International Fixed Income	**-**	**-**	**-**	**4,505**	**1,889**	**496**	**6,890**	**5,572**
Collective short-term investments	**63,202**	**-**	**-**	**-**	**-**	**-**	**63,202**	**63,223**
Corporate convertible bonds	**1,260**	**-**	**461**	**30,255**	**1,981**	**11,583**	**45,540**	**46,065**
Pooled fixed income	**-**	**-**	**-**	**-**	**20,190**	**-**	**20,190**	**19,500**
TOTAL FIXED INCOME	**$ 64,462**	**$ 207**	**$ 12,791**	**$ 400,315**	**$ 218,588**	**$ 81,728**	**$ 778,091**	**$ 754,792**

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, 2011 and 2010, all of the System's investments, excluding invested securities lending collateral, are held in the System's name, and/or not exposed to custodial credit risk. Securities lending collateral is invested in the lending agent's investment fund (see Note 4 – Securities Lending Program).

Credit Quality Risk – Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. The System's investment policy dictates that assets shall generally be invested in investment grade, marketable, fixed-income securities. Domestic fixed income investment grade shall be defined as being rated Baa/BBB or better by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P). "Yankee" bonds issued by foreign countries and denominated in U.S. dollars are allowed so long as they are rated Baa/BBB or better by Moody's or S&P. If a security is not rated by S&P or Moody's, the equivalent rating determined by the investment manager's research department will be used. Should a current holding fall below this standard, the manager shall notify the System of the downgrade and confer with the System staff as to whether the security will continue to be held or disposed. Up to 10% investment in BB or B securities will be permitted with written authorization of the Board. The investment managers employed to manage fixed-income securities will have discretion in the day-to-day management of the funds under their control.

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.

NOTE 3 – INVESTMENTS (Continued)

On August 5, 2011, S&P lowered its long-term credit rating on debt of the U.S. government from AAA to AA+. That action affected S&P's view of U.S. public finance debt instruments that are directly or indirectly backed by the U.S. As a result, on August 8, 2011, S&P lowered its long-term credit ratings of U.S. government-sponsored enterprises and public debt issues that have credit enhancement guarantees by those government-sponsored enterprises to AA+. These credit downgrades relate to the credit risk associated with the System's investments in U.S. Treasury securities, U.S. government agency securities, U.S. government bonds, and U.S. government mortgage-backed securities.

The following table provides information as of June 30, 2011 concerning credit risk. Investments issued or explicitly guaranteed by the U.S. government of $321,406,000 and $505,704,000 as of June 30, 2011 and 2010, respectively, are not considered to have credit risk and are excluded from the tables below.

RATINGS OF FIXED INCOME INVESTMENTS

June 30, 2011 (Dollars In Thousands)

S&P quality rating	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 5,927	3.0%
AA	874	0.4%
A	9,827	5.0%
BBB	21,190	10.7%
BB	32,876	16.6%
B	22,768	11.5%
CCC & Below	2,811	1.4%
Not Rated	101,779	51.4%
TOTAL	**$ 198,052**	**100.0%**

The following table provides information as of June 30, 2010 concerning credit risk:

RATINGS OF FIXED INCOME INVESTMENTS

June 30, 2010 (Dollars In Thousands)

S&P quality rating	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 48,920	18.0%
AA	1,004	0.1%
A	9,449	3.5%
BBB	15,744	5.8%
BB	47,007	17.3%
B	35,986	13.2%
CCC & Below	3,929	1.5%
Not Rated	110,348	40.6%
TOTAL	**$ 272,387**	**100.0%**

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

Notes to Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

The following tables provide information as of June 30, 2011 and 2010, concerning the fair value of investments and foreign currency risk:

FOREIGN CURRENCY RISK ANALYSIS
as of June 30, 2011 (Dollars In Thousands)

Currency Name	Cash	Private Equity	Equity	Fixed income	Pending Foreign Currency Exchanges	Total Exposure
Australian dollar	$ 25	$ -	$ 12,131	$ -	$ -	$ 12,156
British pound sterling	364	-	41,929	2,739	100	45,132
Canadian dollar	7	-	4,308	-	21	4,336
Danish krone	-	-	3,979	-	-	3,979
Euro	63	8,774	47,886	3,206	(5)	59,924
Hong Kong dollar	5	-	4,234	440	3	4,682
Indian rupee	-	-	-	-	(3)	(3)
Indonesian rupiah	-	-	-	107	-	107
Japanese yen	331	-	41,991	3,004	(40)	45,286
New Taiwan dollar	-	-	-	-	4	4
Norwegian krone	1	-	3,904	-	-	3,905
Singapore dollar	-	-	2,905	-	-	2,905
South Korean won	-	-	-	-	(3)	(3)
Swedish krona	21	-	5,746	-	13	5,780
Swiss franc	-	-	19,242	-	-	19,242
TOTAL	**$ 817**	**$ 8,774**	**$ 188,255**	**$ 9,496**	**$ 90**	**$ 207,432**

NOTE 3 – INVESTMENTS (Continued)

FOREIGN CURRENCY RISK ANALYSIS

as of June 30, 2010 (Dollars In Thousands)

Currency Name	Cash	Private Equity	Equity	Fixed income	Pending Foreign Currency Exchanges	Total Exposure
Australian dollar	$ 2	$ -	$ 12,512	$ -	$ -	$ 12,514
Brazilian real	-	-	1,599	-	-	1,599
British pound sterling	86	-	33,283	2,247	105	35,721
Canadian dollar	165	-	-	-	13	178
Danish krone	-	-	3,055	-	-	3,055
Euro	969	3,363	46,744	3,241	223	54,540
Hong Kong dollar	74	-	6,762	738	3	7,577
Indian rupee	-	-	-	-	18	18
Indonesian rupiah	-	-	749	-	-	749
Japanese yen	-	-	41,932	2,286	(108)	44,110
Malaysian ringgit	2	-	974	-	-	976
Mexican peso	-	-	412	-	-	412
Norwegian krone	26	-	3,070	-	144	3,240
Polish zloty	5	-	334	-	-	339
Singapore dollar	13	-	3,423	-	-	3,436
South African rand	2	-	1,154	-	-	1,156
South Korean won	7	-	2,015	-	-	2,022
Swedish krona	42	-	4,835	-	31	4,908
Swiss franc	24	-	11,675	1,260	56	13,015
Thai baht	15	-	541	-	-	556
Turkish lira	-	-	385	-	-	385
TOTAL	**$ 1,432**	**$ 3,363**	**$ 175,454**	**$ 9,772**	**$ 485**	**$ 190,506**

Concentration of Credit Risk – The System's investment policy limits investment managers to no more than 10% of the System's assets under their management to be invested in securities of any single issuer with exception of the U.S. Government and its agencies. As of June 30, 2011 and 2010 the System did not hold investments in any one issuer, excluding U.S. government and guaranteed investments that represented five percent or more of the total System net assets.

Derivatives – The System's investment policy allows for investments in derivative instruments that comply with the System's basic objective of achieving the highest return on investment funds, consistent with safety, and in accordance with accepted investment practices. Due to the level of volatility associated with certain derivative investments in general, the System specifically prohibits investment managers from using derivative or synthetic securities that expose the System to potentially high price volatility or are leveraged, or whose market-ability may become severely limited. Derivative investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value based on the

NOTE 3 – INVESTMENTS (Continued)

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. 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, 2011 or 2010. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

The fair values and notational amounts of derivative instruments outstanding as of June 30, 2011 and 2010, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2011 and 2010 financial statements are as follows (amounts in thousands):

	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2011		Fair Value at June 30, 2011		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
Commodity Swaps	Investment Income	$ 9,483	Real Assets	$ -	$ -
Infrastructure Swaps	Investment Income	3,298	Real Assets	1,269	37,408
Foreign Currency Forwards	Investment Income	(1,184)	Foreign Currency Contracts, net	90	-
Futures Options Bought/Written	Investment Income	697	Fixed Income - collective short-term investments	-	-
Rights	Investment Income	912	Global equity	2	279 Shares
Total Derivative Instruments		**$ 13,206**		**$ 1,361**	

	Net Appreciation in Fair Value of Investments through June 30, 2010		Fair Value at June 30, 2010		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
Commodity Swaps	Investment Income	$ 1,606	Real Assets	$ -	$ 34,000
Infrastructure Swaps	Investment Income	-	Real Assets	-	33,902
Foreign Currency Forwards	Investment Income	1,301	Foreign Currency Contracts, net	485	-
Futures Options Bought/Written	Investment Income	222	Fixed Income - collective short-term investments	-	-
Rights	Investment Income	184	Global equity	67	936 Shares
Total Derivative Instruments		**$ 3,313**		**$ 552**	

Notes to Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

Derivative investments are subject to certain types of risks, including counterparty credit risk (non-exchange traded), interest rate risk, and foreign currency risk. The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2011 and 2010:

Counterparty Credit Risk – The System is exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. As of June 30, 2011, the System entered into an infrastructure swap with a notional value of $37,408,000 held by a counterparty with an A+ rating. The System's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2011, total commitments in forward currency contracts to purchase and sell international currencies were $26,265,000 and $26,265,000 respectively, with fair values of $26,244,000 and $26,154,000, respectively, held by counterparties with S&P rating of at least AA-. As of June 30, 2010, the System entered into commodity and infrastructure swaps with individual notional values of $34,000,000 and $33,902,000, respectively, held by counterparties with A+ ratings. As of June 30, 2010, total commitments in forward currency contracts to purchase and sell international currencies were $17,724,000 and $17,724,000 respectively, with fair values of $17,748,000 and $17,263,000, respectively, held by counterparties with S&P rating of at least AA-.

Interest Rate Risk – The System had exposure to interest rate risk on its fully collateralized commodity and infrastructure swaps. The fair values of the commodity swaps were marked-to-market daily based on their applicable indices, net values with unrealized gains and losses collateralized to minimize counterparty risk. As of June 30, 2011, the System invested in an infrastructure swap with a notional amount of approximately $37,408,000 in which it receives the total return S&P Global Infrastructure Index, net of the 3-month US London Interbank Offered Rate plus 55 basis point. The System executed the infrastructure swap in April 2011, which matures in April 2012 with a quarterly rate reset frequency. The System does not have a policy regarding interest rate risk, however, the System does settle on a transaction plus one day basis (T+1), therefore limiting the System's exposure to counterparty risk. As of June 30, 2010, the System invested in commodity swaps with a notional amount of $34,000,000 and received total return Dow Jones UBS Commodity Index and pays the 3-month Treasury bill rate plus a pay spread of 12.75 bps. This commodity swap was executed in April 2010 and matured in May 2011 with a monthly reset frequency. The System also invested in infrastructure swaps with a notional amount of approximately $33,902,000 in which it received the total return S&P Global Infrastructure Index, net of the 3-month US London Interbank Offered Rate plus 25 bps. The System executed the infrastructure swap in April 2010 and it matured in May 2011 with a quarterly reset frequency. As of June 30, 2011 and 2010, the System's derivative investments had maturity dates of less than one year.

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the 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, 2011 and 2010, 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 forward currency contracts are settled on a net basis.

The following tables provide information as of June 30, 2011 and 2010, concerning the fair value of forward currency contracts and foreign currency risk:

Fair value of forward currency contracts and foreign currency risk as of June 30, 2011 (amounts in thousands):

2011

Currency Name	Pending Foreign Currency Exchanges	Rights
Australian dollar	$ -	$ 2
British pound sterling	100	-
Canadian dollar	21	-
Euro	(5)	-
Hong Kong dollar	3	-
Indian rupee	(3)	-
Japanese yen	(40)	-
New Taiwan dollar	4	-
South Korean won	(3)	-
Swedish krona	13	-
TOTAL	**$ 90**	**$ 2**

Notes to Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

Fair value of forward currency contracts and foreign currency risk as of June 30, 2010 (amounts in thousands):

2010

Currency Name	Pending Foreign Currency Exchanges	Rights
British pound sterling	$ 105	$ -
Canadian dollar	13	-
Euro	223	61
Hong Kong dollar	3	-
Indian rupee	18	-
Japanese yen	(108)	-
Norwegian krone	144	6
Swedish krona	31	-
Swiss franc	56	-
TOTAL	**$ 485**	**$ 67**

NOTE 4 – SECURITIES LENDING PROGRAM

The San José municipal code and the investment policy adopted by the Board permit the use of a securities lending program with its principal custodian bank. The System does not have a threshold for securities lending activity. The investment policy requires that loan maturities cannot exceed one year, and no more than 15% of the portfolio can be lent longer than six months. The System has a custodial agreement with the Northern Trust Company, which authorizes the Northern Trust Company to lend securities in the System's investment portfolio under such terms and conditions as the Northern Trust Company deems advisable and to permit the lent securities to be transferred into the name of the borrowers. The System receives a fee from the borrower for the use of the lent securities. As of June 30, 2011, and 2010, the System had no exposure to borrower credit risk related to the securities lending transactions as the Northern Trust Company is responsible for replacement of the lent securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, the Northern Trust Company is required to credit the System's account with the market value of such unreturned loaned securities if the lent securities are not returned by the borrower. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the System or borrowers.

Securities lending collateral represents investments purchased with cash collateral, as well as securities collateral that may not be pledged or sold without a default by the borrower. Securities lending collateralized with securities that cannot be pledged or sold without borrower default are not reported as assets and liabilities in the statement of net assets. The System does not match the maturities of investments made with cash collateral with the securities on loan.

The System authorized The Northern Trust Company to invest and reinvest cash collateral in Northern Trust's pooled investment vehicle, which must have weighted average life of 60 days or less. Securities with maturities of 13 months or more must have a rating of A or better. Securities with maturities of less than 13 months are rated at least P-3. As of June 30, 2011, the size of the cash collateral pooled vehicle was $27.8 billion and the weighted average life was 21 days. The cash collateral investments included time deposits (12% of the pool), repurchase agreements (22%), asset backed securities (4%), certificates of deposit (20%), variable rate securities (9%), and commercial paper and other bank notes (33%). As of June 30, 2010, the size of the cash collateral pooled vehicle was $34.5 billion and the weighted average life was 24 days. The cash collateral investments included time deposits (13% of the pool), repurchase agreements (22%), asset backed securities (12%), certificates of deposit (23%), variable rate securities (4%), and commercial paper and other bank notes (26%).

The loaned securities as of June 30, 2011 and 2010 consisted of U.S. Treasury securities, U.S. government agency securities, domestic corporate bonds, domestic equity securities, and international equity securities. In return, the System receives collateral in the form of cash or securities equal to 102% for U.S. securities and 105% for non-U.S. securities of the market value of transferred securities plus accrued interest for reinvestment.

As of June 30, 2011, the underlying securities loaned by the System as a whole amounted to approximately $162,705,000. The cash collateral and the non-cash collateral totaled $161,942,000 and $4,345,000, respectively. As of June 30, 2010, the underlying securities loaned by the System as a whole amounted to approximately $168,822,000. The total cash collateral and the non-cash collateral totaled $173,232,000 and $96,000, respectively. The System is exposed to investment risk including the possible loss of principal value in the cash collateral pool due to the fluctuation in the market value of the assets held by the cash collateral pool. As of June 30, 2011 and 2010, the net asset values (NAV) of the cash collateral pool were 100% and 99.95%, respectively based on a combination of mark-to-model and mark-to-market basis. In 2010, the System settled and remitted realized losses of $278,000 to the Northern Trust Core USA Fund for realized losses in the cash collateral pool from 2009 and 2010.

NOTE 4 – SECURITIES LENDING PROGRAM (Continued)

SECURITIES LENDING – INVESTMENT AND COLLATERAL RECEIVED

(at Fair Value in thousands)

	2011	2010
Type of Investment Lent		
For Cash Collateral		
U.S. government and agencies	$ 4,097	$ 9,862
Domestic corporate bonds	24,297	19,945
Domestic equity securities	66,279	33,759
U.S. treasury notes and bonds	53,217	98,047
International equity securities	10,570	7,113
Total Lent for Cash Collateral	158,460	168,726
For Non-Cash Collateral		
Domestic corporate bonds	146	-
Domestic equity securities	90	-
U.S. treasury notes and bonds	3,321	-
International equity securities	688	96
Total Lent for Non-Cash Collateral	4,245	96
Total Securities Lent	**$ 162,705**	**$ 168,822**
Type of Collateral Received		
Cash Collateral	$ 161,942	$ 173,232
Non-cash Collateral		
For lent domestic corporate bonds	149	-
For lent domestic equity securities	92	-
For lent U.S. treasury notes and bonds	3,391	-
For lent international equity securities	713	96
Total Non-Cash Collateral	4,345	96
Total Collateral Received	**$ 166,287**	**$ 173,328**

Notes to Financial Statements *(Continued)*

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

Contributions to the Defined Benefit Pension Plan by both the City and the participating employees are based upon an actuarially determined percentage of each employee's base salary sufficient to provide adequate assets to pay benefits when due. 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.

On July 1, 2010, the City paid the actuarially determined prepayment amount of $66,986,000 for biweekly pension and postemployment health contributions to be made for the 26 pay dates from July 2, 2010 through June 17, 2011. The City also paid $503,000 for the reconciliation of fiscal year 2010-2011 pension and postemployment health contributions per San José Municipal Code 3.28.940(F), which requires the Board to determine whether the lump sum advance payment(s) and the payments that otherwise would have been required in the absence of the lump sum advance payment are actuarially equivalent. At year end the accrued contributions receivable includes the City funding the Defined Benefit Pension Plan ARC for fiscal year 2011 based on the June 30, 2009 valuation. The City elected not to phase-in the impact of the June 30, 2009 assumption changes on the contribution rates over a five-year period as originally adopted by the Board.

In addition, effective June 27, 2010 through June 25, 2011, the bargaining units representing Association of Maintenance Supervisory Personnel (AMSP), Association of Engineers and Architects (AEA), Operating Engineers Local No. 3 (OE#3), City Association of Management Professionals (CAMP), and the International Brotherhood of Electrical Workers (IBEW) entered into a Memorandum of Agreement (MOA) with the City to make one-time additional retirement contributions that would be applied to reduce the contributions that the City would otherwise be required to make during that time period for the pension unfunded liability. The one-time contribution amounts varied by bargaining unit, but all summed to 10.83% of payroll for the fiscal year. The MOA's also included language recognizing that the additional contributions could not be implemented by June 27, 2010, and allowed for the Finance Department of the City to compute a rate that would generate the total amount of additional retirement contributions over the remaining pay periods in the fiscal year as if the contribution rate had been implemented on June 27, 2010. The City's Finance Department calculated and implemented an additional 13.05% of contributions effective on August 22, 2010. The contribution rates provided below do not reflect the additional retirement contributions made by employees.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funded Status for the Defined Benefit Pension Plan. The System transitioned to annual valuations beginning June 30, 2010, from biennial actuarial valuations. The contribution rates for the majority of fiscal year ended June 30, 2011 (through period ended June 25, 2011) were based on the actuarial valuation performed on June 30, 2009. The System's most recent valuation as of June 30, 2010, was used to determine the contribution rates effective June 26, 2011. The actuarial valuation assumptions are presented below for the Defined Benefit Pension Plan.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2011 and 2010 were as follows:

Period	City*	Employee
06/26/11- 06/30/11	28.34%	4.68%
07/01/10- 06/25/11	25.75%	4.54%

** The actual contribution rates paid by the City for fiscal years ended June 30, 2011 and 2010, differed as a result of the City exercising their option to make annual lump sum payments. In fiscal year 2011 the actual contributions rates paid by the City also differed due to the additional contributions paid by the employees. In addition, in fiscal year 2011 the City elected to fund the actuarial required contribution amount and not the phase-in contribution amounts.*

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

The funded status of the Defined Benefit Pension Plan as of June 30, 2010, the most recent actuarial valuation date, is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a) / (b)	(c)	((b-a)/c)
06/30/2010	$ 1,729,414	$ 2,510,358	$ 780,944	69%	$ 275,869	283%

The UAAL of $781 million does not include the impact of approximately $245 million of deferred investment losses resulting primarily from unfavorable investment returns in fiscal years 2008 and 2009. The System's actuarial valuation uses a five-year smoothing method for investment returns. This means that the current year's gains or losses, as calculated at year-end, are smoothed with the results from the prior four years. The deferred investment loss also includes 80% or approximately $73 million in investment gains for fiscal year 2010. It is anticipated that future actuarial valuations will recognize the remaining deferred investment losses of approximately $245 million as described above. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

The June 30, 2010, valuation included assumption changes for the assumed rate of return from 7.75% to 7.95% and a change in the payroll wage inflation assumption from 3.83% to 3.90%. The increase in the discount rate and payroll wage inflation rate assumptions are due to the Board's transition to phasing in the discount and wage inflation rate over two-years ending June 30, 2011 instead of phasing in the impact of the assumption changes on the contribution rates over a five-year period as originally adopted by the Board.

The June 30, 2010, valuation also included the impact of a 30/20 layered amortization methodology recommended by the actuary and adopted by the Board in the June 30, 2009 valuation. The new unfunded actuarial accrued liability resulting from the June 30, 2010 valuation was amortized over a closed 20-year period while the unfunded accrued liability from the June 30, 2009 valuation was amortized over 29 years. All subsequent valuation gains or losses will be amortized over a closed 20-year period from the date first recognized.

Notes to Financial Statements *(Continued)*

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

The System transitioned from biennial to annual valuations beginning with the fiscal year ended June 30, 2010. The contribution rates for fiscal year ended June 30, 2011 and 2010, were based on the actuarial valuation performed on June 30, 2009, except for the period June 26 through June 30, 2011, which were based on the June 30, 2010 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Description	**Method/Assumption**	
Valuation date	June 30, 2010	June 30, 2009
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period.	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period.
Actuarial asset valuation method	5 year smoothed market	5 year smoothed market
Actuarial assumptions:		
Assumed rate of return on investments (net)	7.95% per annum	7.75% per annum
Postretirement mortality	The 1994 Group Annuity Mortality Table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table.	The 1994 Group Annuity Mortality Table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table.
Active service, withdrawal, death, disability service retirement	Tables based on current Experience	Tables based on current Experience
Salary increases	The base annual rate of salary increase is 3.90% inflation rate plus a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service.	The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service.
Projected total payroll increases	3.90%	3.83%

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

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

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

Contributions to the Postemployment Healthcare Plan are made by both the City and the participating employees. Contribution rates for fiscal years ended June 30, 2011 and 2010 were based on the actuarial valuation performed as of June 30, 2009, except for the period June 26 through June 30, 2011, which were based on the June 30, 2010 valuation. Prior to July 1, 2009, required annual contributions for the Postemployment Healthcare Plan were based on the cost for funding, as a level-percentage of payroll, based upon a 15-year projection of premiums (Policy method). The contributions were not sufficient to meet the requirements of an annual required contribution under GASB Statement No. 43. After June 30, 2009, the required contribution rates

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

represent the cost to a phase in to the full annual required contribution under GASB Statement No. 43 over a five year period. Effective June 28, 2009, the bargaining units representing the Federated members of the System entered into a Memorandum of Agreement (MOA) with the City to increase contribution rates for retiree health and dental benefits in order to phase-in full funding of the GASB Statement No. 43 annual required contributions over the next five years; fiscal year ended June 30, 2011 was the second year of the phase-in. The MOA also provides that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions. Notwithstanding these limitations on incremental increases, the MOA further provide that by the end of the five-year phase-in the City and the employees shall be contributing the full ARC in the ratio currently provided in the relevant sections of the San José Municipal Code.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2011 and 2010 for the Postemployment Healthcare Plan were as follows:

Period	City*	Employee
06/26/11 – 06/30/11	7.16%	6.52%
06/27/10 – 06/25/11	6.41%	5.76%
07/01/09 – 06/26/10	5.70%	5.07%

** The actual contribution rates paid by the City for fiscal years ended June 30, 2011 and 2010, differed as a result of the City exercising its option to make annual lump sum payments.*

The funded status of the Postemployment Healthcare Plan as of June 30, 2010, the most recent actuarial valuation date, is as follows (Dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a) / (b)	(c)	((b-a)/c)
06/30/2010	$ 108,011	$ 926,371	$ 818,360	12%	$ 275,869	297%

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

As of June 30, 2010, the System's most recent valuation, the System's AAL increased by approximately $130 million due to the passage of time and changes in actuarial assumptions as recommend by the Board's actuary for the June 30, 2010 valuation. The System's UAAL increased from $710.9 million as of June 30, 2009 to $818.4 million as of June 30, 2010. Changes to the UAAL were primarily the result of changes in the actuarial assumptions including the expected rate of return on plan investments, payroll growth assumption, and healthcare trend assumption changes to reflect current experience and the actuary's expectations for the future. The System's OPEB discount rate is based on a blended rate that ranges between the risk free rate (4.5%) and System's full funding rate (7.95%) resulting in a blended discount rate of 6.71%.

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

The System's most recent valuation as of June 30, 2010 includes actuarial assumption changes recommended by the actuary and approved by the Board including increases in the following: the assumed full funding rate of return from 7.75% to 7.95%, payroll wage inflation assumption from 3.83% to 3.90%, and lengthening the select period for healthcare trends from 9 years to 15 years. The increase in the discount rate and payroll wage inflation rate assumptions are due to the transition to phasing in the discount and wage inflation rate over two-years instead of phasing in the impact of the assumption changes on the contribution rates over a five-year period as originally adopted by the Board. The lengthening of the select period for the healthcare trend assumption was recommended by the Board's actuary due to the System's current retiree experience and the actuary's expectations for the future.

The June 30, 2010, valuation also included the impact of a 30/20 layered amortization methodology recommend by the actuary and adopted by the Board in the June 30, 2009 valuation. The new unfunded actuarial accrued liability from the June 30, 2010 valuation was amortized over a closed 20-year period while the unfunded accrued liability from the June 30, 2009 valuation was amortized over a closed 29 years. All subsequent valuation gains or losses will be amortized over a closed 20-year period.

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

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

The System transitioned from biennial to annual valuations beginning June 30, 2010. The contribution rates for fiscal years ended June 30, 2011 and 2010, were based on the actuarial valuation performed on June 30, 2009, except for the period June 26 through June 30, 2011, which were based on the June 30, 2010 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Description	**Method/Assumption**	
Valuation date	June 30, 2010	June 30, 2009
Actuarial cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period.	20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period.
Actuarial asset valuation method	Market value	Market value
Actuarial assumptions:		
Discount rate (net)	6.71% †	6.70% †
Inflation rate	3.90%	3.67%
Salary increases	The base annual rate of salary increase is 3.90% inflation rate plus a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service.	The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service.
Projected total payroll increases	3.90%	3.83%
Health care cost trend rate:		
Medical	The valuation assumes that future medical inflation will be at a rate of 9.50% to 4.5% per annum graded down over a 15 year period for medical-pre age 65 and 7.0% to 4.5%per annum graded down over a 15 year period for medical-post age 65.	The valuation assumes that future medical inflation will be at a rate of 10% per annum graded down each year in 0.50% increments to an ultimate rate of 4.5% for medical-pre age 65 and 7.5% per annum graded down each year in 0.25% increments to an ultimate rate of 4.5% for medical-post age 65.
Dental	Dental inflation is assumed to be 5% graded down to 4% over a four year period.	Dental inflation is assumed to be 5% graded down to 4% over a four year period.

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

Notes to Financial Statements *(Continued)*

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

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

NOTE 7 – CONTINGENCIES

Commitments – As of June 30, 2011, the System had unfunded commitments to contribute capital for private equity, direct lending and real estate fund investments in the amount of $163,943,000.

Health Plan – On June 24, 2011, a new Internal Revenue Code Section 115 trust was established by the San José City Council (Ordinance number 28914) to provide an alternative to the existing 401(h) account within the pension fund for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. A request for private letter ruling was filed with the Internal Revenue Service on October 17, 2011, on the tax qualified status of the new trust and the pre-tax treatment of employee contributions to the trust. Employer contributions to the new trust were made in fiscal year 2011-2012.

Required Supplementary Information (Unaudited)

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

(Dollars In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)	Unfunded AAL	Funded Ratio	Annual Covered Payroll (b)	Unfunded AAL as a % of Annual Covered Payroll
June 30, 2005	$ 1,384,454	$ 1,711,370	$ 326,916	81%	$ 286,446	114%
June 30, 2007	1,622,851	1,960,943	338,092	83%	291,405	116%
June 30, 2009	1,756,588	2,486,155	729,567	71%	308,697	236%
June 30, 2010	1,729,414	2,510,358	780,944	69%	275,869	283%

Actuarial valuations have been performed biennially through June 30, 2007. Effective June 30, 2009, the System transitioned to annual actuarial valuations.

(a) Reported at "smoothed market" value determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a five-year period.

(b) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for the June 30, 2007 and prior valuations. The amount presented for the June 30, 2009 and 2010 valuations represents actual annual covered payroll.

As of June 30, 2010, the System's most recent valuation, the System's funded ratio declined from 71% to 69%, the AAL increased by $24 million, and the UAAL increased by $51.4 million primarily due to recognition of deferred investment losses in accordance with the System's actuarial valuation method. The June 30, 2010, valuation also included assumption changes for the expected rate of return from 7.75% to 7.95% and a change in the payroll wage inflation assumption from 3.83% to 3.90%. The increase in the discount rate and payroll wage inflation rate assumptions are due to the transition to phasing in the discount and wage inflation rate over two-years ending June 30, 2011 instead of phasing in the impact of the assumption changes on the contribution rates over a five-year period, which was originally adopted by the Federated Board for fiscal year 2010-2011 contributions. However, the City elected to fund the annual required contribution amount for fiscal year 2010-2011 and not fund the phase-in impact of the assumption change.

The June 30, 2010, valuation also included the impact of a 30/20 layered amortization methodology adopted by the Board in the June 30, 2009 valuation. In the 2009 valuation the unfunded accrued liability was amortized over a 30 year closed period. In the 2010 valuation the remaining 2009 unfunded accrued liability was amortized over 29 years while the new unfunded actuarial accrued liability for the June 30, 2010 was amortized over a closed 20-year period. All subsequent valuation gains or losses will be amortized over a closed 20 year period.

In the System's June 30, 2009 valuation, the AAL increased by $525 million due to demographic experience losses and changes in actuarial assumptions as recommended by the Board actuary in the June 30, 2009 experience study. The June 30, 2009 valuation included actuarial assumption changes approved by the Board including phasing in the impact of changes in economic assumptions on contribution rates of the following over a five-year period: a reduction in the investment return assumption from 8.25%, net of expenses, to 7.75%, net of expenses; a reduction in the underlying inflation assumption from 4.0% to 3.67%; a reduction in the payroll growth assumption from 4.00% to 3.83%; and a reduction in the ultimate salary increase assumption from 4.25% to 4.08%. The impact of the economic assumption changes increased the AAL by approximately $142,000,000 and the total contribution requirement by 3.64% prior to the impact of the 5-year phase in changes. Changes in pre-mortality and post-mortality demographic assumptions increased the AAL by $87,000,000 and the total contribution requirement by 1.58%.

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

For the six fiscal years ended June 30, 2011
(Dollars In Thousands)

Fiscal year ended June 30,	Annual required employer Contributions*	Percentage Contributed
2006	$ 41,267	100%
2007	51,004	100%
2008	54,958	100%
2009	57,020	100%
2010	54,566	100%
2011	59,180	100%

** The annual required employer contributions (ARC) provided above are based on the Board adopted ARC rates adjusted for the timing of actual contributions. In addition, in fiscal year ended June 30, 2011, the ARC has been reduced to reflect the additional employee contributions pursuant to MOAs with certain bargaining units.*

As of June 30, 2010, the System's most recent valuation, the System's UAAL increased from $710.9 million as of June 30, 2009 to $818.4 million as of June 30, 2010. Changes to the UAAL were primarily the result of interest on the UAAL and changes in the actuarial assumptions including increases in the following: increases in claims costs, the extension of the select period for healthcare trends from 9 years to 15 years, and the increase in the payroll wage inflation assumption from 3.83% to 3.90%.

Since contributions to the System's OPEB Plan are not equal to the ARC, the System's OPEB discount rate is based on a blended rate between the expected return on City assets (4.5%) and the expected return on plan assets (7.95%) resulting in a blended discount rate of 6.71% in the June 30, 2010 valuation.

The lengthening of the healthcare trend assumption select period was recommended by the Board's actuary due to the System's current retiree experience and the actuary's expectation for the future.

The June 30, 2010, valuation also included the impact of the Board's adoption of a 30/20 layered amortization methodology adopted by the Board in the June 30, 2009 valuation. In the 2010 valuation the remaining 2009 unfunded accrued liability was amortized over 29 years while the new unfunded actuarial accrued liability for the June 30, 2010 was amortized over a closed 20-year period. All subsequent valuation gains or losses will be amortized over a closed 20 year period from the date first recognized.

SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

(Dollars In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a) / (b)	(c)	((b-a)/c)
06/30/2006	$ 81,288	$ 702,939	$ 621,651	12%	$ 275,559	226%
06/30/2007	96,601	616,749	520,148	16%	271,833	191%
06/30/2009	85,564	796,448	710,884	11%	308,697	230%
06/30/2010	108,011	926,371	818,360	12%	275,869	297%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

(Dollars In Thousands)

Fiscal year ended	Annual Required Contributions*	Actual Contributions	Percentage Contributed
06/30/2007	$ 38,526	$ 10,728	28%
06/30/2008	38,526	11,560	30%
06/30/2009	33,381	16,368	49%
06/30/2010	38,599	17,027	44%
06/30/2011	48,529	17,146	35%

** The annual required employer contributions (ARC) provided above are based on the Board adopted ARC rates adjusted for the timing of actual contributions. Annual required employer contribution also includes the actuarially determined implicit subsidy amounts of $1,551 thousands for 2007 and 2008; $1,648 thousands for 2009; $3,987 thousands for 2010; and $3,925 thousands for 2011.*

In the System's June 30, 2009 valuation, the UAAL increased from $520.1 million as of June 30, 2007 to $710.9 million as of June 30, 2009. Changes to the UAAL were primarily the result of unfavorable investment returns during the last two years and changes in the actuarial assumptions including healthcare trend assumption changes, changes in economic assumptions and demographic changes in pre-mortality and post-mortality demographic assumptions.

The June 30, 2009 valuation included actuarial assumption changes approved by the Board including phasing in the impact of changes in economic assumptions on contribution rates of the following over a five-year period: a reduction in the investment return assumption from 8.25%, net of expenses, to 7.75%, net of expenses; a reduction in the underlying inflation assumption from 4.0% to 3.67%; a reduction in the payroll growth assumption from 4.00% to 3.83%; and a reduction in the ultimate salary increase assumption from 4.25% to 4.08%. The June 30, 2009 valuation also included the transition from a 30 year closed amortization period to a 30/20 layered amortizations methodology. There was no impact of this change on the June 30, 2009 valuation as the amortization for the first year of a 30 year closed amortization period is the same as a 30 year open period.

Other Supplemental Information (Unaudited)

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

(In Thousands)

The Defined Benefit Pension Plan's funded status prepared by the System's actuary is based on the actuarial value of assets. The actuarial value of assets differs from the market value of the System's assets in that the actuarial value of assets includes five year smoothing of investment returns. As a result of recent investment losses the actuarial value of assets exceeded the market value of assets by 14% as of June 30, 2010. The divergence between the actuarial value of assets and the market value of assets has caused a variance of 10% between the funded ratios calculated under the two bases. As of June 30, 2010, the System's most recent valuation the funded ratio of the Defined Benefit Pension Plan was 69% compared to a funded ratio of 59% on a market value of assets basis. A schedule of funding progress for the Defined Benefit Pension Plan on a market value of asset basis is as follows (dollars in thousands):

Plan Year Ending	Market Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
6/30/2003	$ 1,134,733	$ 1,311,691	$ 176,958	87%	$ 292,961	60%
6/30/2005	1,418,004	1,711,370	293,366	83%	286,446	102%
6/30/2007	1,747,807	1,960,943	213,136	89%	291,405	73%
6/30/2009	1,336,852	2,486,155	1,149,303	54%	308,697	372%
6/30/2010	1,491,421	2,510,358	1,018,937	59%	275,869	369%

a) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for the June 30, 2007 and prior valuations. The amount presented for the plan year ending after the June 30, 2009 valuation represents actual annual covered payroll.

The Postemployment Healthcare Plan actuarial value of assets is currently based on the market value of assets.

Other Supplemental Information (Unaudited) *(Continued)*

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS

June 30, 2011 *(In Thousands)*

	Retirement Fund	Cost-of-Living	Total
Assets			
Receivables:			
Employee contributions	$ 1,008	$ 157	$ 1,165
Employer contributions	8,763	2,968	11,731
Brokers and others	1,660	546	2,206
Accrued investment income	2,697	915	3,612
Total receivables	**14,128**	**4,586**	**18,714**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	277,315	101,182	378,497
International fixed income	1,536	560	2,096
Collective short-term investments	24,329	8,877	33,206
Corporate convertible bonds	35,859	13,084	48,943
Pooled fixed income	14,589	5,323	19,912
Global equity	325,743	118,851	444,594
Pooled global equity	338,034	123,336	461,370
Private equity	63,068	23,011	86,079
Forward international currency contracts	62	22	84
Opportunistic investments	22,319	8,143	30,462
Real assets	113,657	41,469	155,126
Real estate	62,772	21,369	84,141
Securities lending collateral investment pool	112,196	38,069	150,265
Total investments	**1,391,479**	**503,296**	**1,894,775**
TOTAL ASSETS	**1,405,607**	**507,882**	**1,913,489**
Liabilities			
Payable to brokers	973	331	1,304
Securities lending collateral due to borrowers	112,196	38,069	150,265
Other liabilities	953	349	1,302
TOTAL LIABILITIES	**114,122**	**38,749**	**152,871**
Net Assets Held In Trust For:			
Pension benefits	1,291,485	469,133	1,760,618
TOTAL NET ASSETS	**$ 1,291,485**	**$ 469,133**	**$ 1,760,618**

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS

For the Fiscal Year Ended June 30, 2011

(Dollars In Thousands)

	Retirement Fund	Cost-of-Living	Total
Additions			
Contributions			
Employee	$ 21,513	$ 3,089	$ 24,602
Employer	42,180	17,000	59,180
Total contributions	**63,693**	**20,089**	**83,782**
Investment income:			
Net appreciation in fair value of investments	189,619	63,229	252,848
Interest income	19,557	6,600	26,157
Dividend income	6,200	2,093	8,293
Net rental income	2,104	711	2,815
Less investment expense	(2,529)	(858)	(3,387)
Net investment income before securities lending income	**214,951**	**71,775**	**286,726**
Securities lending income:			
Earnings	389	131	520
Rebates	63	21	84
Fees	(113)	(38)	(151)
Net securities lending income	**339**	**114**	**453**
Net investment income	**215,290**	**71,889**	**287,179**
TOTAL ADDITIONS	**278,983**	**91,978**	**370,961**
Deductions			
Retirement benefits	87,154	23,261	110,415
Death benefits	4,801	3,082	7,883
Refund of contributions	1,734	246	1,980
Administrative expenses and other	2,131	736	2,867
TOTAL DEDUCTIONS	**95,820**	**27,325**	**123,145**
NET INCREASE	**183,163**	**64,653**	**247,816**
Net Assets Held In Trust For Pension Benefits			
BEGINNING OF YEAR	**1,108,322**	**404,480**	**1,512,802**
END OF YEAR	**$ 1,291,485**	**$ 469,133**	**$ 1,760,618**

Other Supplemental Information (Unaudited) *(Continued)*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2011 and 2010

	2011			2010
	Original Budget	Actual	Variance Positive (Negative)	Actual
Personal services	$ 2,251,812	$ 1,995,925	$ 255,887	$ 1,808,911
Non-personal/equipment	696,938	611,197	85,741	571,308
Professional services	518,987	475,678	43,309	441,320
TOTAL ADMINISTRATIVE EXPENSES & OTHER	**$ 3,467,737**	**$ 3,082,800**	**$ 384,937**	**$ 2,821,539**

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Investment Managers' fees		
Global Equity:	$ 1,676,343	$ 2,569,604
Private equity*		450,248
Total equity	**1,676,343**	**3,019,852**
Fixed income:		
Global fixed income	605,635	1,348,724
Total fixed income	**605,635**	**1,348,724**
Real estate	519,641	561,178
Opportunistic	437,071	-
TOTAL INVESTMENT MANAGERS' FEES	**3,238,690**	**4,929,754**
Other Investment Fees		
Investment consultant	310,000	375,231
Proxy voting	13,496	14,496
Real estate legal fees	7,776	22,335
Real estate appraisals	4,600	4,750
Investment legal fees	68,773	25,362
Total other investment service fees	**404,645**	**442,174**
TOTAL INVESTMENT EXPENSES	**$ 3,643,335**	**$ 5,371,928**

** In fiscal year 2011 private equity income was reported net of fees*

Other Supplemental Information (Unaudited) *(Continued)*

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2011 and 2010

Firm	Nature of Service	2011	2010
Cheiron Inc	Actuarial Consultant	$ 140,550	$ -
Financial Knowledge/Peter Sepsis	Educational Services	22,529	43,795
Gabriel, Roeder, Smith & Company	Actuarial Consultant	24,749	193,658
Ice Miller	Legal Tax Counsel	70,929	3,690
Legal - City Attorney's Office	Legal Counsel	49,820	54,771
Levi, Ray, & Shoup	Web Development and maintenance	11,711	11,265
Levi, Ray, & Shoup	Programing changes and business continuance service	8,979	18,172
Macias Gini & O'Connell LLP	External Auditors	67,445	40,734
Medical Director/Other Medical	Medical Consultant	42,245	37,851
Pension Benefit Information	Reports on Deceased Benefit Recipients	1,722	2,051
Robert Half Mangement Resources	Temporary Staff	6,090	5,535
Saltzman & Johnson	Legal Counsel	28,910	24,018
Wilfred Jarvis Institute	Organizational Consultant	-	5,781
TOTAL		**$ 475,678**	**$ 441,320**

Investment Section

City of San José
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2011

M E K E T A I N V E S T M E N T G R O U P

BOSTON MIAMI SAN DIEGO

August 31, 2011

Mr. Russell Crosby
Director of Retirement Services
San Jose Federated City Employees' Retirement System
1737 North First Street, Suite 580
San Jose, CA 95112-4505

Dear Mr. Crosby:

Fiscal year 2011 began with the global economy showing signs of stabilization. In August 2010, in an effort to provide continued support to the economic recovery, the U.S. Federal Reserve began openly considering another major round of quantitative easing. Emerging markets led the rebound in September 2010, while international equities outpaced U.S. equities in part due to waning sovereign debt concerns in Europe. In the bond market, spread sectors outperformed government bonds.

During the fourth quarter of calendar 2010, the global economy continued to improve further, sparking renewed investor optimism. In an effort to provide additional support to the economic recovery, Congress announced a two-year extension of Bush-era tax cuts, as well as a reduction in social security taxes for 2011, while the Federal Reserve announced a second round of quantitative easing, known as "QE2," in November 2010. While these actions further weakened the U.S. dollar against most major currencies, they also boosted stocks, with emerging markets and small capitalization stocks leading the way. Within the fixed income market, investment grade bonds and Treasury Inflation-Protected Securities ("TIPS") declined, while high yield bonds, as represented by the Barclays High Yield Index, advanced by 3.2%. Also during the fourth quarter of calendar 2010, the U.S. unemployment rate declined by 0.2%, to a level of 9.4%.

Investor optimism persisted during the first few months of 2011, despite geopolitical uncertainty in the Middle East, renewed sovereign debt concerns, and the March earthquake and tsunami in Japan. The Federal Reserve continued to maintain accommodative monetary policy in the U.S., while many policymakers outside the U.S. began raising interest rates in an effort to fend off inflation. During the first quarter of calendar 2011, the Fed purchased over $300 billion in bonds as part of QE2, and the U.S. unemployment rate continued to decline, with 440,000 jobs added. The strong returns for stocks persisted and Treasurys continued to decline.

Many of the trends from the first three quarters of fiscal year 2011 were reversed during the fiscal year's final quarter, as concerns over the future of the global economic recovery began to weigh on riskier assets. In May 2010, the European Financial Stability Facility (EFSF) was created by the Euro area member states with the intention of securing the credit of the most troubled countries. QE2 ended in June, as scheduled. Policy makers debated the various means of reducing the U.S. budget deficit as a prerequisite to raise the

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U.S. Treasury's debt ceiling, but they were unable to reach a resolution by the end of the fiscal year. The U.S. unemployment rate also rose during the quarter, to 9.2%.

U.S. equities, as represented by the Russell 3000 Index, were flat during the second quarter of calendar 2011, bringing the fiscal year return to 32.4%. Half of the sectors in the S&P 1500 posted negative returns during the second quarter of calendar 2011, with energy and financials down the most, though all sectors were positive for the fiscal year as a whole. For the year, small cap stocks outperformed large cap stocks, and growth strategies outperformed value strategies.

Globally, developed markets slightly outperformed emerging markets during the fiscal year, as the MSCI EAFE and the MSCI Emerging Markets indices rose net 30.4% and 27.8%, respectively. International small cap stock returns, as proxied by the MSCI EAFE Small Cap Index, were even higher, at 36.4% for the fiscal year. The emerging markets, and China in particular, have been the world's only reliable growth engine since 2008 (as well as a large holder of U.S. debt). Many of these markets are experiencing a very different problem from the developed markets, in that their rapid growth in recent years is starting to lead to unwanted inflation. Hence, the central bank in China has been tightening monetary policy. This has caused concerns about a possible sudden deceleration in growth, or a "hard landing," which could impact the global economy by reducing the consumption of foreign goods in China, along with reducing the purchase of U.S. debt by the Chinese government.

Toward the end of the fiscal year, U.S. Treasurys benefited from a "flight to quality," stemming from the European debt crisis and concerns over the strength of the global economic recovery. During the second quarter of calendar 2011, high yield bonds, as proxied by the Barclays High Yield Index, lagged the broad domestic fixed income market for the first time since the second quarter of 2010, though they were up 15.6% for the fiscal year as a whole. Performance for TIPS, as proxied by the Barclays U.S. TIPS Index, and investment grade bonds, as proxied by the Barclays Aggregate Index, was 7.7% and 3.9%, respectively, for the year. Short-term cash rates remained close to zero as the central bank continued to maintain the Fed Funds rate in a range of 0% to 0.25%. As of the end of June, the yield spread between 10-year TIPS and nominal Treasurys implied an expected annual inflation rate of about 2.5% over the next ten years.

In the alternative assets space, commodities, as proxied by the Dow Jones-UBS Commodity Index, rose 25.8% for the year, but during the final quarter of the fiscal year, commodities were the worst performing asset class. The commodities return for the quarter was -6.7%, and it was the commodities sector's first quarterly decline in a year. The Hedge Fund Research Institute Fund of Funds Index rose 6.5% for the fiscal year, and the National Council of Real Estate Fiduciaries Property Index returned 16.7%.

Fiscal 2012 Outlook

Meketa Investment Group believes that the global economy is facing three key fundamental issues: the slowing pace of the U.S. economic recovery, the Euro-zone debt crisis, and the potential for slowing growth in China. The issues facing the world's developed and developing economies have not changed meaningfully in recent months, but the amount of scrutiny over the debt issues facing the U.S., as well as parts of Europe, has increased meaningfully and focused investors' collective attention on these issues.

With the trio of concerns facing world markets today, we anticipate there will be continued volatility in the markets. There continues to be talk of a third round of quantitative easing ("QE3") from the Federal Reserve in an effort to reduce the likelihood of a double dip recession. In Europe, the central bank is increasingly likely to continue to purchase bonds to help countries on their path towards stability.

Economic growth in China was robust in the first half of 2011, and China continues to be a large purchaser of Treasury issues (currently holding approximately $1.2 trillion of the $14 trillion outstanding debt), in order to maintain job stability and growth at home, along with their currency peg.

The volatility in the markets, while concerning, is not unexpected, and we believe your portfolio is diversified in a way that provides the best possible chance for achieving long-term returns to meet the Retirement System's obligations and objectives. In general, we believe actions should be focused on the long-term and should be consistent with the Retirement System's investment policies.

Plan Investment Results and Asset Allocation

For fiscal year 2011, the San Jose Federated City Employees' Retirement System returned 19.0% gross of fees and 18.8% net of fees, while the Custom Benchmark return for the same time period was 19.2%. The Retirement System underperformed the median fund in the InvestMetrics universe of public funds greater than $1 billion, which returned 22.0% gross of fees for the fiscal year. The median global equity allocation for funds in the InvestMetrics universe was higher than the Retirement System's allocation to global equity during the fiscal year. Because global equity earned stronger returns than other asset classes, it boosted the median performance of the peer group.

During the first quarter of calendar 2010, the Board of Trustees adopted a new asset allocation in response to the results of an asset-liability study, and in order to position the Retirement System to better weather future market downturns. The transition to the new asset allocation began at the end of March 2010. As of June 30, 2010, or the beginning of fiscal year 2011, much of the Retirement System's assets were invested in index funds and optimized portfolios designed to earn index returns.

At that time, the Board of Trustees began the process of selecting active managers for several asset classes. Meketa Investment Group worked with Staff to perform searches for active managers. During the third quarter of calendar 2010, the Board of Trustees hired U.S. small cap value equity manager RS Investments. Following additional search processes, the Board also approved the hiring of global value equity managers Artisan and Tradewinds, risk parity commodities managers First Quadrant and Credit Suisse, and opportunistic direct lending managers GSO, Medley, and White Oak.

The Retirement System Staff and Board of Trustees accomplished a great deal from an investment standpoint during fiscal year 2011 through the continued implementation of the new asset allocation, which aims to better position the Retirement System for potential future market environments. During fiscal year 2012, Meketa Investment Group looks forward to working with Staff and the Board of Trustees to further implement the target asset allocation and enhance the investment manager roster, so that the Retirement System can continue to meet its obligations to participants.

Sincerely,

Laura Wirick, CFA	Stephen P. McCourt, CFA	Brad Regier, CFA, CAIA
Vice President	Managing Principal	Vice President

LBW/cds

Statement of Investment Policy

General Environment

It is the policy of the San Jose Federated City Employees' Retirement System (SJFCERS) to effect economy and efficiency in the public service by providing a means whereby career employees or employees who have become incapacitated may leave public service without hardship or prejudice, and to that end provide a retirement system consisting of retirement allowances and death benefits.

Investments in such retirement system are subject to the restrictions specified in the San Jose Retirement Code sections 3.24.350, 3.24.360, 3.28.350 and 3.28.355. Further investment management guidelines are imposed by the San Jose Federated City Employees' Retirement Board ("Board"). The Board retains its official oversight of the System but has designated the Investment Committee to act as a conduit for investment issues to be presented to the Board.

Purpose

The purpose of this Investment Policy Statement (IPS) is to assist the San Jose Federated City Employees' Retirement System's Board ("Board") and its delegate in effectively supervising, monitoring and evaluating the investment of the System's assets. The System's investment program is defined in the various sections of the IPS by:

- Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all the System's assets.
- Setting forth an investment structure for managing the System's assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
- Providing guidelines for the investment system that control the level of overall risk and liquidity assumed in that system, so that all the System's assets are managed in accordance with stated objectives.
- Encouraging effective communications between the Board, the investment consultant (Consultant) and the money managers.
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the money managers on a quarterly basis, or as deemed appropriate.
- Complying with applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the System's assets.

This IPS has been formulated, based upon consideration by the Board of the financial implications of a wide range of policies, and describes the prudent investment process that the Board deems appropriate.

The objectives of the System have been established in conjunction with a comprehensive review of the current and projected financial requirements. The Board shall:

(1) Attempt to ensure that the Retirement System is sufficiently funded to ensure that all present and future disbursement obligations will be met.

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

(3) Strive for the highest total return on investment funds consistent with safety in accordance with accepted investment practices and maintain an appropriate asset allocation policy that is compatible with the objectives of the System.

(4) Control the costs of administering the System's assets and managing the investments.

Asset Allocation Policy

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

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

Starting from March 2010 the following asset allocation is in effect:

Traditional Asset Allocation

Asset Class	Minimum	Target	Maximum
Global Equity	43%	49%	55%
Fixed Income	15%	20%	25%
Alternatives	26%	31%	36%

Statement of Investment Policy *(Continued)*

Alternative Asset Allocation

Sub-Asset Class	Minimum	Target	Maximum
Real Estate	0%	5%	8%
Real Assets	0%	10%	15%
Hedge Funds	0%	5%	8%
Private Equity	0%	6%	9%
Opportunistic	0%	5%	8%

The investment policy is expected to have a high likelihood of meeting the objectives outlined in the "Statement of Objectives" section, which preceded this section.

The Investment Policy, including asset allocation, is intended to provide a means for controlling the overall risk of the portfolio while ensuring that investment earnings will be sufficiently high to provide a funding source to offset liabilities in perpetuity. The policy should not unduly constrain the discretionary, tactical decision-making process of the investment managers so that the funds earn the highest total returns while remaining in accordance with accepted investment practices.

The Investment Policy and the asset allocation are generated using certain market assumptions. These assumptions include the expected return and standard deviation for each asset category and the expected correlation coefficients among asset classes. When these presumptions change, the policy needs to be re-evaluated and possibly modified to compensate for those changes.

Time Horizon

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short-term nature. The Director of Retirement Services will review the asset mix of the Plan on monthly basis and cause the asset mix to be rebalanced to within the policy range as necessary and in accordance with the rebalancing guidelines set forth in this IPS. Additionally, the Board will review the strategic asset allocation on at least an annual basis to determine if there is a need to make any changes.

Risk Tolerances and Volatility

The Board recognizes the difficulty of achieving the System's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Board also recognizes that some risk must be assumed to achieve the System's long-term investment objectives.

In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability were considered.

Consistent with the desire for adequate diversification, the Investment Policy is based on the expectation that the volatility (the standard deviation of returns) of the total System will be similar to that of the market. Consequently, it is expected that the volatility of the total System will be reasonably close to the volatility of a commitment weighted composite of market indices.

Re-balancing of Strategic Allocation

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

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

General guidelines for re-balancing the portfolio are as follows:

(1) When the allocation to a particular asset class deviates from its target, the asset class will be re-balanced to within the policy range over the following 60 days. The cash surplus within the Fund will be used to rebalance the portfolios. If the cash surplus is not sufficient, the following rebalancing procedures shall be implemented.

(2) Transfers shall first be taken from asset classes above the maximum range, then from asset classes above the target but below the maximum. If there is only one manager in the asset class, transferred assets shall first consist of cash in the portfolio. If the cash is not sufficient, then the manager will be requested to liquidate that portion of the portfolio, which will result in the manager's portfolio coming within the specific target range.

(3) Transfers shall first be made to asset classes below the minimums, then to asset classes below the targets, unless the managers in those classes are already holding excess cash or they feel it would be imprudent to increase their size.

(4) All transfers should be made in accordance with the cash management policy.

(5) Rebalancing for asset classes that have deviated from their targets, but are still within their respective target ranges, may remain at their allocations if the Director and Consultant determine it would not be detrimental to the overall portfolio.

Statement of Investment Policy *(Continued)*

Liquidity

The Board has authorized the Director of Retirement Services to review the projected cash flow needs of the System at least annually and indicate to the investment managers the required liquidity. If necessary, cash flow needs will be coordinated through the System's rebalancing procedures as described in the previous section. If additional funds are required from the System's equity managers, the Director will communicate the cash flow requirements giving advanced written notice so the managers have sufficient time to comply.

Diversification

Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries.

Specifically, no single investment shall exceed the guidelines established under the Manager and Securities Guidelines section.

As a general rule, System assets placed with an investment manager should not represent more than 10% of that manager's assets.

General

Every investment manager selected to manage the System's assets must adhere to the following guidelines.

- The investment manager will at all times be expected to exercise due diligence regarding his/her account and to perform in a prudent manner and within the specific terms of appointment.
- The manager will have full discretion to direct and manage the investment and reinvestment of assets in accordance with this document, applicable federal and state statutes and regulations, and the executed contract.
- Benchmarks shall be specified for the investment manager. It is expected that the managers will adhere to the style concepts and the investment principles that were in use at the time the Board appointed the firm to manage a portion of the System's assets.
- It is the Board's desire that an investment manager be fully invested in his/her own asset class. However, the manager shall retain the discretion to invest a portion of the assets in cash reserves. The Board prefers that the managers hold under 6-7% cash. Any manager who holds over 7% in cash on average over two months shall notify staff in writing. If market conditions dictate, the manager may exceed 10% cash holdings with written approval of the Director of Retirement Services. The manager will be evaluated against their peers on the performance of the total assets under their management. Any intent to deviate from this strategy should be communicated to the Board prior to implementation.
- Turnover standards shall be set whenever it is appropriate to the investment manager's style, the asset class, or the return target. Trading expenses shall be minimized and managed by the investment manager and all transactions shall be governed by general "best execution" guidelines.
- Transactions that would jeopardize the tax-exempt status of the System should not be undertaken.
- The Board has the authority to "vote" on all issues presented to stockholders, but as a matter of practice will designate an authorized third party to vote the proxies. It is expected that the designee will vote for the sole purpose of benefiting the beneficiaries of the System and in accordance with the adopted general proxy voting guidelines.
- The investment manager is expected to comply with all laws, regulations, and standards of ethical conduct.

Global Equity Investments

The primary emphasis of the global equity portfolio should be on high quality, readily marketable securities. The investment managers employed to manage equity securities will have discretion in the day-to-day management of funds under their control, subject to the following guidelines:

(1) Global equity securities (with the exception of preferred stocks) shall be traded on a national exchange (including NASDAQ) and be substantially diversified.

- The number of issues held, their geographic and economic sector diversification shall be left to the investment manager's discretion provided, however, that the portfolio shall be appropriately diversified as consistent with the manager's stated investment approach.

(2) The following transactions are prohibited:

- Purchase of stocks that are not publicly traded.
- Purchase of restricted stock.
- Short sales and purchases of securities on margin.

(4) American Depository Receipts (ADR's) and Real Estate Investment Trusts are permitted equity investments.

(5) The manager may enter into currency exchange contracts (forward exchange or future) provided that such contracts have a maximum maturity of one year. Furthermore, any currency hedging shall be limited to a defensive posture only. The use of such contracts is designed to dampen portfolio volatility rather than lever portfolio risk exposure. There shall be no direct foreign currency speculation or any related investment activity. Cross-hedging will be permitted. Securities held in the portfolio may be denominated in any currency at the discretion of the investment manager. The investment manager will include in his/her quarterly report to the Director of Retirement Services and the Board a report on the status of the outstanding hedged positions.

Cash Investments

The following investment vehicles are approved for the investment of short-term funds of the System:

(1) All U.S. Government and federal agency issues.

(2) All U.S. Dollar denominated foreign commercial paper that is rated either A1 or P1 by Moody's or by Standard & Poor's. If the issuer had public debt outstanding, said debt should not be rated below the top three letter ratings (AAA, AA, A) of either Moody's or Standard & Poor's.

(3) If the issuer of commercial paper (CP) is a bank, purchase of its CP is approved only when purchase of its certificates of deposit (CD's) is also approved.

(4) Domestic and foreign Certificates of Deposit (CD's) and Banker's Acceptances.

(5) Repurchase Agreements with banks and with broker-dealers registered under the Securities and Exchange Act of 1934.

(6) Reverse Repurchase Agreements - Only upon the specific approval of the Retirement Board.

(7) Insured time deposits.

(8) The custodial bank's Short Term Investment Fund provided that said Fund satisfies the requirements of 1 through 7 above.

Investment Grade Fixed Income

The investment grade fixed income portion of the System's assets shall generally be invested in investment grade, marketable, fixed-income securities, although up to 10% investment in below investment grade securities will be permitted with written authorization of the Board. The investment managers employed to manage domestic fixed-income securities will have discretion in the day-to-day management of the funds under their control.

The following instruments are acceptable for purchase:

(1) Commercial Paper or Variable Rate notes of P-1 or equivalent rating. Pools containing lower quality issues of this security type (P-2 and P-3 or equivalent ratings) may be used where diversification reduces the quality risk.

(2) Certificates of Deposit and Bankers Acceptances.

(3) United States Treasury Bonds, Notes, and Bills.

(4) Repurchase agreements with U.S. Treasury securities and agencies of the U.S. Government as collateral. No reverse repurchase agreements will be allowed without specific written approval by the Board.

(5) Debt instruments of the U.S. Government or its agencies.

(6) "Yankee" bonds issued by foreign countries and denominated in dollars so long as they are rated Baa/BBB or better by Moody's or Standard & Poor's.

(7) Investment grade U.S. pay corporate debt issues including those rated Baa/BBB or better by Moody's or Standard & Poor's. Should a current holding fall below this standard, the manager shall immediately notify staff of the downgrade and confer with staff as to whether the security will continue to be held or disposed. However, investments in non-investment grade securities of BB or B classification will be permitted up to 10% with written authorization of the Board.

The Fixed-Income investments shall be appropriately diversified. The investment manager may engage in "active" bond management and it is therefore anticipated that there may be turnover as shifts are made between and within sectors, quality and maturity.

No more than 10% of a single manager's assets shall be invested in securities of any single issuer with the exception of the U.S. Government and its agencies.

Statement of Investment Policy *(Continued)*

High Yield Fixed Income and Bank Loans

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

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

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

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

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

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

Convertible Bonds

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

(1) At the time of purchase at least 95% of the instruments must have a minimum rating of B- or B3, or if unrated, of a comparable quality rating as determined by the investment manager. Should more than 5% of a portfolio fall below this standard, the investment manager shall notify the Board of the downgrade immediately and submit a plan for returning the portfolio to the standard. Other eligible investments are U.S. Treasuries, U.S. corporate bonds, (including zero-coupon, step-up, toggle and pay-in-kind bonds), non-U.S. corporate bonds, private placement securities, bank loans, participations, and assignments.

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

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

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

(5) The portfolio shall be appropriately diversified by the number of issues held, sector, industry, and country weightings, consistent with the manager's stated investment approach.

Real Estate

The Board may elect to invest in commercial, industrial, and residential real estate or real estate related debt instruments provided that:

(1) The real estate is defined as any real property within the United States improved by multifamily dwelling, industrial or commercial buildings.

(2) Real estate debt instruments shall be defined as first mortgages.

(3) The fund shall at no time invest directly more than 5% of the Fund's assets, valued at market, in any one property, project, or debt instrument regardless of the manner of the instrument.

Private Equity

Private markets investments include, but are not limited to, venture capital partnerships, leveraged buyout funds, private debt, and private placements. While it is expected that the majority of these assets will be invested within the United States, a portion can be allocated to non-U.S. investments. Investments may be made in secondary investments on an opportunistic basis.

Statement of Investment Policy *(Continued)*

It is expected that these investments will typically be structured as Limited Partnerships, with the System serving as one of the Limited Partners, but not as a General Partner. It is also expected that the System will not engage in direct investments or co-investments, in which the System would purchase majority control in individual corporate entities, unless authorized by the Board.

Opportunistic Strategies

Investment in any of the instruments or vehicles allowed in other sections is also allowed in this section. Other investments are acceptable as long as they are approved by the Board in writing. In addition, investment in the credit market is also allowed and may be implemented through:

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

Absolute Return

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

The allowed Absolute Return Strategies include but are not limited to :

1. Any of the following single strategies:
   a. Equity long/short including absolute return strategies specializing in emerging markets, market capitalization, regional, sectoral or global market subsets;
   b. Equity Market timing;
   c. Short or dedicated short;
   d. Distressed securities;
   e. Merger Arbitrage;
   f. Event driven or Risk Arbitrage;
   g. Fixed Income Arbitrage;
   h. Convertible Bond Arbitrage;
   i. Equity Market Neutral;
   j. Statistical Arbitrage;
   k. Relative Value Arbitrage;
   l. Global Macro or Global Tactical Asset Allocation;
   m. Managed Futures and Commodity Trading Advisors (CTA's).
2. Multi-Strategy or Fund of Funds are also allowed and combine several individual Absolute Return strategies into a single portfolio. The combination provides, in some circumstances, diversification of risk in a single investment.

Real Assets

The following strategies are allowed, through both direct investments and through equity investments in companies that are involved with the following strategies:

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

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

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

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

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

Statement of Investment Policy *(Continued)*

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

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

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

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

e. **Timberland**
The strategy targets both public and private Timberland Investment Management Organizations, TIMO. The Investment strategy includes investing in entities that derive their returns from the growth and harvest of timber, a renewable and biologically growing asset. The investments may include both plantations who utilize intensive management techniques to enhance biological growth and naturally regenerating strategies. The investment strategy has varying time horizons to liquidity, shorter term for softwoods (e.g. for pulp and lumber) to longer term time horizon (e.g. hardwoods).

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

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

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

h. **Infrastructure**
This investment strategy targets the market segment of water-related infrastructure, assets, and properties. Investors may soon view water as an increasingly scarce commodity, not unlike oil. Increasingly stringent water quality standards and the adaptation of water systems to meet changing climactic and hydrological conditions may result in investment opportunities in the water industry.

Statement of Investment Policy *(Continued)*

Supervision

The Investment Manager shall continually supervise the investment securities in the Fund, and shall purchase, sell, substitute, redeem, or convert securities, as they should deem advisable.

Brokerage Policy

All transactions effected for the System will be "subject to the best price and execution." The lowest commission rate need not mean the best realized price. Execution capability, price, and overall effectiveness shall be considered, along with commission rate.

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

If a manager utilizes brokerage from the plan assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Board.

The System's investment managers shall follow the direction of the Board. It is the policy of the Board to instruct the investment managers to direct transaction orders to particular broker-dealers, including equity, fixed income, both domestic and international. The instructions from the Board currently is for the investment managers to direct as much as possible of the System's commission business as is practicable, subject to the best price and execution. The instruction and direction is to be construed within the normal activity of the investment manager, with no increased or decreased trading activity to occur because of the instruction. Where given discretion to establish and execute transactions through accounts with one or more broker-dealer firms as it may select, the manager must attempt to obtain "best available price and most favorable execution" with respect to all of the portfolio transactions.

Soft dollars accumulated through the System's brokerage program may be used to pay for any System expense permitted under the regulations of the Department of Labor (including, but not limited to, legal, accounting, education, management, etc.) and approved by the Board.

Performance Objectives

Investment performance will be measured quarterly but it is not expected that the performance goals identified below will be satisfied in any single quarter or year. It is expected that these goals will be satisfied over a rolling five-year period or a full market cycle. However, action by the Board with regard to retention or dismissal of investment managers is not precluded by virtue of these time periods.

Total Fund Investments

The total fund's performance, in aggregate, will be expected to achieve a rate of return, which exceeds a fund benchmark representative of the Asset Allocation objective as follows:

Benchmark
Russell 3000
MSCI ACWI
MSCI EAFE
MSCI Emerging Markets
Barclays Capital Aggregate Bond Index
Credit Suisse First Boston Leveraged Loan Index
Merrill Lynch High Yield Master Index
Merill Lynch Global 300 Convertible Index
NCREIF Property Index
Venture Economics Private Equity Index
Hedge Fund Research Institute Equity Hedge Index

Specific guidelines and benchmarks are established below for each category of managers. Generally, however, investment managers are expected to perform within the top half of an appropriate database, rank in the top half of a database of similarly styled managers, and earn an average return, which exceeds an appropriate index over rolling five year periods.

Managers are considered to have achieved this objective if their performance meets all guidelines on a cumulative five year annualized period. If the performance is longer than five years, the manager is expected to satisfy the performance objectives in a majority of the rolling five year periods.

Investment managers with less than five years of experience with the Fund are considered to have achieved performance objectives if their performance meets guidelines in the majority of the annualized time periods since inception.

If managers with less than five years experience with the Fund fail to meet any investment objectives, the following should be applied:

- If a manager fails to meet investment objectives for one or two consecutive quarters, this may not be a cause for concern.
- If a manager fails to meet investment objectives for three consecutive quarters, they merit probationary status.
- If a manager fails to meet investment objectives for four consecutive quarters, they should be critically reviewed by the Board and considered for termination. The Board may grant the manager an extended probation after officially recognizing the substandard performance.

Statement of Investment Policy *(Continued)*

Passive Fixed Income Investments

The objective for investment managers of the passive fixed income component of the total portfolio is to achieve returns equal to the appropriate index with minimal tracking error.

Active Fixed Income Investments

The objectives for investment managers of the domestic fixed-income component of the total portfolio are:

(1) Earn an average annual return from income and capital appreciation, which exceeds an appropriate index (i.e. Barclays Credit Index, etc.) over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

Global Equity Investments

The objectives for investment managers of the domestic equity component of the total portfolio are:

(1) Achieve returns which exceed an appropriate index, (i.e. Russell 3000, etc.) over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

Passive Equity Investment

The objective for investment managers of the passive domestic equity component of the total portfolio is to achieve returns equal to the appropriate index with minimal tracking error.

Global and International Equity Investments

The objectives for investment managers of the international equity component of the total portfolio are:

(1) Achieve returns which exceed an appropriate index over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

High Yield and Bank Loan Investments

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

(1) Achieve rates of return, which exceed an appropriate index (i.e. Merrill Lynch US High Yield Master Index, CSFB Leveraged Loan Index) over rolling five year time periods net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

Convertible Bond Investments

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

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

Real Estate Investments

(1) Achieve returns which exceed an appropriate index, (i.e. NCRIEF) net of fees over a five-year market cycle.

Private Equity Investments

(1) Achieve returns, which exceed an appropriate index (i.e., Venture Economics Private Equity Index) net of fees over a five-year market cycle.

Real Assets

(1) Achieve returns which exceed an appropriate index (i.e., Dow-Jones UBS Commodity Index, SSgA Brookfield Infrastructure Index) net of fees over a five-year market cycle.

Hedge Funds

(1) Achieve returns which exceed an appropriate index (i.e., HFRI Equity Hedge Index) net of fees over a five-year market cycle.

Monitoring of Money Managers

It is the Board's policy to monitor the portfolios of the investment managers for prudent adherence to the approved performance guidelines. Quarterly performance should be evaluated to test progress toward the attainment of longer term targets. It is understood that there are likely to be short term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on peer-performance comparisons with managers employing similar styles. In addition, manager holdings will be periodically monitored to ensure that they are adhering to expected investment styles and disciplines.

Statement of Investment Policy *(Continued)*

On a timely basis, the Board shall meet to focus on:

- Manager's adherence to the IPS guidelines;
- Material changes in the manager's organization, investment philosophy and/or personnel; and,
- Comparisons of the manager's results to appropriate indices and peer groups as described in the performance objectives and control section.

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

Major organizational changes also warrant immediate review of the manager, including:

- Change in professionals
- Significant account losses
- Significant growth of new business
- Change in ownership

The performance of the System's investment managers will be monitored on an ongoing basis and it is at the Board's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

Periodic Reviews of Manager Performance

The performance of each manager should be reviewed versus its benchmark at least every quarter. These benchmarks will normally consist of both asset class indexes and peer group universes. Each manager's performance should exceed their passive index benchmark net of fees and each manager should be above the median of an appropriate universe over most full market cycles.

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

All managers will be reviewed continuously by the Consultant, Staff, and the Director. Underperforming managers will be reviewed on a case by case basis, and written records shall be kept. All managers are subject to termination at the Board's request, based on advice from the Consultant, Staff, and the Director.

Extraordinary Reviews of Managers

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

Such events would include but are not limited to:

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

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

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

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

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

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

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

Investment Professionals

Global Equities

Artisan Partners LP
Global Value Equity
San Francisco, CA

Calamos Investments
Global Convertible Bonds
Naperville, IL

Northern Trust Global Investments
MSCI ACWI ex-U.S. Index
Chicago, IL

Russell Investments
MSCI ACWI Value Index
Tacoma, WA

Tradewinds Global Investors
Global Value Equity

International Equities

Russell Investments
MSCI EAFE Growth Index
MSCI EAFE Small Cap Index
Tacoma, WA

Northern Trust Global Investments
MSCI Emerging Markets Index
Chicago, IL

Domestic Equities:

Eagle Asset Management, Inc.
Small Cap Growth
St. Petersburg, FL

Northern Trust Global Investments
Russell 3000 Index
Chicago, IL

RS Investments
Small Cap Value
San Francisco, CA

Private Equities:

Great Hill Partners
Boston, MA

Pantheon Ventures, Inc.
San Francisco, CA

Partners Group
New York, NY

Pathway Capital Management, LLC
Irvine, CA

Domestic Fixed Income:

MacKay Shields
High Yield
New York, NY

Northern Trust Global Investments
Barclays Credit Index
Chicago, IL

Russell Investments
Barclays US TIPS Index
Barclays Intermediate
Government Bond Index
Tacoma, WA

Seix Investment Advisors
Bank Loans
Upper Saddle River, NJ

Infrastructure:

Russell Investments
S&P Global Infrastructure Swap/Index
Tacoma, WA

Commodities

First Quadrant
Pasadena, CA

Credit Suisse
San Francisco, CA

Real Estate

American Realty Advisors
Glendale, CA

DRA Advisors, Inc.
New York, NY

Fidelity Investments
Boston, MA

GE Asset Management
Stamford, CT

Prudential Real Estate Investors
Newark, NJ

Opportunistic

Blackstone/GSO Capital Partners
Direct Lending
New York, NY

Medley Capital LLC
Direct Lending
San Francisco, CA

White Oak Global Advisors, LLC
Direct Lending
San Francisco, CA

Investment Consultant

Meketa Investment Group
Carlsbad, CA

Custodian

The Northern Trust
Chicago, IL

Proxy Voting

Glass Lewis & Company LLC
San Francisco, CA

Schedule of Investment Results

GROSS PERFORMANCE SUMMARY BY ASSET CLASS

For Periods Ending June 30, 2011

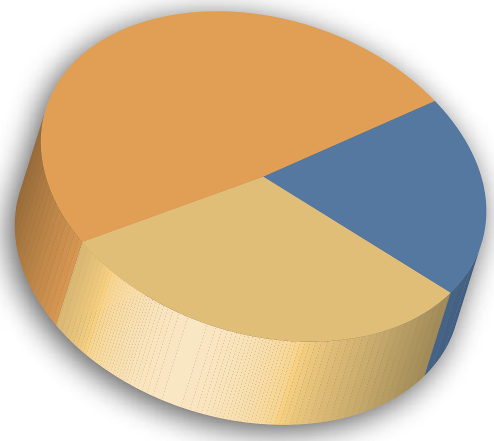
	One Year	Three Years	Five Years
Total Fund (gross of fees)	**19.0%**	**4.1%**	**4.9%**
Total Fund (net of investment expense)	**18.8%**	**3.9%**	**4.6%**
Total Fund (net of investment, admin., securities lending, and SRBR expenses)	**18.6%**	**3.5%**	**4.2%**
Policy Benchmark	21.8%	5.0%	5.4%
Master Trust Public Funds Median	22.0%	4.3%	4.9%
Total Global Equity	**31.7%**	**N/A**	**N/A**
MSCI ACWI IMI	31.0%	1.7%	3.5%
MSCI ACWI	30.1%	0.9%	3.2%
Global Equity Policy Benchmark	30.3%	N/A	N/A
Total Fixed Income	**6.3%**	**8.0%**	**7.3%**
Barclays Universal	4.8%	6.7%	6.6%
Fixed Income Policy Benchmark	7.4%	7.3%	7.0%
Total Real Estate Assets	**27.5%**	**N/A**	**N/A**
S&P Global Infrastructure Index	32.0%	-1.3%	N/A
Dow Jones-UBS Commodities	25.8%	-12.1%	N/A
Real Assets Policy Benchmark	28.6%	N/A	N/A
Total Private Equity	**14.0%**	**-0.7%**	**2.8%**
Venture Economics PE Composite (lagged one quarter)	17.0%	1.8%	8.7%
Total Real Estate	**16.7%**	**-12.1%**	**-1.8%**
NCREIF Property Index (lagged one quarter)	16.0%	-3.6%	3.5%
	Three Months	**Calendar YTD**	**One Year**
Total Opportunistic Assets	**-1.8%**	**-1.3%**	**N/A**
3-month LIBOR + 5%	1.3%	2.6%	5.3%

Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Performance Evaluation Report dated June 30, 2011

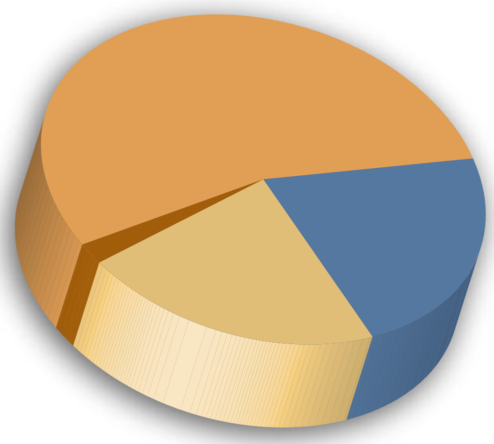
Investment Review

TARGET ASSET ALLOCATION *As of June 30, 2011*



Global Equity	49%
Fixed Income	20%
Alternative Assets	31%
TOTAL	100.0%

ACTUAL ASSET ALLOCATION (Dollars in Millions) *As of June 30, 2011*

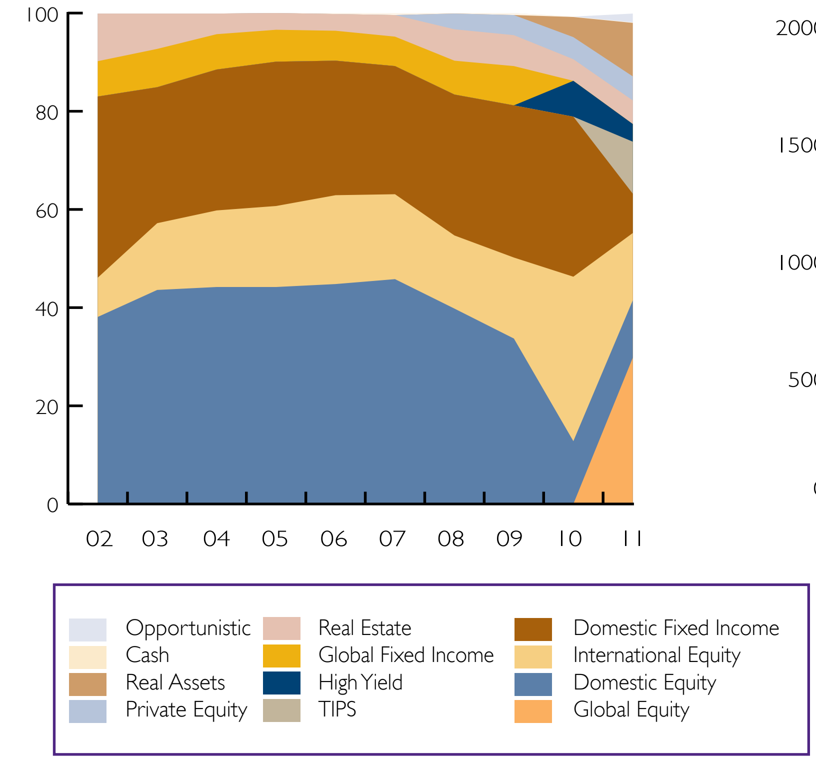


		$ in millions
Global Equity	54.7%	$1,027.49
Fixed Income	22.1%	$414.17
Alternative Assets	21.3%	$400.16
Short Term	1.9%	$35.83
TOTAL	100.0%	$1,877.65

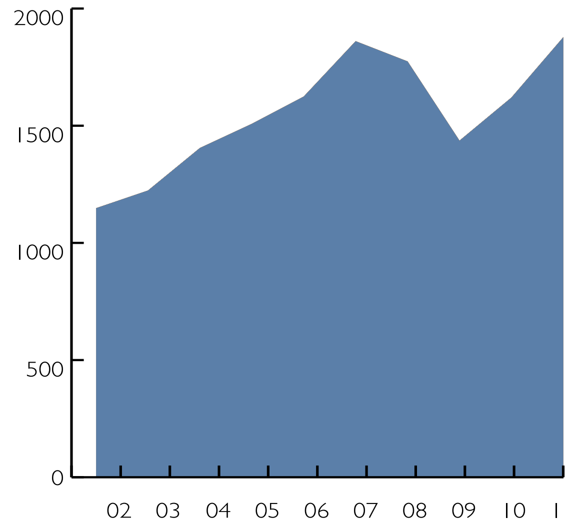
Non-GAAP Basis

Investment Review *(Continued)*

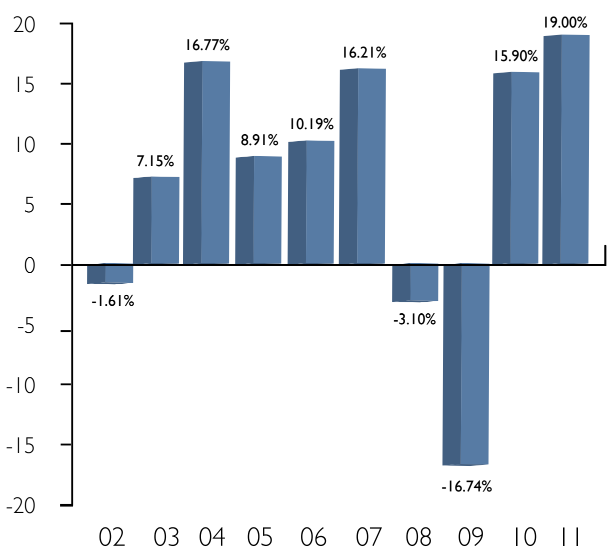
HISTORICAL ASSET ALLOCATION (Actual)
June 30, 2002- June 30, 2011



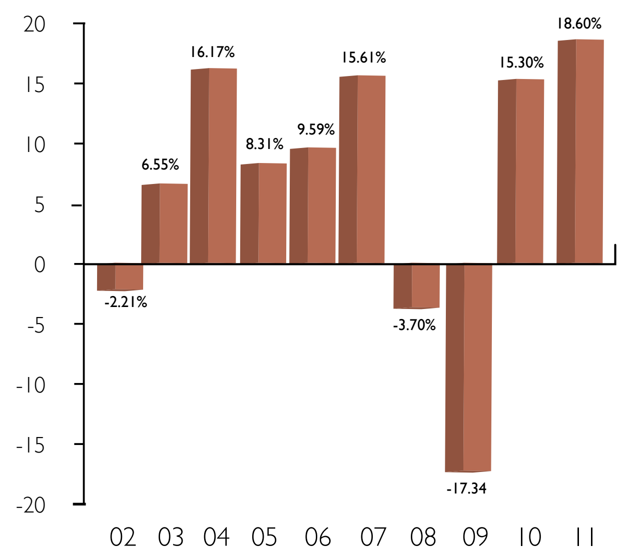
MARKET VALUE GROWTH OF PLAN ASSETS
For Ten Years Ended June 30, 2011 (Dollars in Millions)



HISTORY OF GROSS PERFORMANCE FOR FISCAL YEARS 2002 - 2011
(Based on Market Value)



HISTORY OF NET PERFORMANCE FOR FISCAL YEARS 2002 - 2011
(Based on Market Net Value)*



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

List of Largest Assets Held

LARGEST STOCK HOLDINGS (By Market Value)
As of June 30, 2011

Description	Country	Shares	Market Value ($US)
MASTERCARD INC CL A	United States	13,146	$ 3,961,416
COMPASS GROUP PLC ORD GBP0.10	United Kingdom	348,287	3,396,881
SIGNET JEWELERS LTD	United Kingdom	69,854	3,269,866
GENESCO INC COM	United States	59,226	3,085,675
TE CONNECTIVITY LTD	United States	83,393	3,065,527
LUFKIN INDS INC COM	United States	33,570	2,888,699
MARSH & MCLENNAN COS INC COM	United States	92,095	2,872,443
GAMESTOP CORP NEW CL A	United States	107,662	2,871,346
GROUPE BRUXELLES LAMBERT NPV	Belgium	32,076	2,852,176
ARCH CAPITAL GROUP COM STK USD0.01	United States	85,417	2,726,511

A complete list of portfolio holdings is available upon request.

LARGEST BOND HOLDINGS (By Market Value)
As of June 30, 2011

Description	Country	Maturity Date	Par Value	Market Value ($US)
UNITED STATES OF AMER TREAS NOTES 1.375%	United States	1/15/20	76,285,000	$ 85,564,461
UNITED STATES OF AMER TREAS NOTES INDX	United States	4/15/14	73,900,000	83,503,068
UNITED STATES OF AMER TREAS BONDS 2.375%	United States	1/15/25	20,900,000	28,928,992
UNITED STATES TREAS NTS DTD 11/15/2009	United States	11/15/19	4,210,000	4,407,072
UNITED STATES TREAS NTS DTD 05/15/2009	United States	5/15/19	3,850,000	3,990,491
UNITED STATES TREAS NTS DTD 02/15/2009	United States	2/15/19	3,640,000	3,712,583
UNITED STATES OF AMER TREAS NOTES 3.75%	United States	11/15/18	3,400,000	3,699,439
UNITED STATES TREAS NTS DTD 04/30/2010	United States	4/30/17	3,350,000	3,560,001
UNITED STATES TREAS NTS DTD 02/15/2010	United States	2/15/20	3,020,000	3,235,960
UNITED STATES TREAS NTS DTD 02/15/2010	United States	2/15/13	3,010,000	3,073,402

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

For the Fiscal Year Ended June 30, 2011

	Assets Under Management at Market Value*	Fees	Basis Points
Investment Managers' Fees			
Global Equity	$ 1,027,495,000	$ 1,676,343	16
Fixed Income	414,170,000	605,635	15
Real Assets**	184,059,000	-	N/A
Opportunistic	32,785,000	437,071	133
Real Estate	90,673,000	519,641	57
Private Equity**	92,643,000	-	0
Short Term	35,828,000	-	N/A
TOTAL INVESTMENT MANAGERS' FEES	**$ 1,877,653,000**	**$ 3,238,690**	**17**

** Includes Cash in Managers' Accounts; Non-GAAP Basis*
*** Fees are netted out of income*

	Fees
Other Investment Service Fees	
Investment Consultant	$ 310,000
Proxy Voting	13,496
Custodian	-
Real Estate Legal Fees	7,776
Real Estate Appraisals	4,600
Investment Legal Fees	68,773
TOTAL OTHER INVESTMENT SERVICE FEES	**$ 404,645**

Schedule of Commissions

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
A			
(D)INSTINET CROSSING NETWORK N/Y	3,727	$ 55.92	$ 0.0150
ADAMS HARKNESS & HILL INC NY	222	8.88	0.0400
ALLEN & CO INC	26,404	1,056.16	0.0400
AMERICAN TECHNOLOGY RESEARCH INC	433	17.32	0.0400
AQUA SECURITIES, L.P.	1,869	37.38	0.0200
AVONDALE PARTNERS	1,382	55.28	0.0400
B			
BARCLAYS CAPITAL INC	4,895,589	3,211.56	0.0007
BARCLAYS CAPITAL LE	11,139	79.47	0.0071
BARCLAYS CAPITAL SECURITIES LONDON	2,491,086	4,773.61	0.0019
BEAR STEARNS 57079	23,450	375.48	0.0160
BEAR STEARNS NEW YORK DTC 352	8,563,983	1,894.09	0.0002
BERNSTEIN, SANFORD C. & CO	93,108	1,962.80	0.0211
BLAIR, WILLIAM & CO	22,142	553.97	0.0250
BLAYLOCK AND COMPANY INC	2,988	89.64	0.0300
BLOOMBERG TRADEBOOK LLC	931,805	18,636.10	0.0200
BMO CAPITAL MARKETS CORP.	15,531	621.24	0.0400
BREAN MURRAY CARRET CO LLC	2,594	77.82	0.0300
BUNTING WARBURG TORONTO	31,800	407.09	0.0128
C			
CANACCORD CAPITAL CORP VANCOUVER	5,260	214.51	0.0408
CANACCORO ADAMS INC	4,503	90.06	0.0200
CANADIAN IMPERIAL BANK OF COMMERECE	7,250	287.59	0.0397
CANADIAN IMPERIAL BK OF COMM TORONT	5,780	179.79	0.0311
CANTOR FITZGERALD & CO	117,167	825.01	0.0070
CANTOR FITZGERALD CO NEW YORK	46,731	1,041.93	0.0223
CARIS AND COMPANY INC 443	35,858	736.56	0.0205
CDS CANADIAN DEPOT	34,804	344.87	0.0099
CHEUVREUX DE VIRIEU PARIS	2,526	150.08	0.0594
CIBC WORLD MARKETS CORP (DTC - 0438	500	20.00	0.0400
CIBC WORLD MARKETS CORP.	841,599	2,543.96	0.0030
CITATION FINANCIAL GROUP NY	100,182	4,007.28	0.0400
CITIGROUP GLOBAL LTD BROKER	1,895,219	1,800.46	0.0010
CITIGROUP GLOBAL MARKETS INC/SMITH BARNEY	7,809	155.87	0.0200
CITIGROUP GLOBAL MARKETS UK EQUITY	24,680	16.99	0.0007
CL KING & ASSOCIATES	13,718	337.82	0.0246
CL KING & ASSOCIATES NEW YORK	1,171	46.84	0.0400
CLEARVIEW CORRESPONDENT SERV LLC	3,040	121.60	0.0400
COLLINS STEWART	9,193	367.72	0.0400
COWEN & CO NEW YORK	15,809	632.36	0.0400
COWEN LLC	612	18.36	0.0300

Non-GAAP Basis

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
C (continued)			
CRAIG HALLUM	37,360	$ 772.04	$ 0.0207
CREDIT SUISSE FIRST BOSTON CORPORATION	1,659,787	1,940.58	0.0012
CREDIT SUISSE FIRST BOSTON NEW YORK	2,875,910	103.52	0.0000
CSFB LONDON	452,964	190.81	0.0004
CSFB NEW YORK DTC 355	67,109	1,856.68	0.0277
D			
D. A. DAVIDSON & CO. INC.	19,267	426.73	0.0221
DAVIDSON (D.A.) & CO. INC. NSCC	1,306	52.24	0.0400
DAVY STOCKBROKERS DUBLIN	35,824	805.16	0.0225
DEUTSCHE ALEX BROWN NY DTC 0573	1,929,810	369.56	0.0002
DEUTSCHE BANK SECURITIES INC	68,512,710	1,034.57	0.0000
DOWLING PARTNERS	15,880	635.20	0.0400
E			
ELECTRONIC SECURITIES PROCESSING	791,576	25,410.91	0.0321
F			
FIRST MARATHON SEC'S - NEW YORK	6,800	272.00	0.0400
FRIEDMAN BILLING AND RAMSEY	16,359	327.18	0.0200
FRIEDMAN BILLINGS & RAMSEY NY	15,440	617.60	0.0400
G			
GOLDMAN SACHS & CO NEW YORK DTC 005	357,908	627.05	0.0018
GOLDMAN SACHS & CO NWYK DTC 005	3,906,284	3,044.97	0.0008
GOLDMAN SACHS & COMPANY	6,317	161.17	0.0255
GRIFFITHS MCBURNEY PARTNERS TORONTO	2,200	87.67	0.0399
H			
HSBC BANK PLC (FORMERLY MIDLAND BK	12	0.88	0.0733
HSBC SECURITIES NEW YORK	175,100	361.23	0.0021
I			
INSTINET - FRANCE	91,245	846.74	0.0093
INSTINET PACIFIC LTD HK	4,270,598	5,142.72	0.0012
INSTINET U.K LIMITED LONDON	4,753,928	16,183.18	0.0034
INVESTMENT TECHNOLOGY GROUP DUBLIN	32,073	753.80	0.0235
INVESTMENT TECHNOLOGY GROUP HK	2,800	21.42	0.0077
INVESTMENT TECHNOLOGY GROUP INC	3,258	63.35	0.0194
ISI GROUP INC NEW YORK	757	30.28	0.0400
ISI GROUP INC.	33,313	822.61	0.0247
ISLAND TRADER SECURITIES	7,583	303.32	0.0400
ITG CANADA CORP, TORONTO	1,320	38.42	0.0291
ITG INC NEW YORK	28,904	404.66	0.0140
J			
JANNEY MONTGOMERY SCOTT NEW YORK	12,832	513.28	0.0400

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
J (continued)			
JEFFERIES & CO INC N.JERSEY-DTC 19	1,538,084	$ 17,983.40	$ 0.0117
JEFFERIES & COMPANY	144,384,146	61,974.26	0.0004
JEFFRIES AND CO ATLANTA	2,333,040	37,481.81	0.0161
JONES AND ASSOCIATES NEW YORK	4,951	148.53	0.0300
JONESTRADING INST SERV	31,933	657.62	0.0206
JP MORGAN SECURITIES (ASIA PAC)	786	23.07	0.0294
JP MORGAN SECURITIES LIMITED LONDON	2,073,132	710.64	0.0003
K			
KEEFE BRUYETTE AND WOODS INC.	9,660	193.20	0.0200
KEEFE BRUYETTE WOODS INC NEW YORK	24,530	981.20	0.0400
KEYBANC CAPITAL MARKETS INC.	10,379	415.16	0.0400
KINNARD JOHN.G & CO NEW YORK	2,296	91.84	0.0400
KNIGHT EQUITY MARKETS LP	91,647	2,431.07	0.0265
KNIGHT SECURITIES L.P.	66,377	1,757.38	0.0265
KNIGHT SECURITIES LP	2,658	42.52	0.0160
KNIGHT SECURITIES NEW YORK	43,725	1,749.00	0.0400
L			
LAZARD FRERES & CO LLC NEW YORK	6,631	156.24	0.0236
LEERINK SWAN & COMPANY	846	33.84	0.0400
LEERINK SWANN & CO./IPO	21,266	520.71	0.0245
LIQUID NET CR9IKAV	54,242	911.72	0.0168
LYNCH JONES & RYAN	2,924	87.72	0.0300
M			
MACQUARIE CAPITAL SECS AUST LTD	2,780	44.28	0.0159
MACQUARIE CAPITAL SECURITIES PTE LT	202,900	524.16	0.0026
MACQUARIE SECURITIES (USA) INC.	3,827	114.81	0.0300
MACQUARIE SECURITIES LTD, HONG KONG	1,620,325	804.70	0.0005
MACQUARIE SECURITIES LTD,SEOUL BNCH	23,919	760.47	0.0318
MACQUARIE SECURITIES USA INC	16,435	657.40	0.0400
MERRILL LYNCH & CO. INC	4,875	195.00	0.0400
MERRILL LYNCH & CO. INC DTC161	2,092,305	935.22	0.0004
MERRILL LYNCH FENNER & SMITH INC	474,468	3,151.88	0.0066
MERRILL LYNCH INTL LTD EQUITIES	32,726	2,145.59	0.0656
MERRILL LYNCH PIERCE FENNER & SMITH	54,612	1,283.15	0.0235
MERRIMAN CURHAN FORD & CO	28,305	566.10	0.0200
MONNESS CRESPI HARDT & COMPANY	20,929	627.87	0.0300
MORGAN KEEGAN	4,957	198.28	0.0400
MORGAN KEEGEAN & CO NEW YORK DTC780	2,449	97.96	0.0400
MORGAN STANLEY & CO INC	542,864	582.74	0.0011
MORGAN STANLEY & CO INC. NEW YORK	45,190	1,038.49	0.0230
MORGAN STANLEY AND CO NW YK DTC 050	114,905	1,071.71	0.0093

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
N			
NBC CLEARING SERVICES MONTREAL	390	$ 16.00	$ 0.0410
NEEDHAM & COMPANY	375	11.25	0.0300
NEEDHAM AND CO INC	1,584	63.36	0.0400
NESBITT BURNS - TORONTO	16,430	664.81	0.0405
NOMURA INTERNATIONAL PLC LONDON	138,514,412	11,164.59	0.0001
NOMURA SECURITIES NEW YORK	1,824,598	459.57	0.0003
NORTHLAND SECURITIES	135,385	2,707.70	0.0200
O			
ONE EMBARCADERO CENTER	34,429	1,377.16	0.0400
OPPENHEIMER AND COMPANY	34,504	865.53	0.0251
P			
PAULSEN DOWLING SECS NY	48,871	1,979.40	0.0405
PELLINOR SECURITIES CORP	7,356	147.12	0.0200
PENSON FINANCIAL SERVICES CANADA	20,830	851.60	0.0409
PERSHING JERSEY CITY USA	66,040,000	26,300.00	0.0004
PERSHING LLC - JERSEY CITY	3,013	75.66	0.0251
PERSHING LLC FORMERLY DLJ	1,570,000	628.00	0.0004
PICKERING ENERGY PARTNERS INC	13,200	528.00	0.0400
PIPER JAFFRAY & HOPWWOD MINNEAPOLIS	1,600	16.76	0.0105
PIPER JAFFRAY INC	122,455	3,661.55	0.0299
PIPER JAFFREY NEW YORK	2,836,571	28,918.25	0.0102
PRITCHARD CAPITAL PARTNERS LLC	1,468	44.04	0.0300
PULSE TRADING LLC	2,494	24.94	0.0100
R			
RAYMOND JAMES	31,728	717.38	0.0226
RAYMOND, JAMES & ASSOCIATES, INC.	5,935	237.40	0.0400
RBC CAPITAL MARKETS CORPORATION	13,385	517.58	0.0387
RBC DAIN RAUSCHER	78,908	1,630.60	0.0207
RBC DOMINION SECS TORONTO	51,540	2,124.83	0.0412
REDBURN PARTNERS LLP	148,862	2,501.65	0.0168
RIDGE CLEARING &OUTSOURCING SOL INC	12,406	496.24	0.0400
ROBERT W BAIRD & CO NYK	29,489	1,179.56	0.0400
ROBERT W. BAIRD & COMPANY INC MILWAUKEE USA	98,981	2,296.81	0.0232
ROBINSON HUMPHREY	1,517	60.68	0.0400
ROCHDALE SECURITIES CORPORATION	10,933	224.76	0.0206
ROSENBLATT SECURITIES LLC	1,169	23.38	0.0200
ROTH CAPITAL PARTNERS LLC	11,848	355.44	0.0300
ROYAL BANK OF CANADA TORONTO	22,300	920.16	0.0413
S			
SANFORD BERNSTEIN NEW YORK	9,105	364.20	0.0400

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
S (continued)			
SANFORD C.BERNSTEIN LTD	38,056	$ 557.62	$ 0.0147
SANTANDER CENTRAL HISPANO INVESTMEN	3,427	76.84	0.0224
SCOTIA MCLEOD TORONTO	700	27.62	0.0395
SCOTT & STRINGFELLOW INVESTMENTS	85,213	941.74	0.0111
SERIES	4,763	148.62	0.0312
SIDOTI & COMPANY LLC	4,781	143.43	0.0300
SIMMONS & CO - NEW YORK	7,900	316.00	0.0400
SOCIETE GENERALE LONDON	44,047	941.46	0.0214
SOLEIL SECURITIES CORP	5,140	154.20	0.0300
SPEAR LEEDS NEW YORK	160,004	3,200.08	0.0200
STATE STREET BANK NEW YORK	3,292	90.49	0.0275
STATE STREET BROKERAGE SVCS	840,640	19,598.31	0.0233
STEPHENS INC NEW YORK	52,347	2,093.88	0.0400
STERNE AGEE AND LEACH INC	4,100	82.00	0.0200
STERNE, AGEE AND LEACH	7,867	314.68	0.0400
STIFEL NICOLAUS & CO NEW YORK	296,237	1,569.28	0.0053
STIFEL NICOLAUS AND COMPAN	67,241	1,540.55	0.0229
SUNTRUST ROBINSON HUMPHREY	18,495	554.85	0.0300
T			
TORONTO DOMINION SECURITIES INC CAN	37,350	1,541.84	0.0413
U			
UBS WARBURG LLC	67,500	550.85	0.0082
UNION BANK OF SWIT NEW YK DTC 642	1,196,962	727.25	0.0006
W			
W. J. BONFANTINI INC	940	18.80	0.0200
WACHOVIA CAPITAL MARKETS LLC	4,359,803	1,311.20	0.0003
WEDBUSH MORGAN SECS NEW YORK	12,070	482.80	0.0400
WEDBUSH MORGAN SECURITIES, INC	4,785	100.45	0.0210
WEEDEN & CO GREENWICH	345,951	6,175.58	0.0179
WEEDEN AND & CO	1,447	43.41	0.0300
WILLIAM BLAIR AND CO CHICAGO	421,824	2,872.96	0.0068
TOTAL	**486,260,173**	**$ 395,558.49**	**$ 0.0008**

Investment Summary

As of June 30, 2011 (Dollars in Thousands)

Type of Investment		Market Value	% of Portfolio
Equities			
Domestic Growth	$	81,850	4.36%
Domestic Small Cap		137,788	7.34%
Emerging Markets		95,872	5.11%
Foreign Developed Growth		61,085	3.25%
Foreign Small Cap		95,711	5.10%
Global Convertibles		56,484	3.01%
Global Core		318,830	16.98%
Global Value		179,875	9.58%
Total Equities	**$**	**1,027,495**	**54.73%**
Fixed Income			
Core Fixed Income		111	0.01%
Core Government		127,722	6.80%
High Yield/Bank Loans		67,894	3.62%
Investment Grade Credit		21,430	1.14%
US Treasury Inflation Protected Securities (TIPS)		197,013	10.49%
Total Fixed Income	**$**	**414,170**	**22.06%**
Alternatives			
Opportunistic		32,785	1.75%
Private Equity		92,643	4.93%
Real Assets		184,059	9.80%
Real Estate		90,673	4.83%
Total Alternatives	**$**	**400,160**	**21.31%**
Short Term		35,738	1.90%
International Currency Contracts		90	0.00%
Total Fair Value	**$**	**1,877,653**	**100.00%**

Note: The amounts presented above may vary from the amounts presented in the financial statements due to the investment summary reporting amounts at the manager level and the financial statements classifying amounts by investment type.

Investment Property

MILPITAS WAREHOUSE

145,152 square-foot warehouse/distribution building. Acquired jointly with the Police & Fire Department Retirement Plan in February 1986. The System purchased the Police & Fire Department Retirement Plan's 50% interest in the property in November 2003.

Actuarial Section

City of San José
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2011

Actuary's Certification Letter

CHEIRON Classic Values, Innovative Advice

August 12, 2011

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

Dear Members of the Board:

At your request, we performed the June 30, 2010 actuarial valuation of the City of San Jose Federated City Employees' Retirement System ("System"). The detailed valuation results with respect to the System are contained in our actuarial valuation report issued December 3, 2010. The purpose of the report is to determine the Annual Required Contribution for the fiscal year ending June 30, 2012, and to provide other disclosure information required under Government Accounting Standards Board Statements No. 25 and 27.

The prior valuation was performed by Gabriel, Roeder, Smith and Company, and all exhibits showing historical information are based on calculations performed by the prior actuary for fiscal years prior to June 30, 2010. Historically, actuarial valuations were performed every two years. Beginning June 30, 2010, actuarial valuations will be performed annually.

At its November 2010 meeting, the Board adopted a policy setting the Annual Required Contribution to be the greater of the 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 percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. For example, based on the June 30, 2010 valuation report, the Annual Required Contribution for the fiscal year ending June 30, 2012 is the greater of $93,795,312 (if paid 6/30/2012) and 28.34% of actual payroll for the period from July 1, 2011 through June 30, 2012.

- Unfunded Actuarial Liability (UAL)/Surplus: The UAL has increased by $51.4 million. The primary cause of this increase is the investment experience during the 12 months ended June 30, 2010.

- Funding Ratio: The ratio of the actuarial value of assets to actuarial liabilities declined since the last valuation from 71% to 69%. The actuarial value of assets is smoothed in order to mitigate the impact of investment performance volatility on employer contribution rates. Without the asset smoothing, the ratio of the market value of assets to actuarial liabilities increased from 55% to 60%.

- Member Contribution Rate: The member contribution rate is a proportion of the normal cost rate. In the prior valuation, this rate was calculated using a discount rate of 7.75%, and the increase was phased-in over a five-year period. The full member contribution rate was 4.88%, while the phased-in member contribution rate was 4.54%. In this valuation, the Board's intention of phasing in the discount rate is reflected by using a discount rate of 7.95%. Consequently, the member contribution rate increases from 4.54% to 4.68%. Under GRS' phase-in method, the rate was anticipated to increase from 4.54% to 4.65%.

1750 Tysons Boulevard, Suite 1100, McLean, VA 22102 Tel: 703.893.1456 Fax: 703.893.2006 www.cheiron.us

- City Contribution Rate: Like the member contribution rate, the prior valuation report calculated a city contribution rate using a discount rate of 7.75%, but the increase in contribution rate was phased-in over a five-year period. So, while the valuation calculated a city contribution rate of 25.75%, the phased-in city contribution rate was 23.18%. In this valuation, the Board's intention of phasing in the discount rate is reflected by using a discount rate of 7.95%. Consequently, the city contribution rate increases from 23.18% to 28.34%. Under GRS' phase-in method, the rate was anticipated to increase from 23.18% to 23.96%. The additional increase to 28.34% is primarily attributable to the investment experience. Because assets are smoothed and the full investment losses from the last fiscal year have not been recognized yet, the contribution rate is expected to increase for the next three years assuming investment returns are 7.95% per year and all other actuarial assumptions are met.

More details on the plan experience for the past year, including the changes listed above and their impact on these June 30, 2010 valuation results can be found in our full report. In preparing our report, we relied without audit, on information (some oral and some written) supplied by the City of San Jose Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information.

We have prepared the following information for inclusion in this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2010 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
- Notes to Required Supplementary Information
- Analysis of Financial Experience
- Solvency Test
- Schedule of Funding Progress
- Summary of Plan Benefits

This letter was prepared exclusively for the City of San Jose Federated City Employees' Retirement System for the purpose of completing required disclosures in this CAFR. This letter is not intended to benefit any third party.

We hereby certify that, to the best of our knowledge, this report and its contents, which are work products of Cheiron, Inc., are complete and accurate and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Sincerely,
Cheiron

Gene Kalwarski, FSA, FCA, EA, MAAA
Consulting Actuary

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

Summary of Assumptions and Funding Method

Actuarial Assumptions

1. Investment Return Assumption

Assets are assumed to earn 7.95% net of investment and administrative expenses.

2. Interest Credited to Member Contributions

3.00%, compounded annually.

3. Salary Increase Rate

Wage inflation component 3.90%

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

Salary Merit Increases	
Years of Service	**Merit/ Longevity**
0	5.75%
1	3.75
2	2.25
3	1.75
4	1.00
5+	0.25

4. Family Composition

Percentage married is shown in the following table. Women are assumed to be three years younger than men.

Percentage Married	
Gender	**Percentage**
Males	75%
Females	55%

5. Rates of Withdrawal/Termination

Sample rates of withdrawal/termination are show in the following table.

Rates of Termination / Withdrawal		
Age	**Withdrawal**	**Vested Termination**
20	11.00%	0.00%
25	7.00	3.00
30	5.00	3.00
35	2.50	2.75
40	1.50	2.00
45	1.25	2.00
50	1.25	1.50
55	1.00	0.00
60	1.00	0.00
65	0.00	0.00

** Withdrawal/termination rates do not apply once a member is eligible for retirement*

30% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.9% pay increases per year.

6. Rates of Disability

Sample disability rates of active participants are provided in the following table.

Rates of Disability at Selected Ages	
Age	**Disability**
20	0.04%
25	0.06
30	0.07
35	0.09
40	0.15
45	0.25
50	0.40
55	0.50
60	1.00
65	2.00
70	0.00

Summary of Assumptions and Funding Method *(Continued)*

7. Rates of Mortality for Healthy Lives

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the sex distinct 1994 Group Annuity Mortality Tables setback three years for males and one year for females.

8. Rates of Mortality for Retired Disabled Lives

Mortality rates for disabled retirees are based on the 1981 Disability Mortality Table.

Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	Male	Female
20	0.043%	0.028%
25	0.056	0.029
30	0.073	0.033
35	0.084	0.045
40	0.089	0.065
45	0.125	0.092
50	0.190	0.131
55	0.321	0.208
60	0.558	0.386
65	1.015	0.762
70	1.803	1.271
75	2.848	2.038
80	4.517	3.536

Rates of Mortality for Disabled Lives at Selected Ages		
Age	Male	Female
20	0.660%	0.660%
25	0.960	0.960
30	1.220	1.220
35	1.480	1.480
40	1.760	1.760
45	2.080	2.080
50	2.440	2.440
55	2.840	2.840
60	3.300	3.300
65	3.790	3.790
70	4.370	4.370
75	5.530	5.530
80	8.740	8.740

Summary of Assumptions and Funding Method *(Continued)*

9. Rates of Retirement

Rates of retirement are based on age according to the following table.

Rates of Retirement by Age	
Age	**Retirement**
50	0.00%
51	0.00
52	0.00
53	0.00
54	0.00
55	15.00
56	7.50
57	7.50
58	7.50
59	7.50
60	7.50
61	7.50
62	20.00
63	10.00
64	10.00
65	25.00
66	25.00
67	25.00
68	25.00
69	25.00
70 & over	100.00

The probability of retirement increased to 50% each year after completion of 30 years of service and attainment of age 50.

10. Deferred Member Benefit

The benefit was estimated based on information provided by the Department of Retirement Services. The data used to value the estimated deferred benefit were credited service, date of termination, and last pay rate. Based on the data provided, highest average salary was estimated.

11. Other

The contribution requirements and benefit values of a plan are calculated by applying actuarial assumptions to the benefit provisions and member information, using the actuarial funding methods described in the following section.

Actual experience of Federated will not coincide exactly with assumed experiences, regardless of the choice of the assumptions, the skill of the actuary or the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends, but not random year-to-year fluctuations.

12. Changes Since Last Valuation

The assumption for the expected rate of return on investments was changed from 7.75% to 7.95%.
The payroll growth/wage inflation assumption was changed from 3.83% to 3.90%.

Actuarial Methods

1. Actuarial Funding Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The unfunded actuarial accrued liability as of June 30, 2009 is amortized as a level percentage of pay over a closed 30-year period commencing June 30, 2009. Actuarial gains and losses, assumption changes, and plan changes are amortized as a level percentage of pay over a 20-year period beginning with the valuation date in which they first arise.

2. Asset Valuation Method

For the purposes of determining the employer's contribution, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value is calculated by recognizing 20% of each of the prior four years of actual investment experience relative to the expected return (7.75% for 2009-10 and 8.25% for prior years) on the actuarial asset value. The expected return on market assets is determined using the Fund's actual cash flows and the actuarial rate of interest. The balance of the actual investment experience is recognized in a similar fashion in future years.

Summary of Assumptions and Funding Method *(Continued)*

3. Annual Required Contribution

At its November 2010 meeting, the Board adopted a policy setting the Annual Required Contribution to be the greater of the 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 percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year.

Active Member Valuation Data

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Date	Active count	Annual Payroll	Average Annual Pay	Percentage Change in Annual Pay
2010	$ 3,818	$ 300,811,165	$ 78,788	-0.5%
2009	4,079	323,020,387	79,191	7.1
2007	3,942	291,404,606	73,923	7.0
2005	4,148	286,445,861	69,056	5.6
2003	4,479	292,961,371	65,408,	15.6
2001	4,466	252,696,000	56,582	7.9
1999	3,694	193,650,000	52,423	8.3
1997	3,642	176,284,000	48,403	6.8
1995	3,397	153,918,000	45,310	4.4

Changes in Retirants (Including Beneficiaries)

SCHEDULE OF RETIRANTS 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
2009-10	2,930	$ 101,194,000	206	$ 10,700,373	79	$ 2,203,960	3,111	$ 112,660,000	11.3%	$ 36,213
2007-09	2,691	84,723,000	376	14,890,021	137	3,450,015	2,930	101,194,000	19.4	34,537
2005-07	2,426	69,466,000	389	13,818,131	124	2,721,303	2,691	84,723,000	22.0	31,484
2003-05	2,172	54,687,000	398	16,679,642	144	2,070,047	2,426	69,466,000	27.0	28,634
2001-03	2,030	45,208,000	313	10,151,748	171	503,802	2,172	54,587,000	21.0	25,178
1999-2001	1,824	37,137,000	230	6,655,000	24	268,000	2,030	45,208,000	21.7	22,270
1997-1999	1,745	32,630,000	202	4,642,000	123	1,514,000	1,824	37,137,000	13.8	20,360
1995-1997	1,636	29,029,000	190	4,143,000	81	946,000	1,745	32,630,000	12.4	18,699

Solvency Test

GASB SOLVENCY TEST Actuarial Liabilities for:							
Valuation Date	Active Member Contributions	Retirees, Beneficiaries and Other Inactives	Remaining Active Members' Liabilities	Reported Assets*	Portion of Actuarial Liabilities Covered by Reported Assets		
June 30, **	(A)	(B)	(C)		(A)	(B)	(C)
2010	$ 242,944	$ 1,504,698	$ 762,716	$ 1,729,414	100%	99%	0%
2009	228,967	1,393,114	864,074	1,756,588	100%	100%	16%
2007	214,527	1,003,001	743,415	1,622,851	100%	100%	55%
2005	230,027	824,043	657,300	1,384,454	100%	100%	50%
2003	224,875	635,092	451,724	1,280,719	100%	100%	93%
2001	210,377	529,853	332,103	1,060,144	100%	100%	96%

Amounts in thousands

* *Actuarial Value of Assets*

** *Results prior to 7/1/2010 calculated by prior actuary*

Actuarial Analysis of Financial Experience

For the Nine-Year Period Ending June 30, 2010

	Change in Contribution Rate
For Plan Year Ended June 30, 2010	
Phase-in of Contribution Rates	2.91 %
Investment Performance	3.03 %
Liability Experience	1.24 %
Change in Assumptions	-1.88 %
Change in Benefit Provision	0.00%
TOTAL	**5.30%**
For Plan Year Ended June 30, 2009	
Investment Performance	1.63 %
Liability Experience	1.19 %
Change in Assumptions	5.22 %
Change in Benefit Provision	0.00 %
TOTAL	**8.04 %**
For Plan Year Ended June 30, 2007*	
Investment Performance	(0.99)%
Liability Experience	1.14 %
Change in Assumptions	0.00 %
Change in Benefit Provision	0.00 %
TOTAL	**0.15 %**
For Plan Year Ended June 30, 2005	
Investment Performance	1.77%
Liability Experience	2.37 %
Change in Assumptions	(0.59)%
Change in Benefit Provision	0.00 %
TOTAL	**3.55 %**
For Plan Year Ended June 30, 2003	
Investment Performance	2.78 %
Liability Experience	2.60 %
Change in Asset Valuation Method	(2.48)%
Change in Assumptions	0.00 %
Change in Benefit Provision	0.00 %
TOTAL	**2.90 %**
For Plan Year Ended June 30, 2001	
Investment Performance	(0.46)%
Liability Experience	(1.62)%
Change in Assumptions	0.00 %
Change in Benefit Provision	1.51 %
TOTAL	**(0.57)%**

** Change in employer contribution rate for retirement only*

Summary of Retirement Benefit Provisions

1. Membership Requirement

Participation in the plan is immediate upon the first day of full-time employment.

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 one thousand seven hundred thirty-nine 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 one thousand seven hundred thirty-nine) is given for each calendar year with less than one thousand seven hundred thirty-nine hours worked.

4. Member Contributions

a. *Member:*

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

b. *Employer:*

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

5. Service Retirement

Eligibility:

Age 55 with 5 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% of Final Compensation.

Benefit - Survivor: 50% 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% and a maximum of 75% of Final Compensation. Workers' Compensation benefits are generally offset from the service-connected benefits under this system.

Benefit - Survivor:

50% of the disability retirement benefit paid to a qualified survivor.

7. Non-Service Connected Disability Retirement

Eligibility:

5 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 fifty-five.

Members who were hired on or after September 1, 1998:

20% of Final Compensation, plus 2% of Final Compensation for each year of credited service between 6 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% of Final Compensation

Benefit - Survivor:

50% of the disability retirement benefit paid to a qualified survivor.

8. Death while an Active Employee

Less than 5 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 6 years.

5 or more Years of Service:

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. 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.

Summary of Health Subsidy Benefit Provisions *(Continued)*

9. Withdrawal Benefits

Less than 5 Years of Service:

Lump sum benefit equal to the accumulated employee contributions with interest.

5 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%, without banking.

Actuary's Certification Letter

Other Postemployment Benefits (OPEB)

CHEIRON Classic Values, Innovative Advice

September 7, 2011

Retirement Board of the Federated City
Employees' Retirement System
1737 North 1st Street, Suite 580
San Jose, California 95112

Dear Members of the Board:

At your request, we performed the June 30, 2010 actuarial valuation of the City of San Jose Federated Retiree Health Care Plan ("Plan"). The detailed valuation results with respect to the System are contained in our actuarial valuation report issued January 7, 2011. The purpose of the report is to determine employee and City contribution rates and the Annual Required Contribution for the fiscal year ending June 30, 2012, and to provide other disclosure information required under Government Accounting Standards Board Statements No. 43 and 45.

The prior valuation was performed by Gabriel, Roeder, Smith and Company, and all exhibits showing historical information are based on calculations performed by the prior actuary for fiscal years prior to June 30, 2010. Historically, actuarial valuations were performed every two years. Beginning June 30, 2010, actuarial valuations will be performed annually.

At its December 2010 meeting, the Board adopted a policy setting the City contribution to be the greater of the 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 percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. For example, based on the June 30, 2010 valuation report, the contribution required for the fiscal year ending June 30, 2012 is the greater of $21,470,679 (if paid 7/1/2011) and 7.16% of actual payroll for the period from July 1, 2011 through June 30, 2012. Other key results from the valuation are as follows:

- Unfunded Actuarial Liability (UAL)/Surplus: On a financial reporting basis, the UAL increased $107.5 million from $710.9 million to $818.4 million. The Actuarial Liability increased $129.9 million and assets increased $22.4 million.

- Funding Ratio: The ratio of the actuarial value of assets to actuarial liabilities increased since the last valuation from 11% to 12%.

- Member Contribution Rate: The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The agreements call for a five year transition to fully funding the Annual Required Contribution (ARC) under GASB 43 and 45 using a straight line method with a limit of an annual increase of 0.75% of payroll for the member and the City rate. The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of eight to three with the City contributing 8/11 of the total contribution. The member contribution rate increased from 5.76 % to 6.51% of payroll. Without the phase-in, the member contribution rate would have been 9.03%.

121 SW Salmon Street, 11th Floor, Portland, OR 97204 Tel: 877.243.4766 Fax: 703.893.2006 www.cheiron.us

Other Postemployment Benefits (OPEB)

- City Contribution Rate: The City contribution rate increased from 6.41% to 7.16% of payroll. Without the phase-in, the City contribution rate would have been 9.89%.

More details on the plan experience for the past year, including the changes listed above and their impact on these June 30, 2010 valuation results can be found in our full report. In preparing our report, we relied without audit, on information (some oral and some written) supplied by the City of San Jose Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information.

We have prepared the following information for inclusion in the Actuarial Section of this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2010 actuarial valuation:

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Data
- Schedule of Retirants and Beneficiaries Added to and Removed from Rolls
- Solvency Test
- Analysis of Financial Experience
- Summary of Key Substantive Plan Provisions

In addition, we have prepared the following information for inclusion in the Financial Section of this CAFR.

- Notes to Required Supplementary Information
- Schedule of Funding Progress
- Schedule of Employer Contributions

This letter was prepared exclusively for the City of San Jose Federated City Employees' Retirement System for the purpose of completing required disclosures in this CAFR. This letter is not intended to benefit any third party.

We hereby certify that, to the best of our knowledge, this report and its contents, which are work products of Cheiron, Inc., are complete and accurate and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Sincerely,
Cheiron

William R. Hallmark

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

Margaret Tempkin

Margaret A. Tempkin, FSA, EA, MAAA
Consulting Actuary

Attachment

Actuarial Assumptions and Methods

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Economic Assumptions:

1. Expected Return on Plan Assets: 7.90% per year

2. Expected Return on Employer Assets: 4.50% per year

3. Blended Discount Rate: 6.71% per year

4. Per Person Cost Trends:

Date	Annual Increase		
To Year Beginning July 1	Pre-Medicare	Medicare Eligible	Dental
2011	9.50%	7.00%	5.00%
2012	9.17	6.83	4.50
2013	8.83	6.67	4.50
2014	8.50	6.50	4.00
2015	8.17	6.33	4.00
2016	7.83	6.17	4.00
2017	7.50	6.00	4.00
2018	7.17	5.83	4.00
2019	6.83	5.67	4.00
2020	6.50	5.50	4.00
2021	6.17	5.33	4.00
2022	5.83	5.17	4.00
2023	5.50	5.00	4.00
2024	5.17	4.83	4.00
2025	4.83	4.67	4.00
2026+	4.50	4.50	4.00

Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum are assumed to increase at the above trend rates.

Demographic Assumptions:

1. Retirement Rates:

The following rates of retirement are assumed for members eligible to retire.

Retirements by Age	
Age	Retirement
55	15.00
56	7.50
57	7.50
58	7.50
59	7.50
60	7.50
61	7.50
62	20.00
63	10.00
64	10.00
65	25.00
66	25.00
67	25.00

The probability of retirement increased to 50% each year after completion of 30 years of service and attainment of age 50.

2. Termination / Withdrawal Rates:

Sample rates of withdrawal/termination are show in the following table

Rates of Termination / Withdrawal		
Age	Withdrawal	Vested Termination
20	11.00%	0.00%
25	7.00	3.00
30	5.00	3.00
35	2.50	2.75
40	1.50	2.00
45	1.25	2.00
50	1.25	1.50
55	1.00	0.00
60	1.00	0.00
65	0.00	0.00

Actuarial Assumptions and Methods *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Demographic Assumptions (Continued):

3. Rate of Mortality:

Healthy Lives:

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the sex distinct 1994 Group Annuity Mortality Tables setback three years for males and one year for females.

Healthy Mortality Rates		
	Male Participants	Female Participants
Age	Pre- and Post-Retirement	Pre- and Post-Retirement
20	0.043%	0.028%
25	0.056	0.029
30	0.073	0.033
35	0.084	0.045
40	0.089	0.065
45	0.125	0.092
50	0.190	0.131
55	0.321	0.208
60	0.558	0.386
65	1.015	0.762
70	1.803	1.271
75	2.848	2.038
80	4.517	3.536

Disabled Lives:

Mortality rates for disabled retirees are based on the 1981 Disability Mortality Table.

Disabled Mortality Rates		
	Male Participants	Female Participants
Age	Pre- and Post-Retirement	Pre- and Post-Retirement
20	0.660%	0.660%
25	0.960	0.960
30	1.220	1.220
35	1.480	1.480
40	1.760	1.760
45	2.080	2.080
50	2.440	2.440
55	2.840	2.840
60	3.300	3.300
65	3.790	3.790
70	4.370	4.370
75	5.530	5.530
80	8.740	8.740

4. Disability Rates:

Sample rates of disability are show in the following table

Rates of Disability at Selected Ages	
Age	Disability
20	0.04%
25	0.06
30	0.07
35	0.09
40	0.15
45	0.25
50	0.40
55	0.50
60	1.00
65	2.00
70	0.00

50% of disabilities are assumed to be duty related, and 50% are assumed to be non-duty.

Actuarial Assumptions and Methods *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Demographic Assumptions (Continued):

5. Salary Increase Rate:

Wage inflation component 3.90%

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

Salary Merit Increase	
Years of Service	**Merit & Longevity**
0	5.75%
1	3.75
2	2.25
3	1.75
4	1.00
5+	0.25

6. Percent of Retirees Electing Coverage:

100% of employees are assumed to elect coverage at retirement. Future retirees plan elections are assumed to mirror current retiree plan elections. The following rates are used to determine blended claims and contributions for future retirees:

Assumed Plan Elections for Future Retirees		
Plan	**Pre-Medicare**	**Medicare Eligible**
Medical		
• Kaiser	71%	46%
• HMO	22%	6%
• PPO	5%	42%
• POS	2%	N/A
• Secure Horizons	N/A	4%
• PacificareN/A	2%	
Dental		
• Delta Dental PPO	97%	291
• DeltaCare HMO	3%	N/A

7. Family Composition:

55% of employees will elect spouse coverage in a medical plan at retirement. 65% of employees will elect spouse coverage in a dental plan at retirement.

8. Dependent Age:

For current active employees, males are assumed to be 3 years older than female spouses. For current retirees, actual spouse date of birth was used.

9. Married Percentage:

100% of employees are assumed to be married.

10. Administrative Expenses:

Included in the average monthly premiums.

Changes Since Last Valuation

The assumption for the expected rate of return on plan investments was changed from 7.75% to 7.95%. The payroll growth assumption was changed from 3.83% to 3.90%.

Claim and Expense Assumptions:

1. Average Annual Claims and Expense Assumptions:

The following claim and expense assumptions are applicable to the 12-month period beginning July 1, 2010 and are based on the premiums in effect on the valuation date. Subsequent years' costs are based on the trended first year cost adjusted with trends listed above.

Actives Employees:

Medical		
Age	**Male**	**Female**
40	$ 3,216	$ 5,724
45	4,032	6,060
50	5,340	7,188
55	7,020	8,568
60	9,120	10,224
64	11,784	12,624
65	5,148	5,484
70	6,036	6,060
75	6,756	6,528
80	7,176	6,744
85	7,272	6,672

Actuarial Assumptions and Methods *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Current Retirees:

	Kaiser - Male			Kaiser - Female		
Age	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
45	$ 5,809	$ 3,873	$ (1,936)	$ 5,809	$ 5,820	$ 11
50	5,809	5,130	(679)	5,809	6,903	1,094
55	5,809	6,741	932	5,809	8,226	2,417
64	5,809	11,317	5,508	5,809	12,133	6,324
65	5,157	4,616	(541)	5,157	4,923	(234)
70	5,157	5,420	263	5,157	5,436	279
75	5,157	6,061	903	5,157	5,862	704
80	5,157	6,439	1,282	5,157	6,051	893

	HMO - Male			HMO - Female		
Age	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
45	$ 6,482	$ 4,285	$ (2,197)	$ 6,482	$ 6,439	$ (43)
50	6,482	5,675	(807)	6,482	7,637	1,155
55	6,482	7,458	975	6,482	9,101	2,619
64	6,482	12,521	6,038	6,482	13,424	6,941
65	4,950	4,825	(124)	4,950	5,146	197
70	4,950	5,666	716	4,950	5,683	733
75	4,950	6,335	1,386	4,950	6,127	1,178
80	4,950	6,731	1,781	4,950	6,325	1,375

	PPO - Male			PPO - Female		
Age	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
45	$ 9,000	$ 4,703	$ (4,297)	$ 9,000	$ 7,067	$ (1,933)
50	9,000	6,229	(2,771)	9,000	8,382	(618)
55	9,000	8,185	(815)	9,000	9,989	988
64	9,000	13,742	4,742	9,000	14,733	5,733
65	6,994	5,905	(1,089)	6,994	6,298	(696)
70	6,994	6,934	(61)	6,994	6,955	(40)
75	6,994	7,753	759	6,994	7,499	505
80	6,994	8,238	1,243	6,994	7,740	746

Actuarial Assumptions and Methods *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Current Retirees (Continued):

	POS - Male			POS - Female		
Age	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
45	$ 9,000	$ 5,388	$ (3,612)	$ 9,000	$ 8,097	$ (903)
50	9,000	7,136	(1,864)	9,000	9,603	602
55	9,000	9,377	377	9,000	11,444	2,443
64	9,000	15,744	6,743	9,000	16,879	7,879

	Secure Horizons - Male			Secure Horizons - Female		
Age	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
65	$ 5,335	$ 4,235	$ (1,100)	$ 5,335	$ 4,516	$ (818)
70	5,335	4,972	(362)	5,335	4,987	(348)
75	5,335	5,560	225	5,335	5,377	43
80	5,335	5,907	573	5,335	5,551	216

	Pacificare - Male			Pacificare - Female		
Age	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
65	$ 4,746	$ 3,950	$ (795)	$ 4,746	$ 4,213	$ (532)
70	4,746	4,639	(107)	4,746	4,653	(93)
75	4,746	5,187	441	4,746	5,017	271
80	4,746	5,511	765	4,746	5,178	433

Dental	
Plan	Monthly Premium (every age)
Delta Dental PPO	$ 669
DeltaCare HMO	300

2. Medicare Part D Subsidy:

Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.

3. Medicare Part B Premiums:

Assumed that Medicare eligible retirees pay the Medicare Part B premiums.

4. Medicare Eligibility:

Age 65

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:

Current retirees pay the difference between the actual premium for the elected plan and the Kaiser rate.

Future retirees are assumed to pay the following rates:

	Retiree	Spouse
Pre-Medicare	$ 372	$ 717
Medicare Eligible	498	0

Actuarial Assumptions and Methods *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Actuarial Methods

1. Actuarial Cost Method

The Entry Age Normal 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 postemployment 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 cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The unfunded actuarial accrued liability is amortized over a level percentage of pay closed amortization. The June 30, 2010 valuation used a 27.6 year amortization period.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population.

2. Asset Valuation Method

The Actuarial Value of Assets is set equal to the Market Value of Assets.

3. Amortization Method

The UAL as of June 30, 2009 is amortized over a closed 30-year period as a level percentage of payroll, and subsequent gains and losses, changes in assumptions, and changes in plan provisions are amortized over 20-year periods from the first valuation recognizing the change.

as of June 30,	SCHEDULE OF ACTIVE MEMBER DATA			
Valuation Date	Active Member Counts			Annual Payroll
	Under Age 65	Age 65+	Total	
2010	3,721	97	$ 3,818	$ 300,811,165
2009	3,988	91	4,079	323,020,387
2007	3,853	66	3,919	N/A
2006	3,734	75	3,809	N/A

SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS					
Period	Beginning of Period	Added to Rolls	Removed from Rolls	End of Period	Net Change
Medical					
2009-10	2,078	243	76	2,245	167
2007-09	1,976	N/A	N/A	2,078	102
2006-07	1,891	N/A	N/A	1,976	85
Dental					
2009-10	2,375	291	78	2,588	213
2007-09	2,248	N/A	N/A	2,375	127
2006-07	2,220	N/A	N/A	2,248	28

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SOLVENCY TEST					
	Actuarial Liabilities				
Valuation Date	Retirees, Beneficiaries and Other Inactives	Remaining Active Members	Reported Assets	Portion of Actuarial Liabilities Covered by Reported Assets	
June 30,	(A)	(B)		(A)	(B)
2010	$ 515,284	$ 411,087	$ 108,011	21%	0%
2009	421,367	375,081	85,564	20%	0%
2007	335,798	280,951	96,601	29%	0%
2006	370,886	332,052	81,288	22%	0%

Amounts in thousands

ANALYSIS OF FINANCIAL EXPERIENCE	
Type of Activity	**Gain (or Loss) for Year Ending June 30, 2010**
Investment Income	$ 6,705
Liability Experience	(43,746)
Gain (or Loss) During Year from Financial Experience	(37,041)
Non-Recurring Gain (or Loss) Items	(36,785)
Composite Gain (or Loss) During Year	(73,826)

Amounts in thousands

Summary of Key Substantive Plan Provisions:

Eligibility:

Medical: Employees who retire (include deferred vested members) at age 55 with 15 years of service, or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement.

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 19 (24 if a full-time student).

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 5 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 5 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.

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Benefits for Retirees:

Medical:

The Retirement System, through the medical benefit account, pays 100% of the premium for the lowest cost health plan available to active City employees. The member pays the difference if another plan is elected.

Effective January 1, 2010, the lowest cost health plan is the Kaiser plan. The single coverage amount is $484.06 per month, and the family coverage amount is $1,205.20 per month. These amounts are not adjusted once a retiree is eligible for Medicare.

Dental:

The Retirement System, through the medical benefit account, pays 100% of the dental insurance premiums.

Premiums:

Monthly premiums before adjustments for 2010 are as follows.

MONTHLY PREMIUMS FOR 2010				
	Single	% Increase	Family	% Increase
Medical				
Non-Medicare Monthly Rates				
Kaiser – Traditional (CA)	$ 484.06	9.0%	$ 1,205.20	9.0%
Blue Shield HMO	540.20	9.9%	1,387.72	9.9%
Blue Shield PPO or POS	750.02	11.9%	1,927.48	11.9%
Medicare Monthly Rates				
Kaiser – Senior Advantage	$ 429.78	3.7%	$ 859.56	3.7%
Secure Horizons	444.55	10.5%	889.10	10.5%
Blue Shield Medicare PPO	582.86	11.9%	1,165.72	11.9%
Blue Shield Medicare HMO	412.46	9.9%	824.92	9.9%
Pacificare Senior Supplement	395.48	4.4%	790.96	4.4%
Dental				
Delta Dental PPO	$ 111.48	18.0%	$ 111.48	18.0%
DeltaCare HMO	49.98	(0.2)%	49.98	(0.2)%

Cost Sharing Provisions:

It is assumed for the purpose of this valuation that the City of San Jose will in the future maintain a consistent level of cost sharing for benefits with the retirees. This may be achieved by adjusting benefit provisions, contributions or both.

The Statistical Section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this fiscal year's financial statements, note disclosures, and supplementary information, which cover Pension Plan, and Other Postemployment Medical Benefits. This section also provides a multi-year trend of financial and operating information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for the System'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 Section

City of San José
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2011

Statistical Review

CHANGES IN NET ASSETS FOR FISCAL YEARS 2002-2011 *(In Thousands)*
PENSION BENEFITS (Schedule 1a)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Additions										
Employee contributions	$ 11,071	$ 11,776	$ 12,394	$ 12,393	$ 12,395	$ 12,370	$ 13,366	$ 13,848	$ 13,396	$ 24,602
Employer contributions	41,011	38,411	39,534	41,552	41,267	51,004	54,958	57,020	54,566	59,180
Investment Income*	(24,140)	71,179	192,373	115,618	132,873	244,210	(60,101)	(295,773)	197,755	287,179
Total additions to plan net assets	**27,942**	**121,366**	**244,301**	**169,563**	**186,535**	**307,584**	**8,223**	**(224,905)**	**265,717**	**370,961**
Deductions (See Schedule 2a)										
Benefit payments	48,235	46,814	53,578	60,438	68,438	75,135	83,291	89,767	98,110	110,415
Death benefits	22	4,752	5,454	5,437	5,721	5,867	6,263	6,923	7,583	7,883
Refunds	1,207	714	1,188	927	1,246	1,008	972	1,395	1,219	1,980
Administrative expenses and other	1,378	1,532	1,799	1,588	1,790	1,845	2,358	2,108	2,641	2,867
Total deductions from plan net assets	**50,842**	**53,812**	**62,019**	**68,390**	**77,195**	**83,855**	**92,884**	**100,193**	**109,553**	**123,145**
Change in Net Assets	**$ (22,900)**	**$ 67,554**	**$ 182,282**	**$ 101,173**	**$ 109,340**	**$223,729**	**$ (84,661)**	**$ (325,098)**	**$ 156,164**	**$ 247,816**

**Net of Expenses*

POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 1b)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Additions										
Employee contributions	$ 2,787	$ 3,032	$ 3,191	$ 5,219	$ 5,226	$ 9,612	$ 10,403	$ 15,076	$ 15,815	$ 16,041
Employer contributions	4,127	3,866	3,948	5,996	5,961	10,728	11,560	16,368	17,027	17,146
Investment Income*	(1,558)	4,193	11,066	6,539	7,273	13,343	(3,715)	(18,485)	13,852	21,842
Total additions to plan net assets	**5,356**	**11,091**	**18,205**	**17,754**	**18,460**	**33,683**	**18,248**	**12,959**	**46,694**	**55,029**
Deductions (See Schedule 2b)										
Healthcare insurance premiums	7,804	9,191	11,438	13,393	15,904	18,265	20,195	21,725	24,066	27,370
Administrative expenses and other	94	99	114	95	103	105	134	132	181	216
Total deductions from plan net assets	**7,898**	**9,290**	**11,552**	**13,488**	**16,007**	**18,370**	**20,329**	**21,857**	**24,247**	**27,586**
Change in Net Assets	**$ (2,542)**	**$1,801**	**$6,653**	**$4,266**	**$2,453**	**$15,313**	**$(2,081)**	**$ (8,956)**	**$ 22,447**	**$ 27,443**

**Net of Expenses*

Source: Pension Administration System

Statistical Review *(Continued)*

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

Type of Benefit	2011	2010	2009	2008	2007	2006
Age and Service Benefits						
Retirees – Service	$ 95,562	$ 84,606	$ 77,444	$ 71,849	$ 64,978	$ 59,391
Retirees – Deferred Vested	8,047	6,996	6,219	5,730	4,860	4,134
Survivors – Service	4,425	4,207	3,867	3,561	3,320	3,195
Survivors – Deferred Vested	130	138	126	122	108	87
Death in Service Benefits	2,202	2,161	2,032	1,815	1,722	1,750
Disability Benefits						
Retirees – Duty	3,493	3,498	3,256	3,102	2,920	2,702
Retirees – Non-Duty	2,039	1,899	1,884	1,835	1,737	1,640
Survivors – Duty	356	338	263	218	197	187
Survivors – Non-Duty	770	739	635	547	519	502
Ex-Spouse Benefits	1,274	1,111	964	775	640	571
Total Benefits	**$118,298**	**$105,693**	**$96,690**	**$89,554**	**$81,002**	**$74,159**
Type of Refund						
Separation	$ 1,980	$ 1,219	$ 1,395	$ 972	$ 1,008	$ 1,246
Total Refunds	$ 1,980	$ 1,219	$ 1,395	$ 972	$ 1,008	$ 1,246

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

Type of Benefit	2011	2010	2009	2008	2007	2006
Age and Service Benefits						
Retirees – Service						
Medical	$ 18,971	$ 16,344	$ 14,772	$ 13,524	$ 12,029	$ 10,341
Dental	2,840	2,474	2,150	2,148	2,022	1,870
Retirees – Deferred Vested*						
Medical	1,241	1,180	1,063	949	767	652
Dental	24	27	26	29	35	-
Survivors – Service						
Medical	1,024	938	862	800	730	628
Dental	329	308	268	269	251	235
Survivors – Deferred Vested*						
Medical	18	16	11	10	9	11
Dental	-	-	1	-	-	-
Death in Service Benefits						
Medical	412	366	335	327	313	293
Dental	79	74	67	69	72	71
Disability Benefits						
Retirees – Duty						
Medical	1,253	1,241	1,166	1,113	1,098	956
Dental	162	161	142	143	145	131
Retirees – Non-Duty						
Medical	530	513	510	483	478	433
Dental	92	84	79	81	78	73
Survivors – Duty						
Medical	125	100	80	75	69	59
Dental	30	27	20	19	18	17
Survivors – Non-Duty						
Medical	195	171	139	123	119	103
Dental	45	42	34	33	32	31
Ex-Spouse Benefits						
Medical	-	-	-	-	-	-
Dental	-	-	-	-	-	-
Total Benefits	$ 27,370	$ 24,066	$ 21,725	$ 20,195	$ 18,265	$ 15,904

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

Source: Pension Administration System

Statistical Review *(Continued)*

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2002-2011
(Schedule 3)

Fiscal Year	Employee Rate (%)	Employer Rate (%)
2002	4.96	17.40
2003	5.08	15.20
2004	5.08	15.20
2005	6.06	17.12
2006	6.06	17.12
2007	7.58	21.98
2008	7.58	21.98
2009	8.93	23.56
2010	9.35	24.01
2011	10.30*	29.59**

** Some Bargaining units negotiated temporary higher rates.*

*** Some bargaining units negotiated temporary higher member contribution rates, which directly offset the City's contribution rate.*

Source: Pension Administration System

Retired Member by Type of Benefit

PENSION BENEFITS

As of June 30, 2011

		Type of Retirement*							Option Selected**			
Monthly Benefit Amount	Number of Retirees & Beneficiaries	1	2	3	4	5	6	7	A	B	C	Total
$1-500	152	38	4	1	1	34	52	22	96	21	35	152
501-1000	300	98	12	3	3	78	78	28	197	16	87	300
1001-1500	367	139	9	15	16	104	66	18	227	42	98	367
1501-2000	398	192	13	34	24	70	51	14	260	36	102	398
2001-2500	368	230	14	28	9	36	42	9	243	33	92	368
2501-3000	317	230	5	22	17	23	18	2	207	37	73	317
3001-3500	309	251	8	11	8	5	22	4	198	30	81	309
3501-4000	275	237	5	6	5	2	19	1	174	31	70	275
4001-4500	242	213	5	3	-	4	15	2	181	18	43	242
4501-5000	203	189	3	1	-	-	10	-	135	26	42	203
5001-5500	142	137	1	1	-	1	2	-	91	15	36	142
5500-6000	148	141	1	2	-	-	4	-	104	16	28	148
6000-6500	94	89	1	-	-	-	4	-	57	7	30	94
6501-7000	56	56	-	-	-	-	-	-	46	1	9	56
Over $7000	143	137	-	1	-	-	5	-	110	13	20	143
TOTAL	**3,514**	**2,377**	**81**	**128**	**83**	**357**	**388**	**100**	**2,326**	**342**	**846**	**3,514**

***Retirement Codes**

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

****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, 2011

	Type of Subsidy	
Amount Monthly Benefit	Health	Dental
Ineligible/Deferred	1,003	594
$1 - 60	-	86
$61 - 250	-	2,834
$251 - 500	1,165	-
$501 - 750	-	-
$751 -1000	317	-
Over $1,000	1,029	-
TOTAL	**3,514**	**3,514**

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

	Years of Service Credit						
Retirement Effective Dates	**0-5**	**6-10**	**11-15**	**16-20**	**21-25**	**26-30**	**31+**
Period 7/1/2010 to 6/30/2011							
Average Monthly Benefit*	$ 842	$ 1,267	$ 2,036	$ 2,835	$ 3,851	$ 5,036	$ 5,577
Average Final Average Salary	$ 4,303	$ 4,570	$ 4,580	$ 4,991	$ 5,360	$ 5,544	$ 6,056
Number of Retired Members**	131	371	388	566	465	726	139
Period 7/1/2009 to 6/30/2010							
Average Monthly Benefit*	$838	$ 1,179	$ 1,980	$ 2,700	$ 3,714	$ 4,852	$ 5,410
Average Final Average Salary	$ 4,203	$ 4,221	$ 4,393	$ 4,778	$ 5,129	$ 5,311	$ 5,929
Number of Retired Members**	124	343	367	537	417	664	130
Period 7/1/2008 to 6/30/2009							
Average Monthly Benefit*	$ 778	$ 1,139	$1,899	$ 2,585	$ 3,545	$ 4,671	$ 5,281
Average Final Average Salary	$ 3,898	$ 4,045	$4,201	$ 4,629	$ 4,898	$ 5,151	$ 5,807
Number of Retired Members**	120	329	359	529	392	624	123
Period 7/1/2007 to 6/30/2008							
Average Monthly Benefit*	$ 765	$ 1,133	$ 1,856	$ 2,550	$ 3,470	$ 4,600	$ 5,231
Average Final Average Salary	$ 3,828	$ 3,963	$ 4,144	$ 4,585	$ 4,796	$ 5,099	$ 5,761
Number of Retired Members**	119	325	355	524	382	611	120
Period 7/1/2006 to 6/30/2007							
Average Monthly Benefit*	$ 732	$ 1,049	$ 1,728	$ 2,398	$ 3,129	$ 4,253	$ 4,947
Average Final Average Salary	$ 3,455	$ 3,627	$ 3,867	$ 4,316	$ 4,263	$ 5,030	$ 5,505
Number of Retired Members**	115	307	344	476	342	564	105
Period 7/1/2005 to 6/30/2006							
Average Monthly Benefit*	$ 665	$ 981	$ 1,638	$ 2,252	$ 2,971	$ 4,142	$ 4,679
Average Final Average Salary	$ 3,073	$ 3,413	$ 3,704	$ 4,123	$ 4,067	$ 4,755	$ 5,324
Number of Retired Members**	116	294	337	449	322	536	100

* *Includes Cost of Living Increases*

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

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

Source: Pension Administration System

Average Benefit Payment Amounts

POSTEMPLOYMENT HEALTHCARE BENEFITS

	Years of Service Credit						
Retirement Effective Dates	0-5	6-10	11-15	16-20	21-25	26-30	31+
Period 7/1/2010 to 6/30/2011							
Average Health Subsidy	$ 866	$ 773	$ 764	$ 855	$ 898	$ 928	$ 848
Number of Health Participants*	21	39	191	544	448	711	138
Average Dental Subsidy	$ 108	$ 110	$ 109	$ 110	$ 110	$ 109	$ 108
Number of Dental Participants*	64	233	300	500	430	708	139
Period 7/1/2009 to 6/30/2010							
Average Health Subsidy	$ 587	$ 461	$ 650	$ 797	$ 828	$ 867	$ 816
Number of Health Participants*	28	65	212	515	402	649	128
Average Dental Subsidy	$ 103	$ 104	$ 103	$ 103	$ 103	$ 103	$ 103
Number of Dental Participants*	61	218	289	474	384	646	130
Period 7/1/2008 to 6/30/2009							
Average Health Subsidy	$ 596	$ 449	$ 636	$ 757	$ 779	$ 817	$ 764
Number of Health Participants*	26	65	209	505	377	608	121
Average Dental Subsidy	$ 94	$ 93	$93	$ 94	$ 93	$ 93	$ 93
Number of Dental Participants*	61	212	286	467	360	608	122
Period 7/1/2007 to 6/30/2008							
Average Health Subsidy	$ 761	$ 674	$ 681	$ 727	$ 738	$ 785	$ 738
Number of Health Participants*	20	42	192	492	356	582	114
Average Dental Subsidy	$ 98	$ 98	$ 98	$ 98	$ 98	$ 98	$ 98
Number of Dental Participants*	59	206	286	456	339	580	115
Period 7/1/2006 to 6/30/2007							
Average Health Subsidy	$ 728	$ 683	$ 654	$ 678	$ 679	$ 736	$ 700
Number of Health Participants*	23	45	195	459	331	555	104
Average Dental Subsidy	$ 97	$ 97	$ 97	$ 97	$97	$ 97	$ 97
Number of Dental Participants*	62	202	286	431	318	552	105
Period 7/1/2005 to 6/30/2006							
Average Health Subsidy	$ 616	$ 635	$ 613	$ 614	$ 615	$ 670	$ 641
Number of Health Participants*	24	49	189	416	305	520	98
Average Dental Subsidy	$ 95	$ 94	$ 94	$ 94	$ 94	$94	$ 94
Number of Dental Participants*	62	191	280	397	297	521	99

* *Does not include Survivors and Ex-Spouses*

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

Source: Pension Administration System

Retirements During Fiscal Year 2010-2011

SERVICE RETIREMENTS

ALFORD, JAN
ALLEN, KATRINA
ALVARENGA, WILLIAM
ALVAREZ, RUBEN
APARICIO-YANEZ, CONNIE
ARCHDEACON, LISJE
ARCHDEACON, RICHARD
AREVALO, LUIS
AU, JOSEPH
AU, KAI-KEI
AYELE, FREHIWOT
BABAKHAN, PHILIP
BAGHDASSARIAN, SHAHIN
BAILEY, VERONICA
BALAGSO, ALBERT
BASTIDA, MAGDALENA
BAUTISTA, JOEL
BEAMS, DONALD
BEATTIE, ADALBERTO
BELFREY, BENJAMIN
BETTI, RICHARD
BITON, CEFERINO
BLAKE, STEVEN
BOJORQUEZ, CELIA
BOSWELL, CLAIRE
BOYD, DARRYL
BRADDOCK, BEATRICE
BRIGHTER, GERALDINE
BROWN, BRAD
BROWN, NATHANIEL
BROWN, THOMAS
BUFFINGTON, WILLIAM
BUI, SEAN
BURCHFIEL, ROBERT
BYRNE, LINDA
CABRAL, RONALD
CAMPOS, LOUIS
CANALES, BENJAMIN
CARNEGHI, DONNA
CASON, JAMES
CASTELLANO, LAWRENCE
CASTRO, JOSE
CATE, SUSAN
CAVALLARO, SHEILA
CHANG, MARGARET
CHEN, EH
CHEN, PETER
CHEUNG, JOHN
CHIN, BRUCE
CISNEROS, DELORES
CLARA, JOHN
CLELAND, CAMERON
COLBECK, DOUGLAS
COLLETT, ALLAN
CONTRERAS, STEVEN
COXSON, DARRELL
CROUCH, AUDREY
CROWTHER, JO
CUDAL, ELVIRO
CUI, JERRY
DALE, RICK
DANZIGER, MARY
DARBY, STEVE
DARDIS, PAULA
DAULTON, ZITA
DAVIS, GAYLE
DE WOLF, JUDITH
DECROIX, MICHAEL
DEEM, GINGER
DELACRUZ, GILBERTO
DELGADO, CECILIA
DENK, HELMUT
DEPNER, LINDA
DIXON, JONATHAN
DONOHOE, TIMOTHY
DRESSLER, RICHARD
ECCLES, CLEON
EDDOW, RON
EDWARDS, NANCY
ESPINOZA, ROSEMARIE
ESPITIA, ERNESTO
ESQUIVEL, MARTHA
ESTEVES, PASTOR
FABELLA, GERMAN
FERGUSON, STEPHEN
FERGUSON, THOMAS
FINGER, RICHARD
FINN, DANIEL
FLAUDING, DIANA
FOLLENWEIDER, MARY
FRELIX-HART, VIVIAN
FRISBEY, BRUCE
GALINDO, LUIS
GARCIA, CAROL
GARCIA, GARY
GARCIA, ROBERT
GENTRY, MARCY
GEORGE, JONES
GIBSON, LORI
GLASS-JOHNSON, SUSAN
GOMEZ, PEDRO
GONZALES, RICHARD
GONZALEZ, INDIA
GONZALEZ, LINDA
GREER, DEAN
GROVES, MICHAEL
GUERRA, ROBERT
GUERRERO, LEO
GUIANG, ALEXANDER
GUTIERREZ, ALICE
HADDOCK, SCOTT
HAMILTON, CAROLYN
HARDER, SANDRA
HARTSELL, BRIAN
HATHAWAY, CARYL
HAYNES, DANIEL
HEATH, ROY
HERNANDEZ, ARNULFO
HUNG, MARGARET
HUSSAIN, MALKA
HYNES, TELLIS
IHRKE, DALE
IIDA, MIKE
IRVING, TOM
JACOBSEN, RON
JANOSKI, DORNA
JOHNSON, LOUIS
JOHNSTON, DOUGLAS
JORDAN, SY
JU, SUJU
KANEMOTO, KEITH
KATASHIMA, ANNE
KERN, JANET
KETCHUM, SANDRA
KOHAN, RUTH
KOZLOWSKI, ASTRID
LAJON, DAVID
LAM, MARGARIDA
LANZA, RUTH
LEONG, ROBERT
LOCKE, KELLY
LOGUIDICE, JOSEPH
LOPES, ROSELLA
LOPEZ, ALBERT
LOPEZ, FRANCISCO
LOPEZ, JOSE
LOTT, DOLORES
LUCKENBACH, STEVEN
LUJAN, FELIX
MADERO, ALVARO
MAIEL, HORMOZ
MALDONADO, GUADALUPE
MALETTA, VITO
MALVINI, VALERIE
MANCERA, JOSE
MANLEY, LAURENCE
MARLOWE, TERESA
MARTIN, BARBARA
MARTINEZ, MARLENE
MARTINEZ, OFELIA
MATEO, PETER
MATSUI, CALVIN
MAVROGENES, HARRY
MC CARTHY, JOSEPH
MC GINNIS, PHILLIP
MC KAY, BRIDGET
MC LEOD, GARRY
MERINO, RUTH
MERRIAM, ROBIN
MILLER, DIANA
MILLER, TOM
MILLS, RUTH
MITCHELL-BARRON, LISA
MOJICA, JOSEFINA
MOLINA, ROBERTO
MONAHAN, CHRISTOPHER
MONTENEGRO, MARTHA
MONTOYA, SILVIA
MORENO, HECTOR
MORENO, RITA
MORENO, ZOBEYDA
MUCCIA, ALBERT
MULHOLLAND, KATHY
MUNOZ, ARTHUR
NAJAR, ERNEST
NANEZ, ROBERT
NAVARRO, RODOLFO
NELSON, NANCY
NEMER, RONNA
NGO, HUNG
NIX, JEANNE
NOBLE, MICHAEL
NORTHUP, RUSSELL
OLMOS, SYLVIA
ORTIZ, JR., RUFINO
ORTIZ, ANNE
OUCHIDA, BONNIE
OVERTON, RANDY
PAGAN, IRMA
PARRA, MARYELLEN
PASCOE, MARY
PASKERT, JOSEPH
PAUNETO, SARA
PENA, MERCEDES
PERALES, RUDY
PERKINS, LOIS
PHAM, HAI
PHAM, NGOC
PICKLER, ROGER
POST, DEBORAH
PRICE, FLORA
PRINCE, DONELLA
RAMOS, ALEX
RAMOS-ANDER-
SON, PATRICIA
REED, JAMES
RENDLER, AMOS
REYES, JORGE
RIVAS, JOSEPH
RIVERO, RAUL
ROA, YGNACIO
RODRIGUEZ, DAVID
RODRIGUEZ, JOE
RODRIGUEZ, MARIA
RODRIGUEZ, STEVEN
ROSALES, ARTHUR
ROSE, PATRICK
ROSENBLUM, ERIC
ROTT, TIM
RUFF, ROBERT
RUNDLE, LOREN
RUPANI, JAGDISH
RUSSO, GRACE
RYDER, MICHAEL
SAIZ, LUIS
SANTOS, BENILDA
SARBAUGH, CHRISTOPHER
SCHELL, CAROL
SCHULTZ, GREG
SCHUTZ, PIERRE
SCHWARZENBACH, DON
SEATON, GREGORY
SEEBACH, ANTHONY
SERRANO, MOSES
SHAFFER, PATRICE
SHERRELL, DEBORAH
SHIH, ERIC
SHORT, MARCEENA
SILVA-JONES, MARCIE
SINGH, SUDHIR
SIORDIA, JESSE
SLY, SANDRA
SMITH, BRIAN
SMITH, JOHN
SNELL, ROBERT
SNIVELY, ANDRIANNA
SNYDER, RHONDA
SOUTH, TERRI
ST JOHN, GLENDA
STANGEL, WILLA

Source: Pension Administration System

Retirements During Fiscal Year 2010-2011 *(Continued)*

SERVICE RETIREMENTS (Continued)

STILWELL, SCOT
SUN, ROLAND
SZETO, CONNIE
TANUSKA, PETER
TERRITO, CHARLES
TERWILLIGER, JOANNE
TERWILLIGER, MICHAEL
TOLENTINO, EDWARD
TSAN, SANG
TSAO, DANNY
TURNER, RANDAL
TURNER, STEVEN
URBAN, GLORIA
UYEHARA, CHERYL
VADDIPARTY, RAJA
VADNAIS, LORI
VAFA, HOSSEIN
VALERIO, JIMMY
VALLES, JANIN
VALVERDE, MICHAEL
VANEGAS, ANNA
VELASCO, CORA
VELASQUEZ, MIKE
VERA CRUZ, FELIPE
VIJAY, MOHINI
VILLARREAL, AGRIPINA
VILLARRUZ, FRANKIE
WANG, MICHELLE
WATSON, DANIEL
WATSON, GLENN
WATTS, JAMES
WAY, VICKY
WEATHERALL, DIXIE
WEAVER, VERNA
WEIS, JOHN
WILSON, STEVEN
WILSON, YOLANDA
WINKLER, WARREN
WISEHART, LINDA
WRIGHT, BARBARA
YBARRA, JOHN
YOUNG, DAVID
YU, JAMES
YUSKO, GORDON
ZABALA, VIRGINIA
ZAGALO, TERESA
ZAPPEL, DIANA

DEFERRED VESTED RETIREMENTS

ALEXANDER, STEVEN
CAMPOS, ARLENE
CAMPOS, CRISPIN
CAPORGNO, JULIE
CARRILLO, GREG
COKER, WILLIAM
DAVILA, TANIUSKA
DE LA CERDA, VICTOR
GALLAGHER, FERGUS
GUTERMAN, KIMBERLEY
HUMPHREY, DOUGLAS
KEEHEN, CYNTHIA
KEITH, BETTY
KRETCHMER, KEVIN
KRUTKO, PAUL
KUEVOR, EMMA
LANDERS, ALISON
LANG, ALLEN
LESMISTER, GAY
MC INERNEY, MICHAEL
MENDIZABAL, NANCY
MENDOZA, J ELIAS
MENDOZA, JOSE
OVERTON, CAROL
PINKERTON, DEBBIE
ROBERTS, GLENN
RUIZ, ESTHER
RYAN, ELLEN
SADLER, JAMES
SALEHI, MICHAEL
SALVANO, JUDY
SUGIMOTO-JONES, ELAINE
TORRES, LUCIO
VALDEZ, JESS
VALENTE, RANDELL
WEHLING, JUDY
WHITE, ADAIR
WILLIAMS, STEVEN
WILLIAMS-CONK-
LIN, DIANNE
YOUNG, LINDA

SERVICE CONNECTED DISABILITY RETIREMENTS

NONE

NON-SERVICE CONNECTED DISABILITY RETIREMENTS

BOWEN, BRIAN
KUO, CYNTHIA
LEVY, LORI

Deaths During Fiscal Year 2010-2011

DEATHS AFTER RETIREMENT

ADESSO, ANTONE
ALDERS, THEODORE
BAKER, ROBERT
BILBAO, FRANK
BLAKE, ETHEL
BORGLUM, GEORGE
BRAZELTON, VALENTINE
BRODEUR, GEORGE
BUCKHOLZ, ROBERT
BURK, BETTY
CAREY, ROBERT
CARRANZA, EDGARDO
CASTRO, GORDON
CLOSE, JAMES
DAKINS, MALCOLM (MAX)
DALY, FRANCES
DI CIUCCIO, JOSEPH
DIONNE, LAWRENCE
DOONAN, RICHARD
EGAN, JEAN
FLORES, JESSE
GALLAHER, RAY
GERARDO, GUSTAVO
GREENE, RALPH
GREINER, FRANCIS
GRIFFITHS, THOMAS
HARTMAN, STEVEN
HERNANDEZ, FRANK
HODGES, ROBERT
HOUSE, WILLIAM
IMOKAWA, JAMES
JENSEN, ALTON
JOLLY, ORVILLE
JU, SUJU
KAMMERER, AURORA
KENDALL, ROSALIE
KERBER, TED
KEVORKIAN, HARRY
KRAMER, PATRICIA
LEWON, SIDNEY
LICK, FREDERICK
MC INERNEY, ALLODENE
MEIER, MARCIA
MELEEN, DAVID
MUNOZ, CHARLES
NAGAREDA, MINORU
NIVER, GERRIT
OVERSTREET, JAMES
PAGE, CAROLYN
PETERSON, CLAIRE
RETANA, RAYMOND
REYNOLDS, HENRY
RODGERS, ALBERT
ROGERS, ROBERT
ROJO, FRANK
RUIZ, ANTONIO
SANCHEZ, CRISTOBAL
SITLER, JANET
SKIPWORTH, CHERIE
STEVENS, LILLIAN
STEWART, ALLEN
STOUT, VIVIENNE
TREVOLEDES, SOTIRIOS
TROUP, VERNE
VIDAL, MICHAEL
WATSON, BARBARA
WEINERT, WAYNE
WEST, ROY
WHEATLEY, DONALD

DEATHS BEFORE RETIREMENT

DIMARTINO, MANUEL
KRAMER, PATRICI
MATTOS, JOSEPH A
NAVARRO, DIANE

Source: Pension Administration System

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