

City of San José
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2009

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

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



City of San José
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2009



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Russell U. Crosby
Director

Department of Retirement Services
1737 North First Street, Suite 580
San José, California 95112-4505
408 794-1000 Phone
408 392-6732 Fax
www.sjretirement.com

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



BOARD CHAIR LETTER



November 2, 2009

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 Plan 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, 2009. Some significant events worthy of note during this fiscal year were as follows:

- Net of investment, administrative, securities lending, and SRBR expenses, the System earned a time-weighted return of (17.6%), (3.0%), and 1.7% for the fiscal year, three-year, and five-year periods ending June 30, 2009 respectively. In contrast, the net rate of return assumed by the System's actuary is 8.25%.
- The System earned a time-weighted gross-of-fees rate of return of (16.8%) on investments, compared to (16.6%) for the Independent Consultants Cooperative's (ICC) Public Fund Median. Additionally, the System earned a time-weighted rate of return of (2.1%) and 2.4% for the three-year and five-year periods ending June 30, 2009 respectively, while the ICC Public Fund Median earned a time-weighted rate of return of (2.3%) and 2.4% for the same periods. The fair value of the System's investments decreased from \$1,774,277,000 to \$1,436,193,000, net of pending purchases and sales (see Investment Summary on page 76).
- During the fiscal year 2008-09, the System conducted a review of the Supplemental Retiree Benefit Reserve, began an audit of the City's payroll transmittal process, and participated in a health benefit consultant search in conjunction with Human Resources and Labor Groups. In addition, the System conducted an Investment Consultant Request for Proposals with a finalist to be selected in fiscal year 2009-10.

- The System began transitioning to the new asset allocation targets, which were approved in fiscal year 2007-08, as well as invested in high yield bonds and bank loans.
- Another focus was the staffing structure of the department as well as the resources available for staff. Progress was made with the hiring of the Chief Operations Officer, the Chief Investment Officer, and an Investment Officer and acquiring access to three top of the line investment databases.
- During the year, the System offered 70 educational classes with over 1,900 Federated, Police, and Fire active and retired members participating.

The Board believes that the professional services rendered by the staff, the auditors, investment counselors, the actuarial consultants, and the System 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,

David Busse, Chairman
Board of Administration

TABLE OF CONTENTS

I. INTRODUCTORY SECTION

- 2 Letter of Transmittal
- 4 Certificate of Achievement for Excellence in Financial Reporting
- 5 Award for Mid-Sized Public Plan of the Year
- 6 Board of Administration
- 6 Administration/Outside Consultants
- 6 Standing Public Meetings
- 7 Department of Retirement Services Organizational Chart
- 8 Summary of the Principal System Provisions

II. FINANCIAL SECTION

- 12 Independent Auditor's Report
- 15 Management's Discussion and Analysis

Basic Financial Statements

- 24 Statements of Plan Net Assets
- 26 Statements of Changes in Plan Net Assets
- 28 Notes to Basic Financial Statements

Required Supplementary Information

- 44 Schedule of Funding Progress – Defined Benefit Pension Plan
- 44 Schedule of Employer Contributions – Defined Benefit Pension Plan
- 44 Schedule of Funding Progress –
Post-employment Healthcare Benefit Plan
- 44 Schedule of Employer Contributions –
Post-employment Healthcare Benefit Plan

Other Supplementary Information

- 45 Combining Schedule of Defined Benefit Pension Plan Net Assets
- 46 Combining Schedule of Changes in Defined Benefit Pension Plan Net Assets
- 47 Schedules of Administrative Expenses and Other
- 47 Schedules of Investment Expenses
- 48 Schedules of Payments to Consultants

III. INVESTMENT SECTION

- 50 Report on Investment Activity
- 53 Statement of Investment Policy
- 62 Investment Professionals

Schedule of Investment Results

- 63 Gross Performance Summary by Asset Class
- 64 Net Performance Summary by Investment Manager

Investment Review

- 66 Target Asset Allocation/Actual Asset Allocation
- 67 Historical Asset Allocation (Actual)/Market Value Growth of Plan Assets/
History of Performance
- 68 List of Largest Assets Held
- 69 Schedule of Investment Fees
- 70 Schedule of Commissions
- 76 Investment Summary
- 77 Investment Property

IV. ACTUARIAL SECTION

- 80 Actuary Certification Letter
- 83 Summary of Assumptions and Funding Method
- 84 Schedule of Active Member Valuation Data
- 84 Changes in Retirants
- 85 Solvency Test
- 85 Actuarial Analysis of Financial Experience
- 86 Summary of Retirement Benefit Provisions
- 86 Summary of Health Subsidy Benefit Provisions
- 87 Actuarial Certification Letter (OPEB)
- 90 Summary of Post-Employment Benefit Provisions Evaluated
- 91 Summary of Actuarial Assumptions and Methods
- 93 Funding Progress Indicators

V. STATISTICAL SECTION

Statistical Review

- 96 Changes in Net Assets
- 97 Benefit and Refund Deductions from Net Assets by Type
- 98 Employer and Employee Contribution Rates
- 99 Retired Members by Type of Benefit
- 100 Average Benefit Payment Amounts

Retirements During Fiscal Year

- 102 Service Retirements
- 103 Deferred Vested Retirements
- 103 Service-Connected Disability Retirements
- 103 Non-Service-Connected Disability Retirements

Deaths During Fiscal Year

- 103 Deaths After Retirement
- 103 Deaths Before Retirement

This page is intentionally left blank.





INTRODUCTORY SECTION



LETTER OF TRANSMITTAL



November 2, 2009

City of San José
 Department of Retirement Services
 Board of Administration
 Federated City Employees' Retirement System
 1737 North First Street, Suite 580
 San José, 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, 2009. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the System's management. 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.

The Plan was established in 1941 and switched to the CAFR format starting with the fiscal year ended June 30, 2000. 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 last year's CAFR was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA). The System was also awarded the Mid-Sized Public Plan of the Year by Institutional Investor's Money Management Letter for the dramatic changes implemented in a complex environment with two separate boards and multiple consultants and money managers. I encourage you to review the narrative introduction, overview, and analysis located in Management's Discussion and Analysis beginning on page 15.

I trust that you and the members of the System will find this CAFR helpful in understanding the System, a plan that continues to maintain a strong and positive financial future.

Certificate of Achievement

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2008. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid only for one year. The System first received the certificate for its fiscal year ended June 30, 2000 CAFR with its first application and has received the certificate every year since. We believe our current report continues to conform to the Certificate of Achievement Program Requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

The accounting firm of Macias Gini & O'Connell, LLP provides audit services to the System. The financial audit ensures 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 internal controls have their inherent limitations. Internal controls are reviewed 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.

Major Initiatives

During the fiscal year 2008-09, the System conducted a review of the Supplemental Retiree Benefit Reserve, began an audit of the City's payroll transmittal process, and participated in a health benefit consultant search in conjunction with Human Resources and Labor Groups. In addition, the System conducted an Investment Consultant Request for Proposals with a finalist to be selected in fiscal year 2009-10.

The System began transitioning to the new asset allocation targets, which were approved in fiscal year 2007-08, as well as invested in high yield bonds and bank loans.

Another focus was the staffing structure of the department as well as the resources available for staff. Progress was made with the hiring of the Chief Operations Officer, the Chief Investment Officer, and an Investment Officer and with acquiring access to three top of the line investment databases

During the year, the System offered 70 educational classes with over 1,900 Federated, Police, and Fire active and retired members participating.

LETTER OF TRANSMITTAL *Continued*

Changes in System Membership

System membership changes for the defined benefit pension plan for fiscal year 2008-09 were as follows:

	2009	2008	Increase/ (Decrease)	Change
Active Members*	4,799	4,879	(80)	(1.64%)
Retired Members	2,578	2,432	146	6.00%
Survivors	419	454	(35)	(7.71%)
TOTAL	7,796	7,765	31	0.40%

*Active members include deferred vested members, i.e., members who have left City service but remain members of the System.

Financial and Economic Summary

The 2008-09 fiscal year was a difficult year as the effects of sub-prime mortgages continued to create a difficult situation for financial institutions including the government-sponsored home mortgage giants. Stock markets, both domestic and international, performed poorly during the fiscal year. Volatility has soared as investors remain anxious and uncertainty continues around future market direction.

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 return was negative 16.8%, while the Independent Consultant Cooperative's (ICC) Public Funds median return over the same period was (16.6%). The System's gross-of-fees return was (2.1%) and 2.4% for the three-year and five-year periods ending June 30, 2009 respectively, while the ICC Public Funds median was (2.3%) and 2.4% for the same periods. Additionally, the System's net of expenses return, which includes investment, administrative, securities lending, and SRBR expenses, for the fiscal year was a negative 17.6%, and for the three-year and five-year periods ending June 30, 2009 was (3.0%) and 1.7% respectively.

In the valuation of pension benefits the actuarial assumption for the net rate of return that will be earned on the Fund is 8.25%. The impact of the difference between the actual net rate of return earned on the Fund, (17.6%), and the 8.25% assumption will result in an investment loss that will be reflected in the pension liability of next year's CAFR. Moreover, the fair value of the System's investments decreased from \$1,774,277,000 to \$1,436,193,000, net of pending purchases and sales (see Investment Summary on page 76).

Funding

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2007, the funding ratio of the System was at approximately 82.8% (based on Market value of assets). A six-year history of the System's funding progress is presented on page 44. The net decrease in System assets for fiscal year 2008-09 was \$334,054,000. Details of the components of this decrease are included in the Statement of Changes in Plan Net Assets on page 26.

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 assure 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, 2008

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.



M. L. R.
President

Jeffrey R. Emery
Executive Director

AWARD FOR MID-SIZED PUBLIC PLAN OF THE YEAR

Money Management Letter's
8th Annual
Public Pension Fund
Award for Excellence

Presented to

The City of
San Jose

For

Mid-Sized Public
Plan of the Year



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 Council members, a member from the Civil Service Commission, two City employees elected by members of the system, a Retiree Representative, and a public member who is not connected with the City and has significant banking or investment experience selected by the four 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, 2009, the members of the Board were as follows:



DAVID BUSSE, CHAIRMAN
Civil Service Commission member appointed in February 2003. His current term expires December 1, 2010.



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



EDWARD F. OVERTON
Retired Plan member appointed to the Board in January 2009. His current term expires November 30, 2012.



VACANT



PETE CONSTANT
City Council member appointed to the Board in January 2007.



ASH KALRA
City Council member appointed to the Board in January 2009.



JEFFREY PERKINS
Public member appointed to the Board in June 1996. His current term expires November 30, 2010.

ADMINISTRATION



RUSSELL U. CROSBY
DIRECTOR



DONNA BUSSE
DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER



CARMEN RACY-CHOY
DEPUTY DIRECTOR
CHIEF INVESTMENT OFFICER

OUTSIDE CONSULTANTS

ACTUARY
Gabriel, Roeder, Smith
& Company
Denver, CO

ATTORNEY, REAL ESTATE
Bingham McCutchen, LLP
East Palo Alto, CA

ATTORNEY
Saltzman & Johnson
San Francisco, CA

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

ATTORNEY, INVESTMENT
Hanson Bridgett, LLP
San Francisco, CA

A list of Investment Professionals begins on page 62 of the Investment Section of this report.

STANDING PUBLIC MEETINGS

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

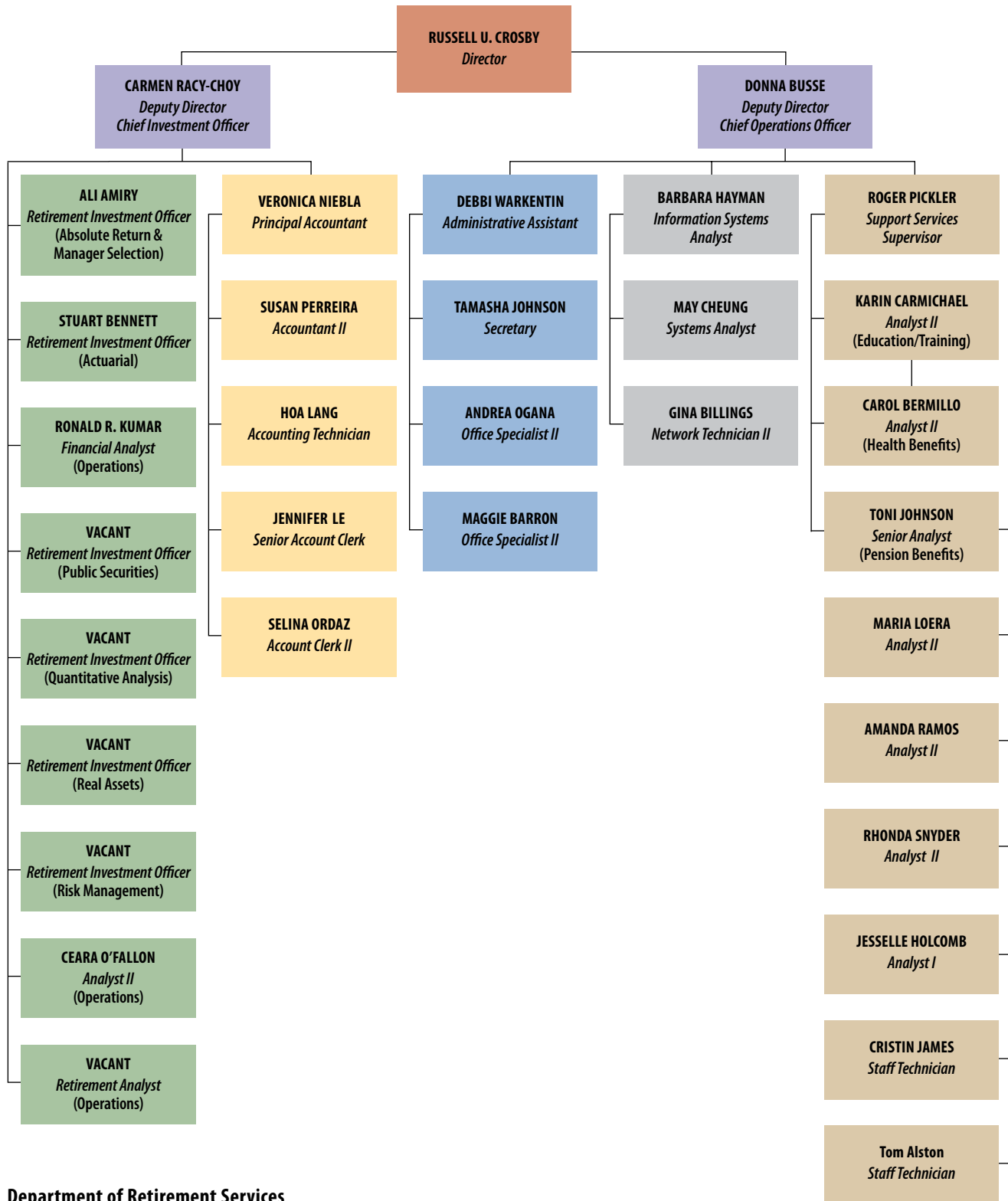
Investment Committee: Monthly

Investment Committee of the Whole: Quarterly

Real Estate Committee: Ad Hoc

Agendas for all public meetings are posted on the bulletin board at City Hall and on the department's website at <http://www.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 95112-4505. Meeting times and locations are subject to change; please call our office at (408) 794-1000 for current information.

DEPARTMENT OF RETIREMENT SERVICES ORGANIZATIONAL CHART



Department of Retirement Services

1737 North First Street, Suite 580
San Jose, CA 95112-4505

408 794-1000 Phone
800 732-6477 Phone
408 392-6732 Fax

www.sjretirement.com

SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS

MEMBERSHIP

Mandatory for all full-time non-safety employees.

MEMBER CONTRIBUTION

All members contribute 8.93% of base salary.

CITY'S CONTRIBUTION

The City contributes 23.56% 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.)

RETIREMENT

Members may retire at age 55 with five or more years of service or at any age with 30 years of service.

RETIREMENT ANNUITY

The retirement annuity 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 annuity 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 annuity 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). The annuity will be reduced by .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.

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 annuity 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 annuity 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.

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.

SUMMARY OF THE PRINCIPAL SYSTEM PROVISIONS *Continued*

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 spousal benefit
- 2 children share 50% of spousal benefit
- 3+ children share 75% of spousal benefit

MANAGEMENT

The System is under the management of a seven (7) member Board of Administration consisting of two City Council members, a Civil Service Commissioner, a public member with significant banking or investment experience, a retiree representative, and two active employees who are members of the Retirement System.

ADMINISTRATION

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

The System 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 System assets and collector of investment income.

ACTUARIAL SOUNDNESS

Gabriel, Roeder, Smith & Company is retained for regular, continuing actuarial services. Plan and benefit provisions are periodically reviewed to assure continuing soundness.

INVESTMENT AUTHORITY AND POLICY

The investment authority is broad and allows maximum utilization of the System's resources. Nationally known investment advisory services are retained for full-time investment counsel. Strategic Investment Solutions, Inc. was retained during the fiscal year 2008-09 from managers listed on page 62 as the investment consultant.

This page is intentionally left blank.



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT



MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

2175 N. California Boulevard
Suite 750
Walnut Creek, CA 94596
925-274-0190

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

INDEPENDENT AUDITOR'S REPORT

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, 2009 and 2008, and the related statements of changes in plan net assets for the fiscal years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions 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, 2009 and 2008, and the changes

INDEPENDENT AUDITOR'S REPORT *Continued*

in its financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the System, as of June 30, 2009 and 2008, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(f), effective July 1, 2007, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2009 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The introductory section, other supplementary information in the financial section, the investment, actuarial and statistical sections listed in the table of contents are

INDEPENDENT AUDITOR'S REPORT *Continued*

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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

Macias Gini & O'Connell LLP

Certified Public Accountants
Walnut Creek, California
November 2, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)



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

We are pleased to provide this overview and analysis of the financial activities of the Federated City Employees' Retirement System (the System) for the fiscal years ended June 30, 2009, and 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 2 of this report.

Financial Highlights for Fiscal Year 2009

- The net assets of the System at the close of the fiscal year 2009 are \$1,442,202,000 (net assets held in trust for pension benefits and post-employment 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 \$19,733,000.
- The System's total net assets held in trust for pension benefits and post-employment healthcare benefits decreased by \$334,054,000 or 18.8%, primarily as a result of the depreciation of the fair value of investments caused by the decline in the investment market.
- Additions to Plan Net Assets for the year was negative \$212,004,000, which includes member and employer contributions of \$102,312,000, net investment loss of \$313,328,000, and net securities lending loss of \$988,000.
- Deductions in Plan Net Assets increased from \$113,213,000 to \$122,050,000 over the prior year, or approximately 7.8% due to an increase in retirement benefits and healthcare premiums, which were attributable 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. Statement of Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Basic Financial Statements

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

The **Statement of Plan Net Assets** is 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 **Statement of Changes in Plan Net Assets**, on the other hand, provides 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 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 is similar to the accounting used by most private-sector companies. 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 shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments.

These two statements report the System's net assets held in trust for pension benefits and post-employment 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 market conditions, should also be considered in measuring the System's overall health (see the System's financial statements beginning on page 24 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 28 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 post-employment healthcare benefits to members and employer contributions (see Required Supplementary Information beginning on page 44 of this report).

The combining schedules, schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants are presented immediately following the required supplementary information.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) *Continued*

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the System's financial position (see Tables 1a on page 17). The assets of the System exceeded its liabilities at the close of fiscal year 2009 and 2008.

As of June 30, 2009, \$1,442,202,000 in total net assets was held in trust for pension benefits and post-employment healthcare benefits (see Table 1a on page 17). 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 of \$19,733,000, which is used to provide supplemental benefits to retirees based on a San José Municipal Code distribution methodology approved by San José City Council.

As of June 30, 2009, total net assets decreased by 18.8% from the prior year primarily due to the net depreciation in the fair value of investments, excluding securities lending, of \$350,884,000.

As of June 30, 2008, \$1,776,256,000 in total net assets was held in trust for pension benefits and post-employment healthcare benefits (see Table 1b on page 17). This total represented a decrease of \$86,742,000 or 4.7% in net assets from the prior year primarily due to the net depreciation in the fair value of investments, excluding securities lending, of \$105,345,000.

As of June 30, 2009, receivables decreased by \$52,784,000, or 53.8% mainly due to a decrease in receivables from brokers and others. In

the previous year, receivables decreased by \$5,863,000, or 5.6% due to a decrease in receivables from brokers and other.

As of June 30, 2009, total liabilities decreased by \$232,243,000, or 77.8%, compared with June 30, 2008, due to a decrease payable to brokers and securities lending collateral due to borrowers.

As of June 30, 2008, total liabilities decreased by \$61,166,000 or 17.0%, compared with June 30, 2007, due to a decrease in payable to brokers and securities lending collateral due to borrowers.

Reserves

The System's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see table on page 47). The System's Net Assets are allocated between the Retirement Fund, which includes post-employment healthcare benefits, and the Cost-of-Living Fund.

The depreciation in the fair value of investments resulted in a decrease of \$130,279,000 in the "Unrealized Gains (Loss) on Investments Held" reserve. As of June 30, 2009 and 2008 the Unrealized Gain (Loss) on Investments Held reserve was \$50,314,000 and \$180,592,000 respectively. These amounts are components of the general reserve.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) *Continued*

PLAN NET ASSETS (Table 1a)

As of June 30, 2009 and 2008

	2009	2008	Decrease Amount	Decrease Percent
Receivables	\$ 45,326,000	\$ 98,110,000	\$ (52,784,000)	-53.8%
Investments at Fair Value	1,463,117,000	1,976,630,000	(513,513,000)	-26.0%
Total Assets	1,508,443,000	2,074,740,000	(566,297,000)	-27.3%
Current Liabilities	66,241,000	298,484,000	(232,243,000)	-77.8%
Total Liabilities	66,241,000	298,484,000	(232,243,000)	-77.8%
NET ASSETS	\$1,442,202,000	\$1,776,256,000	\$(334,054,000)	-18.8%

PLAN NET ASSETS (Table 1b)

As of June 30, 2008 and 2007

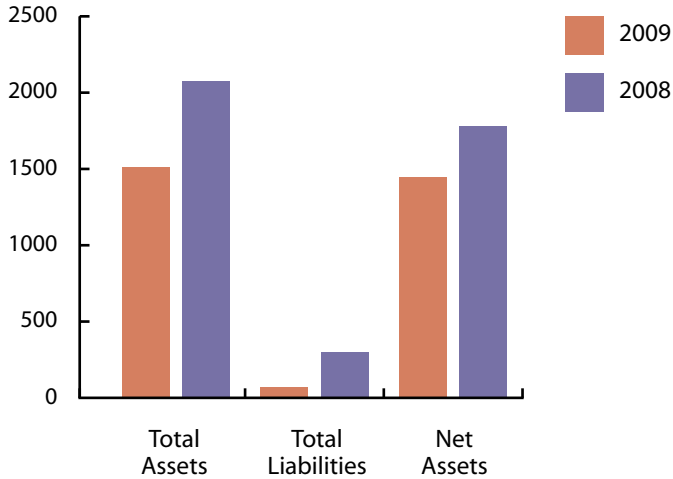
	2008	2007	Decrease Amount	Decrease Percent
Receivables	\$ 98,110,000	\$ 103,973,000	\$ (5,863,000)	-5.6%
Investments at Fair Value	1,976,630,000	2,118,675,000	(142,045,000)	-6.7%
Total Assets	2,074,740,000	2,222,648,000	(147,908,000)	-6.7%
Current Liabilities	298,484,000	359,650,000	(61,166,000)	-17.0%
Total Liabilities	298,484,000	359,650,000	(61,166,000)	-17.0%
NET ASSETS	\$1,776,256,000	\$1,862,998,000	\$(86,742,000)	-4.7%

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) *Continued*

PLAN NET ASSETS

As of June 30, 2009 and 2008

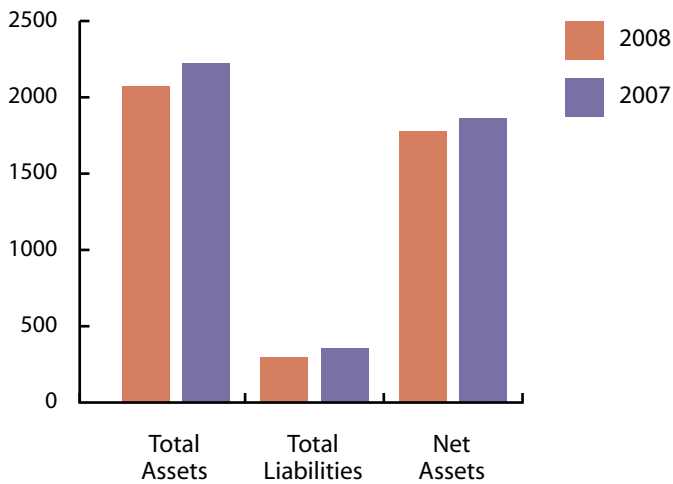
(Dollars in Millions)



PLAN NET ASSETS

As of June 30, 2008 and 2007

(Dollars in Millions)



MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) *Continued*

ADDITIONS TO PLAN NET ASSETS (Table 2a)

For the Fiscal Years Ended June 30, 2009 and 2008

	2009	2008	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee Contributions	\$ 28,924,000	\$ 23,769,000	\$ 5,155,000	21.7%
Employer Contributions	73,388,000	66,518,000	6,870,000	10.3%
Net Investment Income/(Loss)*	(313,328,000)	(64,802,000)	(248,526,000)	-383.5%
Net Securities Lending Income/(Loss)	(988,000)	986,000	(1,974,000)	200.2%
TOTAL ADDITIONS	\$(212,004,000)	\$26,471,000	\$(238,475,000)	-900.9%

*Net of Investment Expenses of \$7,228,000 and \$7,798,000 in 2009 and 2008, respectively

ADDITIONS TO PLAN NET ASSETS (Table 2b)

For the Fiscal Years Ended June 30, 2008 and 2007

	2008	2007	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee Contributions	\$ 23,769,000	\$ 21,982,000	\$ 1,787,000	8.1%
Employer Contributions	66,518,000	61,732,000	4,786,000	7.8%
Net Investment Income/(Loss)*	(64,802,000)	257,047,000	(321,849,000)	-125.2%
Net Securities Lending Income	986,000	506,000	480,000	94.9%
TOTAL ADDITIONS	\$26,471,000	\$341,267,000	\$(314,796,000)	-92.2%

*Net of Investment Expenses of \$7,798,000 and \$6,842,000 in 2008 and 2007, respectively

DEDUCTIONS TO PLAN NET ASSETS (Table 3a)

For the Fiscal Years Ended June 30, 2009 and 2008

	2009	2008	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Retirement Benefits	\$ 89,767,000	\$ 83,291,000	\$ 6,476,000	7.8%
Healthcare Insurance Premiums	21,725,000	20,195,000	1,530,000	7.6%
Death Benefits	6,923,000	6,263,000	660,000	10.5%
Refund of Contributions	1,395,000	972,000	423,000	43.5%
Administrative and other	2,240,000	2,492,000	(252,000)	-10.1%
TOTAL DEDUCTIONS	\$122,050,000	\$113,213,000	\$8,837,000	7.8%

DEDUCTIONS TO PLAN NET ASSETS (Table 3b)

For the Fiscal Years Ended June 30, 2008 and 2007

	2008	2007	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Retirement Benefits	\$ 83,291,000	\$ 75,135,000	\$ 8,156,000	10.9%
Healthcare Insurance Premiums	20,195,000	18,265,000	1,930,000	10.6%
Death Benefits	6,263,000	5,867,000	396,000	6.7%
Refund of Contributions	972,000	1,008,000	(36,000)	-3.6%
Administrative and other	2,492,000	1,950,000	542,000	27.8%
TOTAL DEDUCTIONS	\$113,213,000	\$102,225,000	\$10,988,000	10.7%

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) *Continued***CHANGES IN PLAN NET ASSETS** (Table 4a)*For the Fiscal Years Ended June 30, 2009 and 2008*

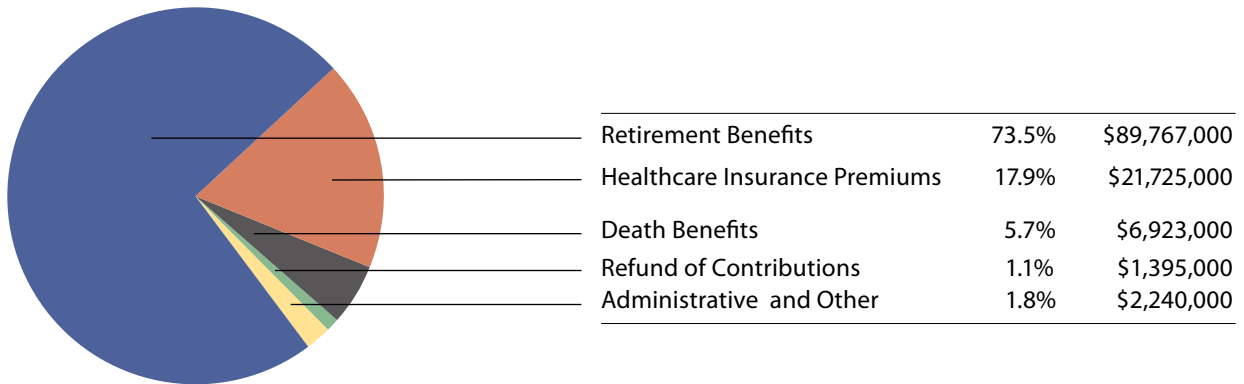
	2009	2008	<i>Increase/(Decrease) Amount</i>	<i>Increase/(Decrease) Percent</i>
Total Additions	\$ (212,004,000)	\$ 26,471,000	\$ (238,475,000)	-900.9%
Total Deductions	122,050,000	113,213,000	8,837,000	7.8%
NET INCREASE (DECREASE) IN PLAN ASSETS	\$(334,054,000)	\$(86,742,000)	\$(247,312,000)	-285.1%

CHANGES IN PLAN NET ASSETS (Table 4b)*For the Fiscal Years Ended June 30, 2008 and 2007*

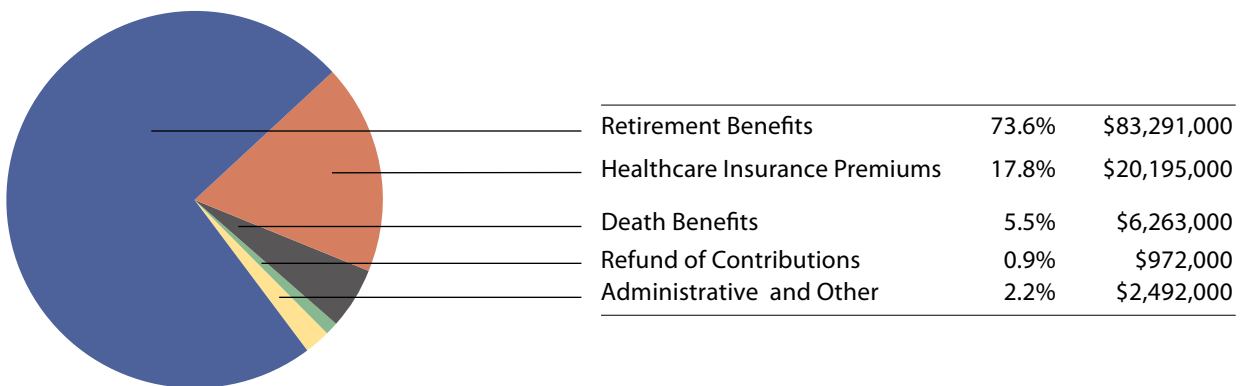
	2008	2007	<i>Increase/(Decrease) Amount</i>	<i>Increase/(Decrease) Percent</i>
Total Additions	\$ 26,471,000	\$ 341,267,000	\$ (314,796,000)	-92.2%
Total Deductions	113,213,000	102,225,000	10,988,000	10.7%
NET INCREASE (DECREASE) IN PLAN ASSETS	\$(86,742,000)	\$239,042,000	\$(325,784,000)	-136.3%

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) *Continued*

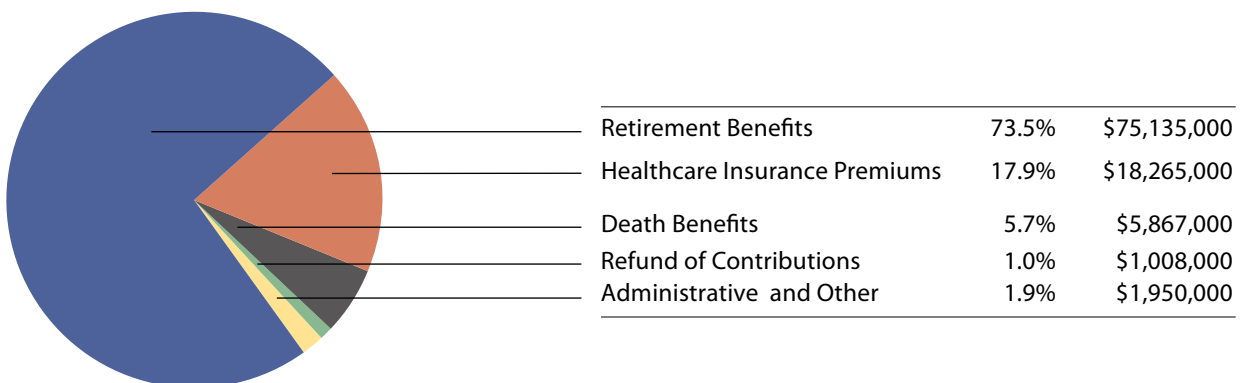
DEDUCTIONS TO PLAN NET ASSETS 2009



DEDUCTIONS TO PLAN NET ASSETS 2008



DEDUCTIONS TO PLAN NET ASSETS 2007



MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) *Continued*

SYSTEM ACTIVITIES

The equity market depreciation during the fiscal year 2008-09 was the main driver of the decreased net assets, which declined by \$334,054,000, thereby accounting for an 18.8% decrease from the prior year. Key elements of the System's financials 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 for the fiscal year ended June 30, 2009, were negative \$212,004,000 (see Table 2A on page 19).

By the fiscal year ended June 30, 2009, overall additions had decreased by \$238,475,000 or 900.9% from the prior year primarily due to a decrease in net investment income, which decreased by \$248,526,000 or 383.5%. The System's time-weighted gross rate of return for the fiscal year ended June 30, 2009, was negative 16.8% compared to negative 3.1% for the fiscal year 2007-08. On a net of expenses basis, the System's time-weighted rate of return for the fiscal year ended June 30, 2009, was a negative 17.6% compared to negative 4.2% for the fiscal year 2007-08.

Additions for the fiscal year ended June 30, 2008, totaled \$26,471,000, representing a decrease of \$314,796,000 or 92.2%, from the prior year primarily due to a decrease in net investment income which decreased \$321,849,000, or 125.2% (see Table 2B on page 19). The decrease in net investment income was due to the decline in the equity investment market.

Deductions from Plan Net Assets

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

Deductions for the fiscal year ended June 30, 2009, totaled \$122,050,000, an increase of 7.8% over fiscal year ended June 30, 2008, (see Table 3A on page 19). Increase in retirement benefits of \$6,476,000 was the primary factor for the increase in deductions. Retirement benefits increased due to increased number of beneficiaries. In addition, healthcare premiums also increased primarily as a result of an increase healthcare premium rates.

Deductions for the fiscal year ended June 30, 2008, totaled \$113,213,000, an increase of 10.7% over fiscal year ended June 30, 2007, (see Table 3B on page 19). Increases in retirement benefits of \$8,156,000, and healthcare insurance premiums of \$1,930,000, were

the primary reasons for the increase in deductions. Retirement benefits increased due to increased number of beneficiaries. Healthcare insurance costs increased due to higher premiums. In addition, administrative expenses also increased primarily as a result of an increase in payroll costs due to increased staffing.

The System's Fiduciary Responsibilities

The System's Board of Administration and management staff are fiduciaries of the pension trust fund. Under the California Constitution 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 will complete new actuarial valuations and perform an experience study as of June 30, 2009. The rates calculated in the June 30, 2009, valuation will be adopted by the Board and effective July 1, 2010.

This year the System completed a second GASB Statement 43 compliant Other Post-Employment Benefits (OPEB) valuation study as of June 30, 2007, a summary of the results is presented in note no. six of the Notes to the Financial Statements. The 2009 OPEB valuation will include increased OPEB contributions for Active Federated System members as a result of the Memorandum of Agreement (MOA) entered into by the bargaining units representing the Federated members of the System and the City to increase the rates of contributions for retiree health and dental rates in order to phase-in to GASB Statement No. 43 annual required contributions over the next five years.

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2007, the System's last valuation, the funding status of the System increased from 80.9% to 82.8%, due to an increase in the actuarial value of assets from \$1,384 million to \$1,623 million. The increase in assets was mainly due to smoothing of investment gains from 2004 to 2007. 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 investment losses, including securities lending, of \$314.3 and \$63.8 million for fiscal years 2009 and 2008 will be smoothed and netted against the remaining 2007 actuarial valuation unrecognized investment gains.

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 pension plan assets could be below the actuarially assumed rate of return, which is 8.25%, net of SRBR payments and investment and administrative expenses. Market risk negatively impacts the financial condition of the System and the City's required contribution to the System.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) *Continued*

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

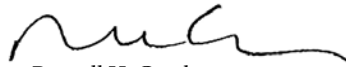
Requests for Information

This financial report is designed to provide the Board of Administration, Mayor and City Council, our membership, tax-

payers, 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, 2009 and 2008

	2009		
	<i>Pension Benefits</i>	<i>Post-employment Healthcare Benefits</i>	<i>Total</i>
<i>(Dollars in thousands)</i>			
ASSETS			
Receivables:			
Employee contributions	\$ 634	\$ 691	\$ 1,325
Employer contributions	5,760	1,652	7,412
Brokers and others	27,498	1,736	29,234
Accrued investment income	6,919	436	7,355
Total receivables	40,811	4,515	45,326
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	16,314	1,004	17,318
U.S. government agency securities	124,488	7,660	132,148
International government bonds	64,599	3,975	68,574
Domestic corporate bonds	252,717	15,550	268,267
International corporate bonds	49,877	3,069	52,946
Domestic equity securities	436,691	26,871	463,562
International equity securities	234,265	14,415	248,680
Private equity	54,764	3,370	58,134
Derivative instruments	(102)	(6)	(108)
International forward currency contracts	(6)	-	(6)
Collective short-term investment funds	41,642	2,562	44,204
Real estate	82,985	5,249	88,234
Securities lending cash collateral investment pool	19,909	1,255	21,164
Total investments	1,378,143	84,974	1,463,117
TOTAL ASSETS	1,418,954	89,489	1,508,443
LIABILITIES			
Payable to brokers	39,192	2,471	41,663
Securities lending collateral due to borrowers	21,770	1,373	23,143
Other liabilities	1,354	81	1,435
TOTAL LIABILITIES	62,316	3,925	66,241
NET ASSETS HELD IN TRUST FOR			
Pension benefits	1,356,638	-	1,356,638
Post-employment healthcare benefits	-	85,564	85,564
TOTAL NET ASSETS	\$1,356,638	\$85,564	\$1,442,202

See accompanying notes to basic financial statements.

Continued

BASIC FINANCIAL STATEMENTS *Continued***STATEMENTS OF PLAN NET ASSETS** *Continued**June 30, 2009 and 2008*

<i>(Dollars in thousands)</i>	2008		
	<i>Pension Benefits</i>	<i>Post-employment Healthcare Benefits</i>	<i>Total</i>
ASSETS			
Receivables:			
Employee contributions	\$ 565	\$ 434	\$ 999
Employer contributions	2,361	497	2,858
Brokers and others	82,220	4,671	86,891
Accrued investment income	6,965	397	7,362
Total receivables	92,111	5,999	98,110
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	18,619	1,037	19,656
U.S. government agency securities	228,590	12,727	241,317
International government bonds	64,938	3,616	68,554
Domestic corporate bonds	255,182	14,208	269,390
International corporate bonds	34,850	1,940	36,790
Domestic equity securities	628,708	35,004	663,712
International equity securities	278,912	15,529	294,441
Private market equity	54,240	3,020	57,260
International forward currency contracts	77	4	81
Derivative instruments	(33)	(2)	(35)
Collective short-term investment funds	36,319	2,021	38,340
Real estate	107,555	6,126	113,681
Securities lending cash collateral investment pool	164,120	9,323	173,443
Total investments	1,872,077	104,553	1,976,630
TOTAL ASSETS	1,964,188	110,552	2,074,740
LIABILITIES			
Payable to brokers	116,326	6,608	122,934
Securities lending collateral due to borrowers	164,120	9,323	173,443
Other liabilities	2,006	101	2,107
TOTAL LIABILITIES	282,452	16,032	298,484
NET ASSETS HELD IN TRUST FOR			
Pension benefits	1,681,736	-	1,681,736
Post-employment healthcare benefits	-	94,520	94,520
TOTAL NET ASSETS	\$1,681,736	\$94,520	\$1,776,256

See accompanying notes to basic financial statements.

BASIC FINANCIAL STATEMENTS *Continued***STATEMENTS OF CHANGES IN PLAN NET ASSETS***For the Fiscal Years Ended June 30, 2009 and 2008*

<i>(Dollars in thousands)</i>	2009		
	<i>Pension Benefits</i>	<i>Post-employment Healthcare Benefits</i>	<i>Total</i>
ADDITIONS			
Contributions:			
Employee	\$ 13,848	\$15,076	\$ 28,924
Employer	57,020	16,368	73,388
Total Contributions	70,868	31,444	102,312
Investment income:			
Net depreciation in fair value of investments	(330,179)	(20,705)	(350,884)
Interest income	30,766	1,931	32,697
Dividend income	7,245	455	7,700
Net rental income	4,128	259	4,387
Less investment expense	(6,803)	(425)	(7,228)
Net investment loss before securities lending loss	(294,843)	(18,485)	(313,328)
Securities lending income:			
Earnings	284	18	302
Rebates	(1,013)	(64)	(1,077)
Fees	(201)	(12)	(213)
Net securities lending loss	(930)	(58)	(988)
Net investment loss	(295,773)	(18,543)	(314,316)
TOTAL ADDITIONS	(224,905)	12,901	(212,004)
DEDUCTIONS			
Retirement benefits	89,767	-	89,767
Healthcare insurance premiums	-	21,725	21,725
Death benefits	6,923	-	6,923
Refund of contributions	1,395	-	1,395
Administrative expenses and other	2,108	132	2,240
TOTAL DEDUCTIONS	100,193	21,857	122,050
NET DECREASE	(325,098)	(8,956)	(334,054)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS & POST-EMPLOYMENT HEALTHCARE BENEFITS			
Beginning of Year	1,681,736	94,520	1,776,256
End of Year	\$1,356,638	\$85,564	\$1,442,202

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

BASIC FINANCIAL STATEMENTS *Continued***STATEMENTS OF CHANGES IN PLAN NET ASSETS** *Continued**For the Fiscal Years Ended June 30, 2009 and 2008*

<i>(Dollars in thousands)</i>	2008		
	<i>Pension Benefits</i>	<i>Post-employment Healthcare Benefits</i>	<i>Total</i>
ADDITIONS			
Contributions:			
Employee	\$13,366	\$ 10,403	\$23,769
Employer	54,958	11,560	66,518
Total Contributions	68,324	21,963	90,287
Investment income:			
Net depreciation in fair value of investments	(99,414)	(5,931)	(105,345)
Interest income	32,186	1,814	34,000
Dividend income	8,757	494	9,251
Net rental income	4,819	271	5,090
Less investment expense	(7,383)	(415)	(7,798)
Net investment income before securities lending income	(61,035)	(3,767)	(64,802)
Securities lending income:			
Earnings	8,124	458	8,582
Rebates	(6,879)	(388)	(7,267)
Fees	(311)	(18)	(329)
Net securities lending income	934	52	986
Net investment loss	(60,101)	(3,715)	(63,816)
TOTAL ADDITIONS	8,223	18,248	26,471
DEDUCTIONS			
Retirement benefits	83,291	-	83,291
Healthcare insurance premiums	-	20,195	20,195
Death benefits	6,263	-	6,263
Refund of contributions	972	-	972
Administrative expenses and other	2,358	134	2,492
TOTAL DEDUCTIONS	92,884	20,329	113,213
NET DECREASE	(84,661)	(2,081)	(86,742)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS & POST-EMPLOYMENT HEALTHCARE BENEFITS			
Beginning of Year	1,766,397	96,601	1,862,998
End of Year	\$1,681,736	\$94,520	\$1,776,256

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

For The Fiscal Years Ended June 30, 2009 and 2008

NOTE 1 – DESCRIPTION OF THE PLAN

The following description of the City of San José Federated City Employees' Retirement System (System) is provided for general information 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 Post-employment Healthcare Plan, was established in 1941 and last amended June 24, 2008, to provide retirement benefits for certain employees of the City of San José (City). 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 by the City.

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. Total payroll, except for Police and Fire employees, amounted to approximately \$337,087,000 and \$322,763,000 for 2009 and 2008, respectively. Covered payroll amounted to approximately \$320,912,000 and \$301,266,000 for 2009 and 2008, respectively.

Participants of the Post-employment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2009 and 2008, employee membership data related to the System was as follows:

Defined Benefit Pension Plan	2009	2008
Retirees and beneficiaries		
currently receiving benefits	2,997	2,886
Terminated vested members		
not yet receiving benefits	603	597
Active members	4,196	4,282
TOTAL	7,796	7,765

Post-employment Healthcare Plan	2009	2008
Retirees and beneficiaries		
currently receiving benefits	2,641	2,144
Terminated vested members		
not yet receiving benefits	80	82
Active members	4,196	4,282
TOTAL	6,917	6,508

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

(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 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.

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 1 – DESCRIPTION OF THE PLAN *Continued*

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) Post-employment 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 Post-employment 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 System's investment policy authorizes the System to invest in domestic equity, international equity, domestic bonds, global bonds, private equity, real estate, 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 are reported at estimated fair value. The fair value of the private equities are based on actual cash flows to/from the System and the transactions and unrealized gain/loss as ascertained from the most recently available investor reports or financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the financial statements and other portfolio information received from their underlying portfolio partnerships.

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

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 Post-employment 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 Cost-of-Living Fund) and the Post-employment Healthcare Plan. As of June 30, 2009 and 2008, the net assets, totaling \$1,442,202,000 and \$1,776,256,000, respectively, are allocated as follows:

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) represents 10% of total accumulated excess earnings plus credited interest.

In fiscal year 2008-2009 a review of the SRBR reserve balance and excess earnings calculation was performed. The review resulted in three findings. The first was the inequitable exclusion of interest posting to the accumulated unrealized gains/losses; the second was the inconsistent interest crediting formula, and lastly the

<i>(Dollars in thousands)</i>	<i>Retirement Fund</i>	<i>Cost-of-Living Fund</i>	<i>Total Defined Benefit Pension Benefits Plan</i>	<i>Post-employment Healthcare Plan</i>	<i>Total</i>
June 30, 2009:					
Employee contributions	\$ 195,351	\$ 47,593	\$ 242,944	\$ 16,870	\$ 259,814
Supplemental retiree benefit	19,733	-	19,733	-	19,733
General reserve	775,727	318,234	1,093,961	68,694	1,162,655
TOTAL	\$990,811	\$365,827	\$1,356,638	\$85,564	\$1,442,202
June 30, 2008:					
Employee contributions	\$ 181,961	\$ 47,006	\$ 228,967	\$ 13,922	\$ 242,889
Supplemental retiree benefit	27,678	-	27,678	-	27,678
General reserve	1,025,776	399,315	1,425,091	80,598	1,505,689
TOTAL	\$1,235,415	\$446,321	\$1,681,736	\$94,520	\$1,776,256

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

improper inclusion of Other Post-Employment (OPEB) earnings in the excess earnings calculation. Per Board resolution excess earnings for the fiscal years 1996-1999 and 2005-2007 were re-declared and the reserve balances for SRBR (net decrease in SRBR reserve of \$6,284,000), Pension General Reserve, and OPEB (Medical) General Reserves were adjusted to reflect the corrected interest crediting amounts for fiscal years 1999–2007 (net decrease to SRBR of \$1,514,000). As of June 30, 2009, all reserve balances were adjusted to reflect the corrected balances per the review.

General Reserve is a reserve that represents net earnings resulting from interest earnings, employer contributions, realized and unrealized investment gains and losses. The unrealized gains and losses for fiscal year 2009 and 2008 were \$50,314,000 and \$180,592,000, respectively. General Reserve also represents an accumulation of funds necessary to pay all accumulated vested retirement obligations.

(f) Implementation of Governmental Accounting Standards Board Statements

In fiscal year ended June 30, 2008, the System implemented GASB Statement 50, Pension Disclosures. The Statement amended note disclosures and required supplementary information (RSI) standards of Statement 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Statement 27, Accounting for Pensions by State and Local Governmental Employers, to conform with applicable changes adopted in Statement 43, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans, and Statement 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions.

Specifically, Statement 50 requires the following additional disclosures for sole employer plans:

- Notes to the financial statements should disclose the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices.
- Notes to the financial statements should disclose the funded status of the plan as of the most recent actuarial valuation date. Define benefit pension plans also should disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to required supplementary information (RSI).
- Notes to financial statements should include a reference linking the funded status disclosure in the notes to the financial statements to the required schedule of funding progress in RSI.
- If applicable, the notes to the financial statements should disclose legal or contractual maximum contribution rates. In addition, if relevant, they should disclose that the maximum

contribution rates have not been explicitly taken into consideration in the projection of pension benefits for financial accounting measurement purposes.

- If an actuarial assumption is different for successive years, notes to financial statements should disclose the initial and ultimate rates.

This Statement aligns disclosures for pension benefits with that of current other post-employment pension disclosure requirements for governments. The System's defined pension benefit plan is disclosed in Note 5 and is presented in accordance with the requirements set forth in Statement 50.

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 maturity 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, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. The System does not have a policy regarding interest rate risk. As of June 30, 2009, GNMA's in the amount of \$5,091,000 and U.S. government agency securities in the amount of \$118,853,000 are backed by mortgage pass-throughs which are highly sensitive to interest rate changes. Therefore, if interest rates decline, the mortgages are subject to prepayment by borrowers. International government bonds include \$2,376,000 of a floating rate bond linked to the 10-year Japanese Government Bond that is reset semi-annually. As of June 30, 2008, the GNMA's were in the amount of \$23,389,000 and U.S. government agency securities were \$210,737,000.

In addition, as of June 30, 2009, \$314,000 of the collateralize mortgage obligations (CMO) are floating rate securities tied to the 1 month LIBOR; \$552,000 are tied to the 12 month LIBOR; and \$3,070,000 are tied to a combination of the 12 month LIBOR and CMT. Also, \$9,207,000 of the other asset backed securities are floating rate bonds tied one or three-month LIBOR; \$9,306,000 of the corporate bonds are floating rate bonds tied to the three-month LIBOR; and \$146,000 of the corporate bonds are floating rate but not tied to an index.

As of June 30, 2008, international government bonds included \$2,566,000 of a floating rate bond linked to the 10-year Japanese Government Bond that is reset semi-annually. In 2008, \$5,088,000 of the collateralized mortgage obligations were tied to 1 to 12 month LIBOR, and \$901,000 of the FHMC's were a floating rate security tied to one-year CMT; and \$8,116,000 were tied to a combination of LIBOR and CMT. Also, \$9,942,000 of the other asset

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 3 – INVESTMENTS *Continued*

backed securities were floating rate bonds tied one or three-month LIBOR; \$9,537,000 of the corporate bonds were floating rate bonds tied to three-month LIBOR; and \$910,000 of the corporate bonds were floating rate but not tied to an index.

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. The System's custodian holds all investments of the System in the System's nominee name except for the assets held in pooled funds, which are under custody of the investment managers' custodian bank. The System's investments in pooled funds have the underlying securities valued by the fund manager in accordance with the System's fair value standards as described in Note 2(c) above. As of June 30, 2009, the System had the following pooled fund holdings: \$261,446,000 in domestic equities, \$96,594,000 in international equities, \$58,134,000 in private equities, and \$79,534,000 in real estate. As of June 30, 2008 the amounts were \$355,892,000 in domestic equities, \$80,451,000 in international equities, \$57,260,000 in private equities, and \$101,881,000 in real estate.

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 maturity investment grade shall be defined as being rated Baa/BBB or better by two of the following three rating services; Moody's Investor Services (Moody's), Standard & Poor's Corporation (S&P) or Fitch Rating Services (Fitch's). In the event that ratings are provided by only two agencies and the third is non-rated, the most conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be used. Up to 15% investment in BB or B 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. International fixed maturity investments must be rated at least Aa3/AA-. If the corresponding ratings assigned by S&P and Moody's are not equivalent, the higher rating will be used for purposes of measuring portfolio and security quality. 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. If bonds are downgraded below the minimum credit quality allowable in the guidelines at the time of purchase, the manager is permitted to hold up to 2% of the System's portfolio managed by the individual manager, using the lower of S&P, Moody's, and Fitch's rating in the event of a split-rated security.

The 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. 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.

Foreign Currency Risk – 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 on currency fluctuation on the underlying asset value.

Concentration of Credit Risk – The System's investment policy limits the aggregate amount that can be invested in each class of investments. The policy limits are as follows:

Domestic Equity – Minimum 28% and maximum 38% of the fair value of the aggregate portfolio.

International Equity – Minimum 15% and maximum 25% of the fair value of the aggregate portfolio.

Fixed Income – Minimum 31% and maximum 41% of the aggregate portfolio.

Private Equity – Minimum 2% and maximum 8% of the aggregate portfolio.

Real Estate – Minimum 3% and maximum 9% of the aggregate portfolio. Real Estate investments include a warehouse located in Northern California and an interest in eight real estate funds managed by third parties.

Short-term investments includes certificates of deposit and the collective short-term investment fund, which is used for overnight investment of all excess cash in the System's funds. It is invested by the System's Custodian, and held in the System Custodian's name. This fund consists of high-grade domestic and international money market instruments with short maturities, such as:

- Short-term fixed corporate and U. S. agency obligations;
- Commercial Paper;
- Certificates of Deposit;
- Repurchase agreements with major banks and U.S. government securities dealers that are collateralized by obligations of the U.S. government or a federal agency, or obligations fully guaranteed by the U.S. government or a federal agency; and
- Fully insured bank deposits.

As of June 30, 2009, the System held \$79,559,000 of investments issued by the Federal National Mortgage Association (including non-USD), which represents 5.4% of total investments. As of June 30, 2008, the System held \$161,801,000 of investments issued by the Federal National Mortgage Association (including non-USD), which represents 8.2% of total investments.

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 3 – INVESTMENTS *Continued*

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

Investment Maturities at Fair Value

As of June 30, 2009

(Dollars in thousands)

	0-3 Months	3-6 Months	6 months- 1 year	1-5 years	6-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Maturity								
<i>Domestic</i>								
U.S. Treasury Securities	\$ 6,768	\$ -	\$ -	\$ 5,298	\$ 1,175	\$ 4,077	\$ 17,318	\$ 17,377
GNMA	-	-	-	-	-	5,037	5,037	4,989
Other U.S. Government Agency Securities	-	-	-	586	974	7,334	8,894	8,935
FHLMC	-	-	-	943	6,127	31,588	38,658	37,544
FNMA	-	-	-	7,252	16,108	56,199	79,559	76,964
Asset Backed Securities	-	-	234	4,090	5,568	4,643	14,535	14,747
Bank Loans	-	-	-	24,176	12,289	-	36,465	36,100
Collateralized Mortgage Obligations	-	-	144	-	-	20,933	21,077	23,855
Corporate Bonds	-	-	4,373	60,856	86,947	44,014	196,190	199,993
Collective Short-Term Investments	44,204	-	-	-	-	-	44,204	44,469
Total Domestic Fixed Maturity	50,972	-	4,751	103,201	129,188	173,825	461,937	464,973
International								
<i>Government Bonds</i>								
Australian Dollar	-	-	-	376	-	-	376	327
Brazilian Real	-	-	-	-	601	-	601	582
British Pound	-	-	-	-	-	4,395	4,395	4,479
Canadian Dollar	143	-	-	-	2,135	-	2,278	2,344
Euro Currency	-	4,214	-	6,051	6,255	7,167	23,687	22,560
Indonesian Rupiah	-	-	-	507	-	-	507	516
Japanese Yen	-	-	693	12,605	6,619	6,697	26,614	23,154
Norwegian Krone	-	-	-	3,045	1,054	-	4,099	3,929
United States Dollar Denominated	-	-	-	3,016	649	2,352	6,017	6,055
Total International Government Bonds	143	4,214	693	25,600	17,313	20,611	68,574	63,946
<i>Corporate Bonds</i>								
British Pound	-	-	-	1,326	1,066	657	3,049	3,568
Canadian Dollar	-	-	-	-	427	369	796	807
Euro Currency	823	-	-	3,774	7,845	2,758	15,200	15,047
Japanese Yen	-	-	-	962	2,099	-	3,061	3,337
United States Dollar Denominated	-	-	47	8,576	15,356	6,861	30,840	31,176
Total International Corporate Bonds	823	-	47	14,638	26,793	10,645	52,946	53,935
Total International Fixed Maturity	966	4,214	740	40,238	44,106	31,256	121,520	117,881
Derivatives	(108)	-	-	-	-	-	(108)	(168)
TOTAL FIXED MATURITY	\$51,830	\$4,214	\$5,491	\$143,439	\$173,294	\$205,081	\$583,349	\$582,686

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 3 – INVESTMENTS *Continued*

<i>Type of Investment</i>	<i>Total Fair Value</i>	<i>Cost</i>
Equity		
Domestic	\$ 202,116	\$ 226,966
Pooled Domestic Equity	261,446	269,055
Total Domestic Equity	463,562	496,021
International		
Australian Dollar	3,054	3,401
Brazilian Real	7,387	7,944
British Pound	18,675	20,026
Canadian Dollar	4,253	5,022
Danish Krone	1,944	2,143
Euro Currency	30,655	36,990
Hong Kong Dollar	11,295	9,718
Indonesian Rupiah	1,402	1,939
Japanese Yen	17,992	20,450
Malaysian Ringgit	854	909
Mexican Peso	854	1,193
Norwegian Krone	586	495
Polish Zloty	317	664
Singapore Dollar	1,465	1,206
South African Rand	709	697
South Korean Won	2,817	4,157
Swedish Krona	1,210	1,661
Swiss Franc	12,871	15,833
USD Denominated	33,746	40,109
Pooled Foreign Equity	96,594	64,693
Total Foreign Equity	248,680	239,250
TOTAL EQUITIES	712,242	735,271
Private Equity	58,134	71,761
Real Estate	88,234	106,640
Total Private Equity and Real Estate	146,368	178,401
Forward International Currency Contracts, Net	(6)	-
Securities Lending Collateral Investment Pool*	21,164	23,142
TOTAL INVESTMENTS	\$1,463,117	\$1,519,500

*See Note 4

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 3 – INVESTMENTS *Continued*

The following tables provide information as of June 30, 2008, concerning the fair value of investments, interest rate risk, and international currency risk:

Investment Maturities at Fair Value

As of June 30, 2008

(Dollars in thousands)

	0-3 Months	3-6 Months	6 months- 1 year	1-5 years	6-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Maturity								
<i>Domestic</i>								
U.S. Treasury Securities	\$ 6,111	\$ 3,029	\$ -	\$ 7,541	\$ -	\$ 2,975	\$ 19,656	\$ 19,754
GNMA	17,520	-	-	-	-	5,869	23,389	23,431
Other U.S. Government Agency Securities	-	-	-	466	660	6,065	7,191	7,064
FHLMC	5,686	1	-	292	7,291	35,666	48,936	48,604
FNMA	15,796	-	51	5,143	16,752	124,059	161,801	161,565
Asset Backed Securities	-	-	-	14,669	12,713	7,155	34,537	34,450
Collateralized Mortgage Obligations	-	-	-	1,927	-	64,194	66,121	69,040
Corporate Bonds	-	252	603	43,261	68,698	55,918	168,732	178,165
Collective Short-Term Investments	38,340	-	-	-	-	-	38,340	38,340
Total Domestic Fixed Maturity	83,453	3,282	654	73,299	106,114	301,901	568,703	580,413
International								
<i>Government Bonds</i>								
British Pound	-	-	-	-	-	1,676	1,676	1,750
Canadian Dollar	-	-	-	165	229	-	394	353
Colombian Peso	-	-	-	147	436	72	655	633
Euro Currency	-	-	6,744	2,433	10,474	8,558	28,209	25,836
Indonesian Rupiah	-	-	-	691	-	-	691	725
Japanese Yen	-	-	-	14,645	7,586	6,499	28,730	26,305
New Zealand Dollar	-	-	-	-	651	-	651	639
Polish Zloty	-	-	-	-	1,413	-	1,413	1,104
Singapore Dollar	-	-	-	3,618	-	-	3,618	3,190
Swiss Franc	-	-	-	490	-	-	490	497
United States Dollar Denominated	-	-	-	-	-	2,027	2,027	1,761
Total International Government Bonds	-	-	6,744	22,189	20,789	18,832	68,554	62,793
<i>Corporate Bonds</i>								
British Pound	-	-	-	987	2,979	797	4,763	5,220
Canadian Dollar	-	-	-	-	747	62	809	783
Euro Currency	-	-	-	5,162	5,518	905	11,585	10,840
Indonesian Rupiah	-	-	-	554	-	-	554	378
Japanese Yen	-	-	-	155	3,096	-	3,251	3,187
Malaysian Ringgit	-	-	-	3,058	-	-	3,058	2,920
South Korean Won	-	-	619	728	201	-	1,548	1,636
Swiss Franc	-	-	873	-	-	-	873	712
United States Dollar Denominated	359	-	-	1,186	2,935	5,869	10,349	10,704
Total International Corporate Bonds	359	-	1,492	11,830	15,476	7,633	36,790	36,380
Total International Fixed Maturity	359	-	8,236	34,019	36,265	26,465	105,344	99,173
Derivatives	(35)	-	-	-	-	-	(35)	(57)
TOTAL FIXED MATURITY	\$83,777	\$3,282	\$8,890	\$107,318	\$142,379	\$328,366	\$674,012	\$679,529

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 3 – INVESTMENTS *Continued*

(Dollars in thousands)

<i>Type of Investment</i>	<i>Total Fair Value</i>	<i>Cost</i>
Equity		
Domestic	\$307,820	\$306,070
Pooled Domestic Equity	355,892	269,055
Total Domestic Equity	663,712	575,125
International		
Australian Dollar	5,673	5,033
Brazilian Real	8,518	6,277
British Pound	26,511	22,440
Canadian Dollar	6,754	4,809
Czech Koruna	1,495	1,172
Danish Krone	1,925	1,463
Euro Currency	46,736	39,184
Hong Kong Dollar	7,667	8,045
Indonesian Rupiah	3,222	2,579
Japanese Yen	21,503	16,800
Malaysian Ringgit	370	530
Mexican Peso	1,390	1,163
Norwegian Krone	1,104	433
Polish Zloty	642	597
Singapore Dollar	799	848
South African Rand	1,412	1,251
South Korean Won	3,692	4,239
Swedish Krona	1,786	1,696
Swiss Franc	14,755	14,261
USD Denominated	58,036	50,891
Pooled Foreign Equity	80,451	32,783
Total Foreign Equity	294,441	216,494
TOTAL EQUITIES	958,153	791,619
Private Equity	57,260	54,068
Real Estate	113,681	99,472
Total Private Equity and Real Estate	170,941	153,540
Forward International Currency Contracts, Net	81	-
Securities Lending Collateral Investment Pool*	173,443	173,443
TOTAL INVESTMENTS	\$1,976,630	\$1,798,131

*See Note 4

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 3 – INVESTMENTS *Continued*

The following table provides information as of June 30, 2009 concerning credit risk:

Ratings of Fixed Maturities for June 30, 2009 *(Dollars in thousands)*

<i>S&P Quality Rating</i>	<i>Fair Value</i>	<i>Fair Value as a Percentage of Total Fixed Maturity</i>
Unrated Agency	\$130,096	22.3%
AAA	87,536	15.0%
AA	34,352	5.9%
A	67,428	11.6%
BBB	79,769	13.7%
BB	56,476	9.7%
B	41,465	7.1%
CCC & Below	10,183	1.7%
Unrated*	76,044	13.0%
TOTAL	\$583,349	100.0%

* Includes Collective Short Term Investment Fund and Derivatives

The following table provides information as of June 30, 2008 concerning credit risk:

Ratings of Fixed Maturities for June 30, 2008 *(Dollars in thousands)*

<i>S&P Quality Rating</i>	<i>Fair Value</i>	<i>Fair Value as a Percentage of Total Fixed Maturity</i>
Unrated Agency	\$ 239,961	35.6%
AAA	161,853	24.0%
AA	40,078	5.9%
A	67,748	10.1%
BBB	57,672	8.6%
BB	21,734	3.2%
B	21,543	3.2%
CCC & Below	28	0.0%
Unrated*	63,395	9.4%
TOTAL	\$674,012	100.0%

* Includes Collective Short Term Investment Fund and Derivatives

International Forward Currency Contracts - The System has made investments in 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, 2009 and 2008, the System's net position in these contracts is recorded at fair value as international forward currency contracts. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. 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, 2009, total commitments in forward currency contracts to purchase and sell international currencies were \$10,632,000 and \$10,632,000, respectively, with market values of \$10,622,000 and \$10,628,000 respectively. As of June 30, 2008, total commitments in forward currency contracts to purchase and sell international currencies were \$6,957,000 and \$6,957,000, respectively, with market values of \$6,955,000 and \$6,874,000, respectively. The System's commitments relating to forward currency contracts are settled on a net basis.

Derivatives - The System's investment policy allows for investments in futures and options 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. At June 30, 2009 the System held futures and options with fair market values of approximately negative \$108,000. As of June 30, 2008, the System had options and futures with approximately negative \$35,000. Gains and losses on futures and options are determined based on quoted market values and recorded in the statement of changes in plan net assets.

Due to the level of volatility associated with certain derivative investments it is reasonable to expect significant fluctuations in the fair market value of these securities from the amounts presented in the financial statements as of a June 30, 2009.

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. (The investment policy requires that loan maturities cannot stretch beyond 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 loan securities in the System's investment portfolio under such terms and conditions as the Northern Trust Company deems advisable and to permit the loaned securities to be transferred into the name of the borrowers. The System receives a fee from the borrower for the use of the loaned securities. As of June 30, 2009 and 2008, the System had no exposure to credit risk related to the securities lending transactions as the amount the System owes the borrower exceeds the amount the borrowers owe the System. In addition, the Northern Trust Company is responsible for replacement of the loaned 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 loaned 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.

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 4 – SECURITIES LENDING PROGRAM *Continued*

Securities lending collateral represents investments purchased with cash collateral, as well as securities collateral that may 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, 2009, the size of the cash collateral pooled vehicle was \$28.64 billion and the weighted average life of 47 days. The cash collateral investments included time deposits (28% of the pool), repurchase agreements (18%), asset backed

securities (25%), certificates of deposit (16%), variable rate securities (11%), and commercial paper and other bank notes (2%). As of June 30, 2008, the size of the cash collateral pooled vehicle was \$75.36 billion and the weighted average life of 36 days. The cash collateral investments included time deposits (10% of the pool), repurchase agreements (26%), asset backed securities (19%), certificates of deposit (17%), variable rate securities (14%), commercial paper (12%) and other bank notes (2%). All of the underlying investments of the System's securities lending cash collateral are held by the counterparty, not in the name of the System.

The loaned securities as of June 30, 2009 and 2008 consisted of U.S. Treasury securities, U.S. government agency securities, international government bonds, domestic corporate bonds, domestic equity securities, and international equity securities and international corporate bonds. In return, the System receives collateral in the form of cash or securities equal to at least 102% of the transferred securities plus accrued interest for reinvestment.

Securities Lending – Investment and Collateral Received

(At Fair Value in thousands)

<i>Type of Investment Lent</i>	<i>2009</i>	<i>2008</i>
For Cash Collateral		
U.S. government and agencies	\$ 144	\$ 2,249
Domestic corporate bonds	3,157	21,933
Domestic equity securities	16,696	101,546
U.S. treasury notes and bonds	799	19,883
International government bonds	-	7,524
International equity securities	1,662	13,543
International corporate bonds	-	1,626
Total Lent for Cash Collateral	<u>\$22,458</u>	<u>\$168,304</u>
For Non-Cash Collateral		
Domestic corporate bonds	-	-
Domestic equity securities	50	3,054
U.S. treasury notes and bonds	-	-
International equity securities	-	723
Total Lent for Non-Cash Collateral	<u>50</u>	<u>3,777</u>
TOTAL SECURITIES LENT	<u>\$22,508</u>	<u>\$172,081</u>
<i>Type of Collateral Received</i>	<i>2009</i>	<i>2008</i>
Cash Collateral	<u>\$21,164</u>	<u>\$173,443</u>
Non-Cash Collateral		
For lent domestic corporate bonds	-	-
For lent domestic equity securities	50	3,147
U.S. treasury notes and bonds	-	-
For lent international equity securities	-	764
Total Non-Cash Collateral	<u>50</u>	<u>3,911</u>
TOTAL COLLATERAL RECEIVED	<u>\$21,214</u>	<u>\$177,354</u>

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 4 – SECURITIES LENDING PROGRAM *Continued*

As of June 30, 2009, the underlying securities loaned by the System as a whole amounted to approximately \$22,508,000. The net asset value (NAV) of the cash collateral pool at June 30, 2009 was \$21,164,000 based on a combination of mark-to-model and mark-to-market basis. The NAV of less than 100% is due to the decline in the fair value of assets held by the cash collateral pool. The NAV of \$21,164,000 results in an unrealized loss of approximately \$1,978,000 for the System. The cash collateral investment pool is presented in the statement of net plan assets at the NAV of \$21,164,000. The unrealized loss of \$1,978,000 is presented in the securities lending income earnings line of the statement of changes in plan net assets. 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, 2008, the underlying securities loaned by the System as a whole amounted to approximately \$172,081,000. The cash collateral and the non-cash collateral totaled \$173,443,000 and \$3,911,000, respectively.

NOTE 5 – DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS AND FUNDING POLICY

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, 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 June 12, 2008, the Board of Administration for the System approved the actuarially determined prepayment amount of \$63,458,201 which was paid by the City on August 1, 2008, for biweekly contributions to be made for the 24 pay dates from August 1, 2008 through June 19, 2009.

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 Funding Progress for the Defined Benefit Pension Plan.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2009 and 2008, were as follows:

<i>Period</i>	<i>City</i>	<i>Employee</i>
06/29/08 – 06/30/09	18.31%*	4.28%
07/01/07 – 06/28/08	18.16%	4.26%

* *The actual contribution rate paid by the City was 17.63% as a result of the City exercising their option to make a lump sum payment for 24 pay periods of fiscal year 2008-2009.*

The funding status of the Defined Benefit Pension Plan as of June 30, 2007, the most recent actuarial valuation date, is as follows:

(Dollars in thousands)

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (b-a)</i>	<i>Funded Ratio (a)/(b)</i>	<i>Annual Covered Payroll (c)</i>	<i>UAAL as a % of Covered Payroll ((b)-(a))/(c)</i>
06/30/07	\$1,622,851	\$1,960,943	\$338,092	83%	\$291,405	116%

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 long term rates of return to be generated by the assets of the fund. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 5 – DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS AND FUNDING POLICY *Continued*

The significant actuarial methods and assumptions used to compute the actuarially determined annual required contribution are as follows:

<i>Description</i>	<i>Method/Assumption</i>
Valuation date	June 30, 2007*
Actuarial cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of payroll
Remaining amortization period	30 years, open
Actuarial asset valuation method	5 year smoothed market
<i>Actuarial Assumptions:</i>	
Assumed rate of return on investments	8.25% per annum
Postretirement mortality	The 1994 Group Annuity Mortality Table was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table.
Rates of service retirement, withdrawal, death, disability retirement	Tables based on current actuarial experience
Salary increases	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.25% plus an added merit component for those with 0-4 years of service.
Cost-of-living adjustments	3.0% a year

* The System performs biannual actuarial valuations to establish contribution rates for the following two fiscal years. For fiscal year ended June 30, 2009, the contribution rates were based on the actuarial valuation performed as of June 30, 2007.

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 5 – DEFINED BENEFIT PENSION PLAN CONTRIBUTIONS AND FUNDING POLICY *Continued*

The schedules presented as required supplementary information following the notes to the financial statements, present multi-year 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 Pension Plan presents trend information about the amounts contributed to the plan by employers 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 – DEFINED POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

Contributions – Contributions to the Defined Post-employment Healthcare Benefit Plan are made by both the City and the participating employees. Contributions for the fiscal years ended June 30, 2009 and 2008 are based upon an actuarially determined percentage of each employee's base salary prior to the requirements of GASB Statement No. 43. The contributions are not sufficient to provide adequate assets to pay benefits when due in accordance with the requirements of GASB Statement No. 43. Effective June 28, 2009, the bargaining units representing the Federated members of the System entered into a Memorandum of Agreement (MOA) with the City to increase the rates of contributions for retiree health and dental rates in order to phase-in to GASB Statement No. 43 annual required contributions over the next five years.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2009 and 2008 for the Defined Post-employment Healthcare Benefit Plan were as follows:

<i>Period</i>	<i>City</i>	<i>Employee</i>
06/28/09 – 06/30/09	5.70%	5.07%
06/29/08 – 06/27/09	5.25%*	4.65%
07/01/07 – 06/28/08	3.82%	3.32%

* The actual contribution rate paid by the City was 5.05% as a result of the City exercising their option to make a lump sum payment for 24 pay periods of fiscal year 2008-2009.

The funding status of the Defined Post-employment Healthcare Plan as of June 30, 2007, the most recent actuarial valuation date, is as follows:

(Dollars in thousands)

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>Actuarial Accrued Liability (AAL) (b)</i>	<i>Unfunded AAL (b-a)</i>	<i>Funded Ratio (a)/(b)</i>	<i>Annual Covered Payroll (c)</i>	<i>UAAL as a % of Covered Payroll ((b)-(a))/(c)</i>
06/30/07	\$96,601	\$616,749	\$520,148	16%	\$271,833	191%

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

Projections of benefits for financial reporting purposes are based on the 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.

NOTES TO BASIC FINANCIAL STATEMENTS *Continued*

NOTE 6 – DEFINED POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS *Continued*

The significant actuarial methods and assumptions used to compute the actuarially determined annual required contribution are as follows:

<i>Description</i>	<i>Method/Assumption</i>
Valuation Date	June 30, 2007
Actuarial Cost Method	Entry age normal cost method
Amortization Method	Level percentage of payroll
Remaining Amortization Period	30 years, closed
Actuarial Asset Valuation Method	Reported market value of assets
<i>Actuarial Assumptions:</i>	
Discount rate	6.6% [†]
Inflation rate	4.0%
Projected payroll increases	4.0
<i>Health Care Cost Trend Rate:</i>	
Medical	The valuation assumes that future medical inflation will be at a rate of 8.0% per annum graded down each year in 0.5% increments to an ultimate rate of 4.5%.
Dental	Dental inflation is assumed to be 6.0% graded down to 4.0% over a nine 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 BASIC FINANCIAL STATEMENTS *Continued*

NOTE 6 – DEFINED POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

Continued

The schedules presented as required supplementary information following the notes to the financial statements, present multi-year trend information. The Schedule of Funding Progress for the Defined Post-employment 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 Defined Post-employment 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 – CONTINGENCY

Commitments – As of June 30, 2009, the System had unfunded commitments to contribute capital for private equity fund investments in the amount of \$64,090,000.

REQUIRED SUPPLEMENTARY INFORMATION

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

(Dollars in thousands)

Acturial 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, 2001	\$1,060,144	\$1,072,333	\$12,189	99%	\$252,696	5%
June 30, 2003	1,280,719	1,311,691	30,972	98%	292,961	11%
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%

Actuarial valuations have been performed bi-annually through June 30, 2007.

(a) Reported at "smoothed market" value determined using a technique that smooths 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.

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

(Dollars in thousands)

Fiscal Year Ended June 30,	Annual Required Employer Contributions	Percentage Contributed
2004	\$39,534	100%
2005	41,552	100%
2006	41,267	100%
2007	51,004	100%
2008	54,958	100%
2009	57,020*	100%

*Amount represents the annual required contributions paid by the City based on the actuarially determined lump sum prepayment amount. The annual required contribution in absence of the City's elected lump sum prepayment is estimated at \$58,759; see note five in the notes to financial statements for more information.

SCHEDULE OF FUNDING PROGRESS - POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Unaudited)

(Dollars in thousands)

Acturial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b)-(a)/c)
June 30, 2006	\$81,288	\$702,939	\$621,651	12%	\$275,559	226%
June 30, 2007	\$96,601	\$616,749	\$520,148	16%	\$271,833	191%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Unaudited)

(Dollars in thousands)

Plan Year Beginning	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2007	\$38,526	\$10,728	28%
June 30, 2008	\$38,526	\$11,560	30%
June 30, 2009	\$33,381	\$16,368*	49%

*Amount represents the annual required contributions paid by the City based on the actuarially determined lump sum prepayment amount. The annual required contribution in absence of the City's elected lump sum prepayment is estimated at \$16,859, with a percentage contributed of 51%; see note six in the notes to financial statements for more information.

OTHER SUPPLEMENTARY INFORMATION

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS

June 30, 2009

<i>(Dollars in thousands)</i>	<i>Retirement Fund</i>	<i>Cost-of-Living Fund</i>	<i>Total</i>
ASSETS			
Receivables:			
Employee contributions	\$ 490	\$ 144	\$ 634
Employer contributions	4,441	1,319	5,760
Brokers and others	20,554	6,944	27,498
Accrued investment income	5,169	1,750	6,919
Total receivables	<u>30,654</u>	<u>10,157</u>	<u>40,811</u>
Investments, at fair value:			
Securities and other:			
U.S. Treasury notes and bonds	11,892	4,422	16,314
U.S. government agency securities	90,749	33,739	124,488
International government bonds	47,091	17,508	64,599
Domestic corporate bonds	184,225	68,492	252,717
International corporate bonds	36,359	13,518	49,877
Domestic equity securities	318,337	118,354	436,691
International equity securities	170,774	63,491	234,265
Private equity	39,922	14,842	54,764
Derivative instruments	(74)	(28)	(102)
International Forward currency contracts	(4)	(2)	(6)
Collective short-term investment funds	30,356	11,286	41,642
Real estate	62,193	20,792	82,985
Securities lending cash collateral investment pool	14,874	5,035	19,909
Total investments	<u>1,006,694</u>	<u>371,449</u>	<u>1,378,143</u>
TOTAL ASSETS	<u>1,037,348</u>	<u>381,606</u>	<u>1,418,954</u>
LIABILITIES			
Payable to brokers	29,280	9,912	39,192
Securities lending collateral due to borrowers	16,264	5,506	21,770
Other liabilities	993	361	1,354
TOTAL LIABILITIES	<u>46,537</u>	<u>15,779</u>	<u>62,316</u>
NET ASSETS HELD IN TRUST FOR			
Pension benefits	\$ 990,811	\$365,827	\$1,356,638
Post-employment healthcare benefits	-	-	-
TOTAL NET ASSETS	<u>\$ 990,811</u>	<u>\$365,827</u>	<u>\$1,356,638</u>

OTHER SUPPLEMENTARY INFORMATION *Continued***COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS***For the Fiscal Year Ended June 30, 2009*

<i>(Dollars in thousands)</i>	<i>Retirement Fund</i>	<i>Cost-of-Living Fund</i>	<i>Total</i>
ADDITIONS			
Contributions:			
Employee	\$ 10,684	\$ 3,164	\$ 13,848
Employer	43,951	13,069	57,020
Total Contributions	54,635	16,233	70,868
Investment income:			
Net appreciation in fair value of investments	(246,863)	(83,316)	(330,179)
Interest income	23,024	7,742	30,766
Dividend income	5,421	1,824	7,245
Net rental income	3,085	1,043	4,128
Less investment expense	(5,070)	(1,733)	(6,803)
Net investment income before securities lending loss	(220,403)	(74,440)	(294,843)
Securities lending income:			
Earnings	216	68	284
Rebates	(759)	(254)	(1,013)
Fees	(151)	(50)	(201)
Net securities lending loss	(694)	(236)	(930)
Total investment loss	(221,097)	(74,676)	(295,773)
TOTAL ADDITIONS	(166,462)	(58,443)	(224,905)
DEDUCTIONS			
Retirement benefits	71,059	18,708	89,767
Death benefits	4,321	2,602	6,923
Refund of contributions	1,182	213	1,395
Administrative expenses and other	1,580	528	2,108
TOTAL DEDUCTIONS	78,142	22,051	100,193
NET DECREASE	(244,604)	(80,494)	(325,098)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS & POST-EMPLOYMENT HEALTHCARE BENEFITS			
Beginning of Year	1,235,415	446,321	1,681,736
End of Year	\$ 990,811	\$365,827	\$1,356,638

OTHER SUPPLEMENTARY INFORMATION *Continued***SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER***For the Fiscal Years Ended June 30, 2009 and 2008*

	2009			2008
	Original Budget	Actual	Variance Positive/(Negative)	Actual
Personal services	\$ 1,728,500	\$ 1,598,078	\$ 130,422	\$ 1,533,562
Non-personal/equipment	704,100	449,664	254,436	658,885
Professional services	255,750	192,263	63,487	300,055
TOTAL ADMINISTRATIVE EXPENSES AND OTHER	\$2,688,350	\$2,240,005	\$448,345	\$2,492,502

SCHEDULES OF INVESTMENT EXPENSES*For the Fiscal Years Ended June 30, 2009 and 2008*

	2009	2008
Equity:		
Domestic equity	\$ 1,093,375	\$ 1,976,988
International equity	1,308,407	1,892,194
Private equity	1,223,062	856,426
Total equity	3,624,845	4,725,608
Fixed income:		
Domestic fixed income	1,116,729	1,042,222
Global fixed income	367,968	398,739
Total fixed income	1,484,697	1,440,961
Real estate	1,664,932	1,389,492
Total investment managers' fees	6,774,473	7,556,061
Other investment service fees:		
Investment consultant	400,000	212,500
Proxy voting	14,000	11,500
Real estate legal fees	5,332	13,198
Real estate appraisals	-	4,450
Investment legal fees	34,202	-
Custodian	-	250
Total other investment service fees	453,534	241,898
TOTAL INVESTMENT EXPENSES	\$7,228,007	\$7,797,959

OTHER SUPPLEMENTARY INFORMATION *Continued***SCHEDULES OF PAYMENTS TO CONSULTANTS***For the Fiscal Years Ended June 30, 2009 and 2008*

<i>Firm</i>	<i>Nature of Service</i>	<i>2009</i>	<i>2008</i>
Levi, Ray & Shoup	Web Development, Maintenance and Hosting	\$ 12,259	\$ 16,621
Levi, Ray & Shoup	Document Imaging & Support and Maintenance	-	4,551
Macias Gini & O'Connell LLP	External Auditors	33,585	43,649
Avery, William, & Associate	Human Resource Consultant	-	9,127
Medical Director/Other Medical	Medical Consultant	43,409	26,830
Pension Benefit Information	Reports on Beneficiary Deaths	1,832	2,112
Saltzman & Johnson	Legal Counsel	30,702	42,175
Wilfred Jarvis Institute	Human Resource Consultant	5,881	4,308
The Segal Company	Operational and HIPPA compliance audit	12,250	40,000
Gabriel, Roeder, Smith & Company	Actuarial Consultant	52,345	110,682
TOTAL		<u>\$192,263</u>	<u>\$300,055</u>



INVESTMENT SECTION



REPORT ON INVESTMENT ACTIVITY

STRATEGIC INVESTMENT SOLUTIONS, INC.

Strategic Investment Solutions, Inc.
333 Bush Street, Suite 2000
San Francisco, CA 94104

415-362-3484 phone
415-362-2752 fax

August 19, 2009

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

Dear Mr. Crosby:

Fiscal year 2009 will be forever remembered for one of the worst capital market and economic crises in US history. In the Fall of 2008, a nasty, but seemingly manageable "credit crunch" affecting mostly the residential housing and credit markets exploded into a financial systemic crisis. In a one month period, the markets saw the failure of the investment bank Lehman Brothers, the government seizure of mortgage giants Fannie Mae and Freddie Mac, and the government equity purchase of insurance giant American International Group. The failure and near failure (with failures prevented only by unprecedented government intervention) of these and other key financial institutions destroyed investor confidence in the global capital markets, and caused investment losses and market dislocations that redound to the economy and financial markets to this day.

Government authorities at virtually all levels have responded aggressively to the crisis, in many cases taking unprecedented action. The Federal Reserve, the Treasury and Congress have enacted an alphabet soup of policies and programs to provide assistance to large financial institutions, to facilitate the credit markets, to aid homeowners, and broadly simply to engender participant confidence in the system. A level of government involvement in the private markets that would have been unthinkable before the Fall of 2008 is now accepted, even welcomed as necessary given the scope and severity of the crisis. In addition to the various assistance programs, the Federal Reserve also acted very aggressively to address the systemic risk to the financial system by cutting banks' overnight lending rate down to just above zero by fiscal year end. The Federal Reserve also took the extraordinary steps of extending the term of its official lending program, accepting non-cash collateral for its official lending, and opening its discount window to investment banks.

After enduring the early stages of the market crisis largely unscathed, the real economy has been dramatically affected over the last year. Lower home and equity prices, combined with job losses, have greatly curtailed consumer buying power. As a result, the global economy suffered its worst contraction in 60 years during the fiscal year. The unemployment rate in the US exceeded 9%, with most economists expecting it to continue to climb into the double digits before peaking in 2010.

REPORT ON INVESTMENT ACTIVITY *Continued*

STRATEGIC INVESTMENT SOLUTIONS, INC.

At fiscal year end, signs of improvement in the capital markets are coming into evidence. Global equity markets have rallied strongly since the market low in early March, credit markets have begun to function more normally as liquidity and confidence return. The consensus of most market participants is that the worst of the economic contraction has passed and that the risk of a systemic failure of the global financial system has largely passed.

Despite these late improvements, in total capital markets struggled through a dreadful year. Global Equities specifically, and risk assets in general, struggled against negative sentiment. The broad US Equity market, as measured by the Russell 3000 Index, declined 26.6% during the year. The Russell 1000 large cap component of US Equity fell 26.7%, while the small cap Russell 2000 fared only slightly better, falling 25.0%. International Equity investments, performed even worse for dollar-based investors, as the Developed Markets index lost 31.0%, while Emerging Markets lost 27.8%. Investment Grade US Bonds (Lehman Aggregate) provided some shelter for investors, returning 6.1% for the year. However, high yield bonds returned -3.5%, reflecting the difficult credit environment during the year. The NCREIF Index of institutional Real Estate posted a negative 19.6% return.

Plan Investment Results

For the year, the Federated City Employees' Retirement System of San Jose (the System) returned -16.8%, below the -15.2% return on its Policy Index, and far below the System's 8.25% actuarial return expectation. (On a net of investment management fee basis, the fund returned -17.0%, and net of all expenses, including investment, administrative, and SRBR expenses, the fund returned -17.6%) Though this absolute return was disappointing, the System continued to perform well relative to its peers, managing to perform 1.1% above the Independent Consultants Cooperative (ICC) Large Public Fund Universe median return of -17.9%, placing the System in the 35th percentile of the universe. The System's strong showing versus its peers was due to its asset allocation rather than active manager returns. The return of the policy index would have placed it in the 19th percentile of the universe.

The System's US Equity portfolio underperformed its equity policy benchmark by -0.6% during the fiscal year. Approximately half of the US Equity assets were invested in a Northern Trust passive Russell 3000 Index Fund that effectively matched its benchmark's return. The other half of US Equity assets were invested in a diverse set of active strategies that in aggregate underperformed the US equity benchmark index. Two of these managers finished the fiscal year in the top half of their respective peer groups, but none generated material excess returns vs. their benchmark.

During fiscal year 2009, the System's International Equity composite returned -33.8% versus the benchmark's return of -30.5%. This return placed the International Equity composite in the 75th percentile and -4.0% behind the international equity universe median.

REPORT ON INVESTMENT ACTIVITY *Continued***STRATEGIC INVESTMENT SOLUTIONS, INC.**

The Plan's US Fixed Income portfolio return of 4.2% trailed the Barclays Aggregate Index's 6.1% return for the fiscal year. This result was also -0.4% behind the 4.6% return of the US Fixed Income Median. Loomis Sayles, the System's global fixed income manager, returned 1.9% for fiscal 2009, lagging the Citi WGBI index, but nevertheless falling in the top half of the global fixed income universe.

For the year ended June 2009, NCREIF declined -19.6% while the System's Real Estate composite fell -24.3%. This substantial decline in absolute terms was 5.0% ahead of the real estate manager universe median return of -29.3%.

Asset Allocation and Manager Structure

During the year, the System examined its total plan strategic allocation targets and affirmed its commitment to a new asset allocation that includes higher allocations to International Equity and Private Equity. During the most difficult period of the crisis in the capital markets, when some peer pensions chose to deviate from their long term plan, San Jose Federated demonstrated fortitude by rebalancing to its strategic targets. As a result, the plan benefited from the strong rally that came at the end of the fiscal year.

In keeping with its strategic design, the Federated City Employees' Retirement System of San Jose portfolio continues to generate strong returns for its participants in a risk averse, cost-efficient, and prudent fashion. Though in the difficult investment environment of fiscal year 2009 the System did not meet its actuarial return expectation, its relatively good performance during the year did contribute to the plan's continued achievement of superior long term returns – the plan's ten year return of 4.0% is higher than 81% of its large public plan peers. SIS believes that the strategic initiatives currently under implementation will help to ensure that the System continues to perform well and meet its obligation to participants in the future.

Sincerely,



Patrick Thomas, CFA

Vice President

NOTE: Returns for periods greater than one year are annualized. Monthly return calculations are time-weighted, and market value based. The performance calculation methodology is consistent with the CFAI Global Investment Performance Standards.

STATEMENT OF INVESTMENT POLICY

The purpose of this Investment Policy Statement (IPS) is to assist the San Jose Federated City Employees' Retirement System's (System) Board of Administration (Board) and its delegates 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:

- (1) Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all the System's assets.
- (2) Setting forth an investment structure for managing all 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.
- (3) Providing guidelines for the investment system that controls 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.
- (4) Encouraging effective communications between the Board, the investment consultant (Consultant) and the money managers.
- (5) Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the money managers on a quarterly basis, or as deemed appropriate.
- (6) Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all 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. Highlights of the IPS are outlined below:

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) Require that the System be sufficiently funded to assure that all disbursement obligations will be met.
- (2) Attempt to insure 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 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 stocks and bonds.

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 January 2008 the following asset allocation is in effect:

ASSET ALLOCATION

<i>Asset Class</i>	<i>Minimum</i>	<i>Target</i>	<i>Maximum</i>
Domestic Equity	28%	33%	38%
International Equity	15%	20%	25%
Fixed Income	31%	36%	41%
Alternatives		11%	
Real Estate	3%	6%	9%
Private Markets	2%	5%	8%

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

(Procedure 453)

The IPS, 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 IPS and the asset allocation are generated using certain market assumptions. These assumptions include the expected median return and standard deviation for each asset category and the expected correlation coefficients among the asset classes. When these presumptions change, the policy needs to be modified to compensate for those changes so that the System remains sufficiently funded to meet all distribution needs.

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

STATEMENT OF INVESTMENT POLICY *Continued*

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 System on a semi-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 Procedure 454. Additionally, the Board will review the strategic asset allocation on 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 IPS 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

(Procedure 454)

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

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

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

- (1) When the allocation to a particular asset class reaches 95-100% of the maximum or 100-105% of the minimum, the portfolio will be re-balanced to the target over the following 60 days. The cash surplus within the System will be used to rebalance the portfolios. If the cash surplus is not sufficient, the following rebalancing procedures shall be implemented.
 - a) 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.
 - b) 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.

- c) Transfers to or from the domestic stock asset class should be made such that the asset class remains style neutral. The portfolio should remain biased towards large capitalization over small capitalization. Transferred assets shall first consist of cash in the portfolios. If the cash is not sufficient, then the managers will be requested to liquidate that portion of the portfolios which will result in the asset class coming within the specific target range and remaining balanced between Growth and Value.
- d) Since the domestic equity class represents a large part of the portfolio, it can be balanced internally through the use of secondary targets established within the class. The table below provides an example of how balances within the class are maintained. To determine whether the target is met for each of these categories, a subtotal is computed for the assets held by each group of managers. The percentage of the total portfolio that each group represents is determined, and compared against the target levels. When the allowable variation is exceeded, the procedures for adjustments between asset classes are then applied within the domestic equities class to meet the secondary target levels.

ASSET ALLOCATION MODEL SECONDARY TARGETS, DOMESTIC EQUITIES

<i>Portfolio Category: Form of Investment Management</i>	<i>As a % of Domestic Equity Portfolio</i>	<i>As the Equivalent % of the Total Portfolio</i>	<i>Allowable Variation from the % of the Equity Portfolio</i>
Index Fund	50%	17.4%	+/- 4.5%
Large Cap Value	12%	3.4%	+/- 2.5%
Large Cap Growth	10%	2.9%	+/- 2.5%
Small Cap Value	7%	3.6%	+/- 1.5%
Small Cap Growth	6%	3.1%	+/- 1.5%
All Cap Growth	15%	4.4%	+/- 2.5%

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

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.

STATEMENT OF INVESTMENT POLICY *Continued*

caution 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 will 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.

- (1) 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.
- (2) 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.
- (3) 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.
- (4) 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. (Procedure 451) The Board prefers that the managers hold under 6-7% cash. Any manager who holds over 6-7% cash for two months or more will be notified in writing that a portion of their cash will be transferred out of their account to another manager. 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.
- (5) 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.
- (6) Transactions that would jeopardize the tax-exempt status of the System are not allowed.
- (7) 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.
- (8) The investment manager is expected to comply with all laws, regulations, and standards of ethical conduct.

Domestic Equity Securities

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

- (1) Domestic equity security (with the exception of preferred stocks) shall be traded on a national exchange (including NASDAQ) and be substantially diversified.
 - a) Investment in any corporation shall not exceed 5% of the outstanding shares of that corporation.
 - b) Not more than 5% of the total assets at market value may be invested in preferred stocks.
 - c) Not more than 5% of the total assets at market value shall be invested in the common stock of any corporation.
- (2) The following transactions are prohibited:
 - a) Purchase of stocks that are not publicly traded.
 - b) Purchase of restricted stock.
 - c) Short sales and purchases of securities on margin.
- (3) Equity securities in general shall possess value and quality corroborated by accepted techniques and standards of fundamental and technical analysis.
- (4) Holdings of individual issues shall be large enough (round lots) for easy liquidation
- (5) American Depository Receipts (ADR's) and Real Estate Investment Trusts are permitted equity investments.

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 Moodys or by Standard & Poors. If the issuer had public debt outstanding, said debt must not be rated below the top three letter ratings (AAA, AA, A) of either Moodys or Standard & Poors.
- (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.

STATEMENT OF INVESTMENT POLICY *Continued*

- (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.

Domestic Fixed Income

The domestic fixed income portion of the System's assets shall generally be invested in investment grade, marketable, fixed-income securities, although up to 15% investment in BB or B 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) Public Improvement Bonds of San Jose that are rated Baa/BBB or better by Moody's or Standard & Poor's.
- (8) 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 15% with written authorization of the Board.
- (9) If bonds are downgraded below the minimum credit quality allowable in the guidelines at the time of purchase, the manager is permitted to hold up to 2% in aggregate market value of these securities in the portfolio, using the lower of S&P and Moody's rating in the event of a split-rated security. The manager will continue to notify staff of the downgrade and confer with staff as to whether the security will continue to be held or disposed. The manager will also provide quarterly reporting on the downgraded securities.
- (10) The manager may invest a portion of the assets in commingled accounts with specific mandates such as high yield trust funds with written authorization by 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.

Holdings of individual issues shall be large enough (round lots) for easy liquidation.

International Equity Securities

The primary emphasis of the international equity portfolio will be on non-U.S. common stocks. The investment managers employed to manage international equities will have discretion in the day-to-day management of funds under their control subject to the following guidelines:

- (1) Investments are to be made primarily in common stocks in markets outside the U.S. Investments in American Depository Receipts (ADR's) are permitted.
- (2) 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. (Allocations to any specific country shall not be more than twice the weighting relative to a broadly diversified international equity manager peer group, up to a maximum of 40% in any one country.)
- (3) Upon approval by the Board, up to 15% of the international equity portfolio may be invested in non-EAFE markets.
- (4) The following transactions are prohibited:
 - a) Purchase of stocks not publicly traded
 - b) Purchase of restricted stocks
 - c) Short sales and purchases of securities on margin
- (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 manager may defensively hedge currency, including any cross hedging, up to 30% of the

STATEMENT OF INVESTMENT POLICY *Continued*

portfolio market value. 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.

International Fixed-Income

The international fixed income portion of the System assets shall be invested in investment grade, marketable, fixed-income securities. The investment managers employed to manage international fixed-income securities will have discretion in the day-to-day management of funds under their control. Securities must meet the following criteria:

- (1) Short-term reserves (cash and cash equivalents) may be held in U.S. dollar denominated obligations and/or temporary investment vehicles or may be held in obligations and temporary investment vehicles denominated in foreign currencies.
- (2) Fixed-income securities shall be non-U.S. dollar denominated.
- (3) All instruments at the time of purchase shall be investment grade. Should a current security fall below this standard, the investment manager shall notify the Board of the downgrade immediately and submit a plan for disposition of the instrument.
- (4) 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.
- (5) No more than 10% of the portfolio shall be invested in obligations of a single non-governmental issuer. Investments in emerging debt will only be permitted with the express and written authorization of the Board
- (6) 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 manager may defensively hedge currency, including any cross hedging, up to 50% of the portfolio market value. 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.

High Yield Bonds and Bank Loans

The high yield bonds and bank loans portion of the plan assets shall be invested predominantly in below investment grade securities

and bank loans. The investment managers employed to manage high yield and bank loan instruments will have discretion in the day-to-day management of 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) At the time of purchase at least 95% of the instruments must have a minimum rating of B- or B3, or if unrated, of a comparable quality rating as determined by the investment manager. Should more than 5% of a portfolio fall below this standard, the investment manager shall notify the Board of the downgrade immediately and submit a plan for returning the portfolio to the standard.
- (2) U.S. corporate bonds, including zero-coupon, step-up, convertible, toggle and pay-in-kind bonds and non-dollar corporate bonds (which should be hedged), private placement securities, bank loans, participations and assignments.
- (3) U.S. dollar denominated bonds issued by entities not domiciled in the United States (Yankee bonds / euro bonds)
- (4) U.S. Treasury futures, currency forward or futures contracts, and credit default swaps may be used for hedging purposes.
- (5) No more than 3% of the portfolio shall be invested in obligations of a single non-governmental issuer.
- (6) The number of issues held, the sector and the industry diversification constraints shall be detailed in each manager's investment guidelines. The portfolio shall be appropriately diversified as consistent with the manager's stated investment approach.

Convertible Bonds

The convertible bonds portion of the plan assets shall be invested predominantly in convertible securities. The manager may invest in investment or non-investment grade rated U.S. and non-U.S. convertible securities, including convertible bonds; convertible preferred stock; bonds or preferred stock with warrants; and zero- and low-coupon convertibles across the entire credit quality spectrum. In addition, the investment manager can utilize convertible structured notes issued by third parties, as well as synthetic convertible securities created by the investment manager. The investment manager(s) employed to manage the convertible instruments will have discretion in the day-to-day management of 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.

STATEMENT OF INVESTMENT POLICY *Continued*

Should more than 5% of a portfolio fall below this standard, the investment manager shall notify the Board of the downgrade immediately and submit a plan for returning the portfolio to the standard.

- 2) U.S. Treasury's, U.S. corporate bonds, including zero-coupon, step-up, toggle and pay-in-kind bonds and non-dollar corporate bonds (which should be hedged), private placement securities, bank loans, participations and assignments.
- 3) U.S. dollar denominated bonds issued by entities not domiciled in the United States (Yankee bonds / euro bonds).
- 4) U.S. Treasury futures, currency forward or futures contracts, and credit default swaps may be used for hedging purposes.
- 5) No more than 5% of the portfolio shall be invested in obligations of a single non-governmental issuer at cost, and 8% at market value.
- 6) 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.
- 7) The general position of the portfolio is to be hedged from a currency perspective.

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 System's assets, valued at market, in any one property, project, or debt instrument regardless of the manner of the instrument.
- (4) The investment advisors employed by the Board to assist in the location and acquisition of real estate must bring their proposal to the Board for approval. Any such proposal must be approved by an affirmative vote of four (4) of the Board members before any funds may be invested.

Private Markets

Subject to specific approval of the Investment Committee of the Board of Administration, investments may be made for the purpose of creating a diversified portfolio of private markets. Examples of such private markets investments include, but are not limited to, venture capital partnerships, leveraged buyout funds, private debt, and private placements. While it is expected that the majority of these assets will be invested within the United States, a portion can be allocated to non-U.S. investments, with a

primary focus on Europe. Investments may be made in secondary investments on an opportunistic basis.

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.

Funds that are committed to said Limited Partnerships, but not yet drawn down by the General Partner, may be invested in the System's equity funds, as the risk/reward characteristics of these funds most closely match those of the Limited Partnerships.

The following sub-category allocations were derived to be consistent with the investable universe within private markets. The ranges reflect long-term averages, once the 3% allocation to private markets has been fully committed. During the initial investment period, approximately four to six years, it is expected that sub-category allocations may fall outside the approved ranges.

ASSET ALLOCATION WITH PRIVATE MARKETS

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

Supervision

The investment manager shall continually supervise the investment securities in the System, 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

STATEMENT OF INVESTMENT POLICY *Continued*

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:

<i>Benchmark</i>	<i>Allocation</i>
Russell 1000	26%
Russell 2000	7%
Morgan Stanley Capital International EAFE	20%
Barclays Capital Aggregate Bond Index	22%
Citigroup World Government Bond Index	5%
Credit Suisse First Boston Leveraged Loan Index	3%
Merrill Lynch High Yield Master Index	3%
Merill Lynch Global 300 Convertible Index	3%
NCREIF Property Index	6%
Private Markets (<i>Benchmark to be determined</i>)	5%

(Procedure 452)

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 System are considered to have achieved performance objectives if their performance meets guidelines in the majority of the annualized time periods since inception. Their performance in any period should not be below the 62nd percentile.

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

- (1) If a manager fails to meet investment objectives for one or two consecutive quarters, this may not be a cause for concern.
- (2) If a manager fails to meet investment objectives for three consecutive quarters, they merit probationary status.
- (3) 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.

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 the Barclays Capital Aggregate Bond 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.
- (2) Achieve performance results that will rank in the top half of a broad fixed-income manager database.
- (3) Achieve performance results that will rank in the top half of investment managers which utilize a similar investment style.

Domestic 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. S&P 500, NASDAQ, 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.
- (2) Achieve returns that will rank in the top half of a broad database of domestic equity managers.
- (3) Achieve performance results which will rank in the top half of investment managers that utilize a similar investment style.

STATEMENT OF INVESTMENT POLICY *Continued*

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.

International Equity Investments

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

- (1) Achieve returns which exceed that of the Morgan Stanley Capital International Europe, Australia, Far East 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.
- (2) Achieve returns that rank in the top half of a broad international equity manager database.
- (3) Achieve performance results in the top half of investment managers that utilize a similar style of investment.

International Fixed-Income Investments

The objective for the investment managers of the international fixed-income component of the total portfolio are:

- (1) Achieve rates of return which exceed the Salomon Brothers World Government Non-Dollar Bond 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.
- (2) Achieve performance results that will rank in the top half of a broad international fixed-income manager database.
- (3) Achieve returns that will rank in the top half of investment managers that utilize a similar investment style.

High Yield and Bank Loan Investments

The objective for the investment managers of the high yield and bank loan component of the total portfolio are:

- (1) Achieve rates of return which exceed either the Merrill Lynch US High Yield Master Index or the 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.
- (2) Achieve performance results that will rank in the top half of a broad high yield manager database.
- (3) Achieve returns that will rank in the top half of investment managers which utilize a similar investment style.

Convertible Bond Investments

The objective for the investment managers of the convertible bond component of the total portfolio are:

- (1) Achieve rates of return which exceed the Merrill Lynch Global 300 Convertible Index 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.

- (2) Achieve performance results that will rank in the top half of a broad convertible bond manager database.
- (3) Achieve returns that will rank in the top half of investment managers that utilize a similar investment style.

Real Estate Investments

- (1) Achieve returns which exceed an appropriate index, (i.e. NCRIF) net of fees over a market cycle
- (2) The real estate manager(s) will be expected to achieve returns that rank in the upper half of a broad universe of real estate funds.

Monitoring of Money Managers

(Procedure 460)

It is the Board's policy to monitor the portfolios of the investment managers for prudent adherence to the approved performance guidelines. Quarterly performance will 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.

On a timely basis, but not less than four times a year, the Board will meet to focus on:

- (1) Manager's adherence to the IPS guidelines;
- (2) Material changes in the manager's organization, investment philosophy and/or personnel; and,
- (3) 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:

- (1) Change in professionals
- (2) Significant account losses
- (3) Significant growth of new business
- (4) 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.

STATEMENT OF INVESTMENT POLICY *Continued*

Periodic Reviews of Manager Performance

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

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

Procedure:

- (1) Each manager is expected to produce performance equal to or better than their benchmark index for one year, three year, and five year cumulative periods.
- (2) The expectation to produce above median performance in an appropriate peer group for one year, three year, and five year cumulative periods will be factored in only when the majority of investment managers are underperforming the benchmark.
- (3) If a manager has less than five years performance, we will review the periods reported by the consultant, such as one quarter, one year and since inception. However, no action will be taken for placement on the watch list until two years after inception date.
- (4) If there is a failure to meet the performance objective, the following rules should be applied:
 - a) A manager's (with at least two years of performance since inception) failure to meet their objective for four successive quarters will place the manager on the watch list. If a manager is consistently on the borderline, sometimes meeting objectives and sometimes failing to meet objectives, the manager may be placed on the watch list.
 - b) During the next four quarters, the manager's performance will be closely monitored to see it is warranted for the manager to be placed on probation.
 - c) A manager placement on probation should result in review by the Investment Committee. Upon a critical review of the manager, the Investment Committee may grant up to one year further for improvement to take place upon officially recognizing the substandard performance and explicitly granting an extension of time for improvement. At the time of granting such extraordinary extension, the Investment Committee may delegate to the Director of Retirement Services the authority to direct the manager to immediately suspend all trading except as specifically directed by the Director of Retirement Services. If there has been improvement in performance, the Investment Committee may extend the probation beyond one year.

During the period of any such extraordinary extension, the investment staff should monitor the portfolio and transactions

of such manager to ensure that excessive risk is not being taken in an attempt to "catch up." If in the judgment of the Director of Retirement Services, such manager is managing the portfolio in such a manner that indicates that excessive risk is being taken, the Director of Retirement Services should use the previously delegated authority to terminate or restrict the manager's activities.

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

Extraordinary Reviews of Managers

If an event occurs within a manager's organization 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:

- (1) Loss of any significant investment professional directly involved with the management of System assets or of such significance to the manager's overall investment process as to call into question the future efficacy of that process.
- (2) Sale, offer for sale, or offer to purchase the manager's business to/by another entity.
- (3) Significant financial difficulty or loss of a sizable portion of the manager's assets under management.
- (4) 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.
- (5) Any other event which in the discretion of the Director of Retirement Services appears 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, being placed on the watch list, being put on probation or termination depending on the seriousness of the event and the probability of impacting the management of the Plan's assets.

Exceptions

The Board may grant specific exceptions to any part of the IPS where in their judgment the exception may add value to the fund without undue risk.

For the latest IPS please visit the following website: <http://www.sjretirement.com/Fed/Investments/Investments.asp>

INVESTMENT PROFESSIONALS

INVESTMENT MANAGERS

Domestic Equities

Atlanta Capital Management
Large Cap Growth
Atlanta, GA

Brandywine Asset Management
Small Cap Value
Philadelphia, PA

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

Northern Trust Global Investments
Russell 3000 Index
Chicago, IL

Dodge & Cox
Large Cap Value
San Francisco, CA

Domestic Equities *Continued*

Wellington Management
All Cap Growth
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

International Equities
The Boston Company Asset Management, LLC
Boston, MA

International Equities *Continued*

Fisher Investments
Institutional Group
Woodside, CA

McKinley Capital Management
Anchorage, AK

Domestic Fixed Income
Dodge & Cox
Domestic Core
San Francisco, CA

BlackRock Financial Management
Domestic Core
New York, NY

MacKay Shields
High Yield
New York, NY

Seix Investment Advisors
Bank Loans
Upper Saddle River, NJ

Global Fixed Income

Loomis Sayles & Company
Boston, MA

Real Estate
American Realty Advisors
Glendale, CA

DRA Advisors, Inc.
New York, NY

Fidelity Investments
Boston, MA

GE Asset Management
Stamford, CT

MIG Realty Advisors
Cleveland, OH

Prudential Real Estate Investors
Newark, NJ

CONSULTANTS

Strategic Investment Solutions, Inc.
San Francisco, CA

Meketa Investment Group
Westwood, MA
(Hired August 2009)

CUSTODIAN

The Northern Trust
Chicago, IL

PROXY VOTING

Glass Lewis & Co. LLC
San Francisco, CA

SCHEDULE OF INVESTMENT RESULTS

GROSS PERFORMANCE SUMMARY BY ASSET CLASS

For Periods Ending June 30, 2009

	<i>One Year</i>	<i>Three Years</i>	<i>Five Years</i>
Total Fund (<i>gross of fees</i>)	-16.8%	-2.1%	2.4%
Total Fund (<i>net of investment expense</i>)	-17.0%	-2.4%	2.1%
Total Fund (<i>net of investment, administrative, securities lending, and SRBR expenses</i>)*	-17.6%	-3.0%	1.7%
Benchmark	-15.2%	-1.6%	2.7%
ICC Total Public Fund Median	-17.9%	-2.8%	2.1%
Total Domestic Equity	-26.8%	-8.1%	-1.5%
Russell 3000	-26.6%	-8.3%	-1.8%
ICC US Equity Median	-26.0%	-8.1%	-0.9%
Total International Equity	-33.8%	-7.9%	2.6%
MSCI ACWI ex-US	-30.5%	-5.4%	4.9%
ICC International Equity Median	-29.8%	-6.3%	4.0%
Total Domestic Fixed Income	4.2%	5.2%	4.6%
Barclays Aggregate Bond Index	6.1%	6.4%	5.0%
ICC US Fixed Income Median	4.6%	5.9%	5.0%
	<i>One Quarter</i>	<i>One Year</i>	<i>Three Years</i>
Total Global Fixed Income	11.0%	1.9%	6.5%
Citigroup World Government Bond Index	3.5%	4.0%	7.8%
ICC Global Fixed Income Median	9.1%	0.4%	5.4%
	<i>One Year</i>	<i>Three Years</i>	<i>Five Years</i>
Total Real Estate	-24.3%	0.7%	6.8%
NCREIF Property Index	-19.6%	1.0%	7.6%
ICC Real Estate Fund Median	-29.3%	-2.8%	5.5%
	<i>One Quarter</i>	<i>One Year</i>	<i>Three Years</i>
Total Private Equity	-10.0%	-23.8%	-3.6%
S&P 500 + 300 basis points	16.0%	-23.2%	-5.2%

* Source: Federated City Employees' Retirement System

Basis of Calculation: Time-Weighted Rate of Return

Source: Strategic Investment Solutions, Inc. Performance Evaluation Report dated June 30, 2009

SCHEDULE OF INVESTMENT RESULTS *Continued*

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER

For Periods Ending June 30, 2009

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

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

Domestic Equity Managers	<i>One Year</i>	<i>Three Years</i>	<i>Five Years</i>
Northern Trust (Index)	-26.5%+	-8.3%=	-1.8%=
Russell 3000 Index	-26.6%	-8.3%	-1.8%
ICC US Equity Median	-26.0%	-8.1%	-0.9%
Atlanta Capital (Large Cap Growth)	-24.3%++	-4.7%++	-0.9%+=
Russell 1000 Growth Index	-24.5%	-5.4%	-1.8%
ICC Large Cap Growth Median	-25.5%	-5.9%	-0.9%
Dodge & Cox (Large Cap Value)	-28.9%+	-12.3%	-2.6%
Russell 1000 Value Index	-29.0%	-11.1%	-2.1%
ICC Large Cap Value Median	-27.1%	-10.3%	-1.4%
Eagle Asset Management (Small Cap Growth)	-24.8%=	-4.2%++	1.9%+=
Russell 2000 Growth Index	-24.8%	-7.8%	-1.3%
ICC Small Cap Growth Median	-24.9%	-7.4%	0.6%
Brandywine (Small Cap Value)	-28.3%	-13.9%	-4.6%
Russell 2000 Value Index	-25.2%	-12.1%	-2.3%
ICC Small Cap Value Median	-20.2%	-9.1%	-0.6%
	<i>One Quarter</i>	<i>One Year</i>	<i>Three Years</i>
Wellington Management	15.7%	-28.5%	-6.6%
Russell 3000 Growth Index	16.8%	-24.5%	-5.7%
ICC All Cap Growth Median	17.0%	-25.7%	-6.2%
	<i>One Year</i>	<i>Three Years</i>	<i>Five Years</i>
International Equity			
Boston Company Asset Management, LLC	-21.3%++	-5.9%+	3.1%
MSCI ACWI ex-US Index	-30.5%	-5.4%	4.9%
ICC International Developed Markets Equity Median	-29.8%	-6.3%	4.0%
	<i>One Quarter</i>	<i>One Year</i>	<i>Three Years</i>
Fisher Investments Institutional Group	27.5%+	-35.7%	-8.0%
MSCI ACWI ex-US Index	27.9%	-30.5%	-5.4%
ICC International Developed Markets Equity Median	24.5%	-29.8%	-6.3%
McKinley Capital Management	16.2%	-43.9%	-11.6%
MSCI ACWI ex-US Index	27.9%	-30.5%	-5.4%
ICC International Developed Markets Equity Median	24.5%	-29.8%	-6.3%
	<i>One Year</i>	<i>Three Years</i>	<i>Five Years</i>
Domestic Fixed Income			
BlackRock Financial Management, Inc.	2.9%	4.7%	4.2%
Barclays Aggregate Bond Index	6.1%	6.4%	5.0%
ICC Core Bonds Median	4.6%	5.9%	5.0%
Dodge and Cox	5.5%+	5.4%	4.6%
Barclays Aggregate Bond Index	6.1%	6.4%	5.0%
ICC Core Bonds Median	4.6%	5.9%	5.0%

Basis of Calculation: Time-Weighted Rate of Return

Source: Strategic Investment Solutions, Inc. Performance Evaluation Report dated June 30, 2009

SCHEDULE OF INVESTMENT RESULTS *Continued*

NET PERFORMANCE SUMMARY BY INVESTMENT MANAGER *Continued*

For Periods Ending June 30, 2009

High Yield and Bank Loans	<i>Inception (04/09)</i>		
MacKay Shields	2.8%		
ML High Yield Index	10.1%		
Seix Investment Advisors	1.9%		
CS Leveraged Loan Index	9.8%		
Global Fixed Income	<i>One Quarter</i>	<i>One Year</i>	<i>Three Years</i>
Loomis Sayles	10.9%++	1.6%+	6.2%+
Citigroup World Government Bond Index	3.5%	4.0%	7.8%
ICC Global Fixed Income Median	9.1%	0.4%	5.4%
Real Estate	<i>One Year</i>	<i>Three Years</i>	<i>Five Years</i>
MIG Realty Advisors	-26.30%+	3.70%++	0.30%
NCREIF Property Index	-19.6%	1.0%	7.6%
ICC Real Estate Fund Median	-29.3%	-2.8%	5.5%
Fidelity LP	-15.6%++	15.6%++	22.7%++
NCREIF Property Index	-19.6%	1.0%	7.6%
ICC Real Estate Fund Median	-29.3%	-2.8%	5.5%
Prudential (PRISA)	-37.7%	-7.8%	1.8%
NCREIF Property Index	-19.6%	1.0%	7.6%
ICC Real Estate Fund Median	-29.3%	-2.8%	5.5%
	<i>One Quarter</i>	<i>One Year</i>	<i>Inception (03/07)</i>
Fidelity Growth Fund III	-37.6%	-53.1%	-47.0%
NCREIF Property Index	-5.2%	-19.6%	-6.5%
ICC Real Estate Fund Median	0.0%	-29.3%	N/A
	<i>One Quarter</i>	<i>One Year</i>	<i>Inception (07/06)</i>
American Realty*	-13.1%	-19.3%+	-4.0%
NCREIF Property Index*	-7.3%	-14.7%	1.9%
ICC Real Estate Fund Median	0.0%	-29.3%	N/A
	<i>One Year</i>	<i>One Year</i>	<i>Inception (07/06)</i>
GE Asset Management*	-3.9%+	-27.1%+	-7.6%
NCREIF Property Index*	-7.3%	-14.7%	4.3%
ICC Real Estate Fund Median	0.0%	-29.3%	N/A
	<i>One Quarter</i>	<i>One Year</i>	<i>Three Years</i>
DRA Growth & Income V*	0.5%++	-8.6%++	4.7%++
NCREIF Property Index*	-7.3%	-14.7%	4.1%
ICC Real Estate Fund Median	0.0%	-29.3%	-2.8%
	<i>One Quarter</i>	<i>One Year</i>	<i>Inception (08/07)</i>
DRA Growth & Income VI*	1.9%++	-5.4%++	0.1%+
NCREIF Property Index*	-7.3%	-14.7%	-4.4%
ICC Real Estate Fund Median	0.0%	-29.3%	N/A

* Performance is quarter lagged

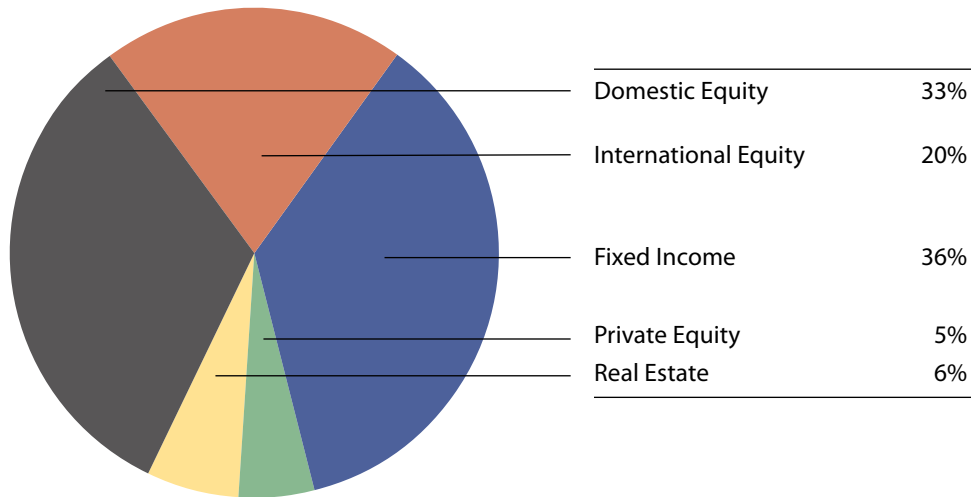
Basis of Calculation: Time-Weighted Rate of Return

Source: Strategic Investment Solutions, Inc. Performance Evaluation Report dated June 30, 2009

INVESTMENT REVIEW

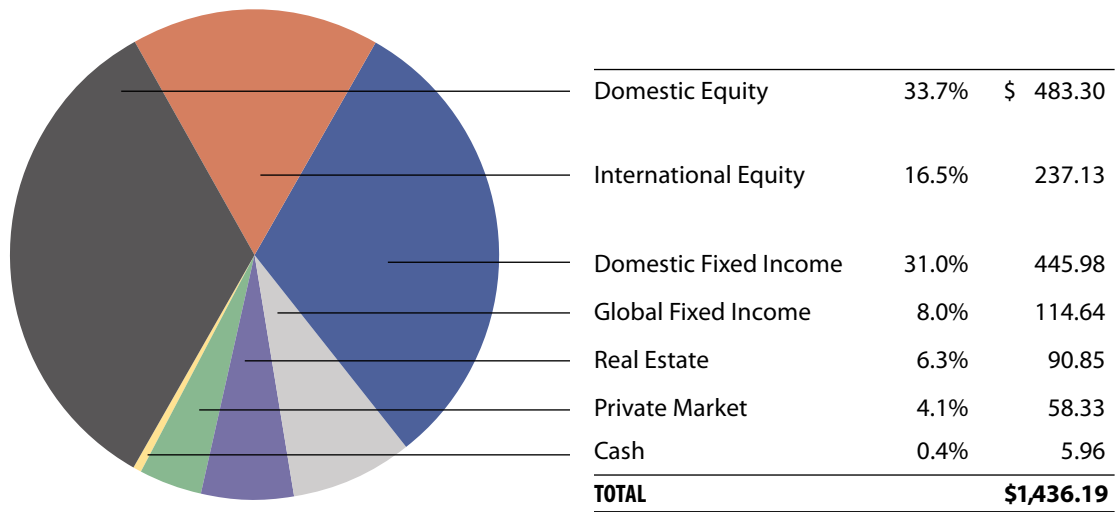
TARGET ASSET ALLOCATION

As of June 30, 2009



ACTUAL ASSET ALLOCATION

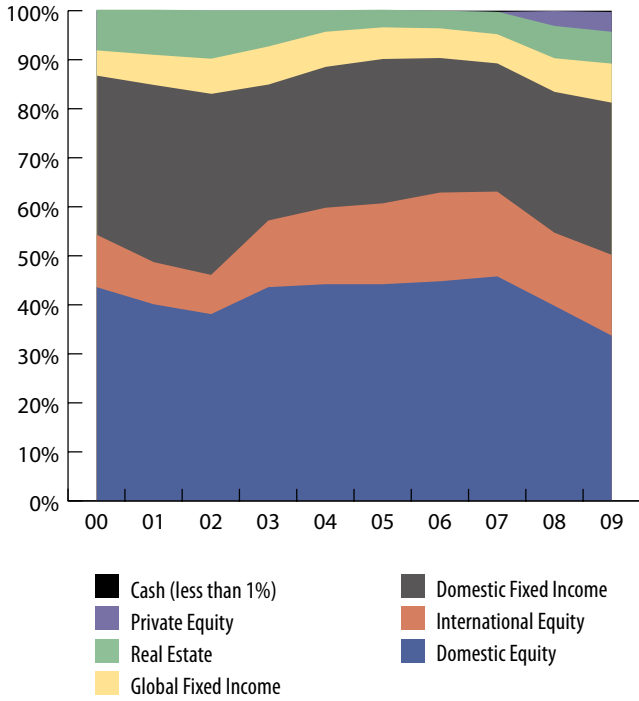
As of June 30, 2009 (Dollars in Millions)



INVESTMENT REVIEW *Continued*

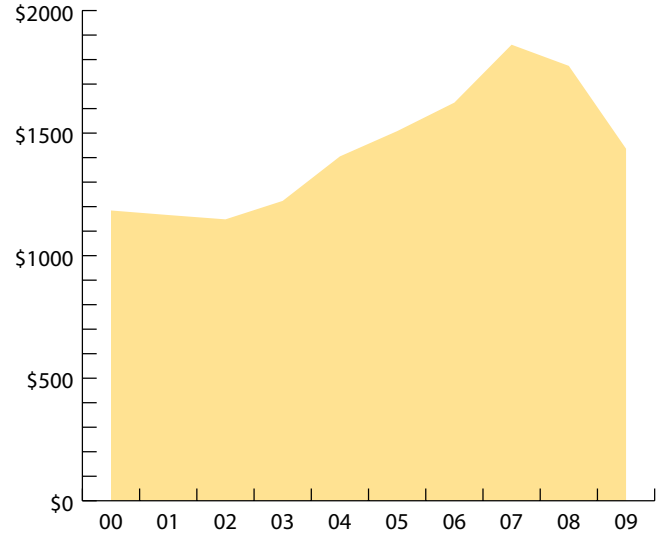
HISTORICAL ASSET ALLOCATION (Actual)

June 30, 2000 – June 30, 2009



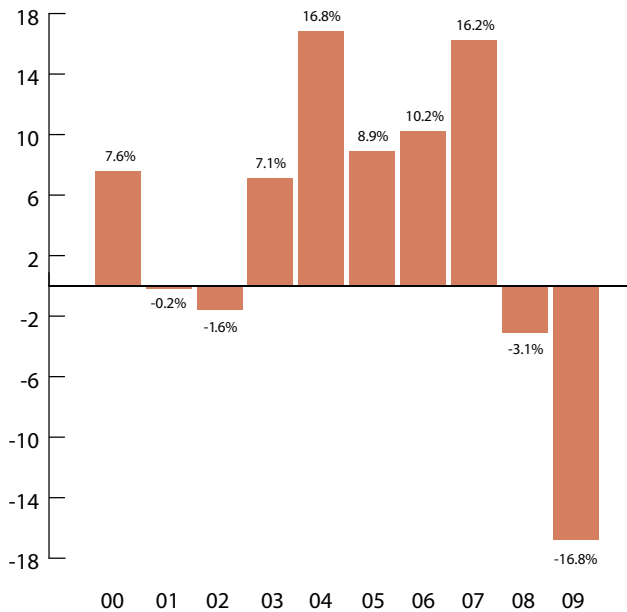
MARKET VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2009 (Dollars in Millions)



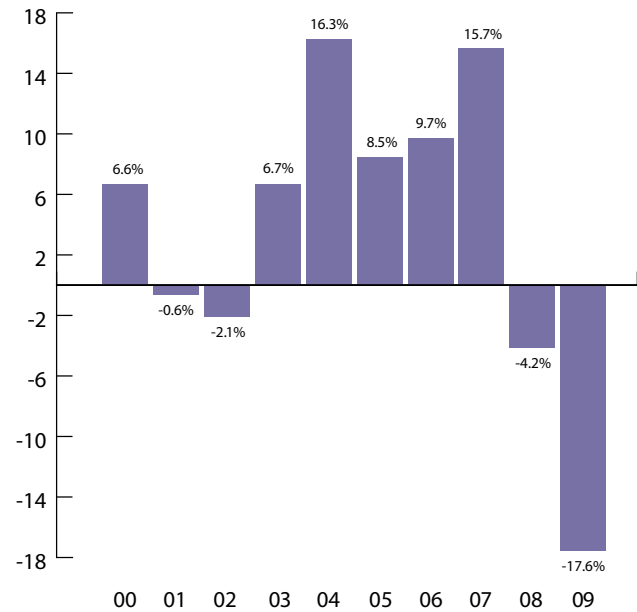
HISTORY OF GROSS PERFORMANCE FOR FISCAL YEARS 2000–2009

(Based on Market Value)



HISTORY OF NET PERFORMANCE FOR FISCAL YEARS 2000–2009

(Based on Market Value)



LIST OF LARGEST ASSETS HELD

LARGEST STOCK HOLDINGS (By Market Value)

June 30, 2009

Description	Country	Shares	Market Value in \$US
HEWLETT PACKARD CO COM	United States	135,390	\$5,232,824
ADR TEVA PHARMACEUTICAL INDS	Israel	70,615	\$3,484,144
MICROSOFT CORP COM	United States	146,010	\$3,470,658
NESTLE SA COMSTK	Switzerland	92,140	\$3,466,846
SCHLUMBERGER LTD COM STK	United States	60,820	\$3,290,970
SYNGENTA AG REG CHF0.1	Switzerland	13,030	\$3,022,222
WELLS FARGO & CO NEW COM STK	United States	119,897	\$2,908,701
BHP BILLITON PLC USD0.50	United Kingdom	128,990	\$2,897,507
APPLE INC	United States	20,180	\$2,874,237
ENCANA CORP COM NPV	Canada	39,400	\$2,867,786

A complete list of portfolio holdings is available upon request.

LARGEST BOND HOLDINGS (By Market Value)

June 30, 2009

Description	Country	Maturity Date	Par Value	Market Value in \$US
FNMA POOL #889474 6.5% 04-01-2038 BEO	United States	4/1/38	6,248,741	\$6,663,820
FHLMC POOL #1H-2623 5.799 07-01-2036	United States	7/1/36	5,442,037	\$5,694,004
FNMA POOL #968066 6% 10-01-2022 BEO	United States	10/1/22	5,157,195	\$5,469,530
FNMA POOL #256851 7% DUE 08-01-2037 BEO	United States	8/1/37	4,964,911	\$5,392,807
AOL TIME WARNER INC DEB DTD 04/19/2001 7.625%				
DUE 04-15-2031/04-14-2031 BEO	United States	4/15/31	5,375,000	\$5,225,339
UNITED STATES TREAS NTS NT 3.625% DUE 07-15-2009 REG	United States	7/15/09	5,000,000	\$5,006,250
FNMA SINGLE FAMILY MORTGAGE 5% 30 YEARS SETTLES JULY	United States	7/1/39	4,400,000	\$4,479,750
GERMANY(FED REP) 4% BDS 11/12/2009 EUR0.01	Germany	11/12/09	2,960,000	\$4,213,707
QUEBEC 1.6% BDS 9/5/2013 JPY1000	Luxembourg	9/5/13	399,000,000	\$4,091,937
GERMANY(FED REP) 4% BDS 13/04/12 EUR0.01	Germany	4/13/12	2,665,000	\$3,966,329

A complete list of portfolio holdings is available upon request.

SCHEDULE OF INVESTMENT FEES

	<i>Assets Under Management at Market Value*</i>	<i>Fees</i>	<i>Basis Points</i>
Investment Managers' Fees			
Domestic Equity	\$ 483,297,000	\$ 1,093,375	23
Private Equity	58,326,000	1,223,062	210
International Equity	237,134,000	1,308,407	55
Domestic Fixed Income	445,984,000	1,116,729	25
Global Fixed Income	114,639,000	367,968	32
Real Estate	90,848,000	1,664,932	183
Cash	5,965,000	-	N/A
TOTAL	<u>\$1,436,193,000</u>	<u>\$6,774,473</u>	47

Other Investment Service Fees

Investment Consultant	N/A	\$400,000	N/A
Proxy Voting	N/A	14,000	N/A
Custodian	N/A	-	N/A
Real Estate Legal Fees	N/A	5,332	N/A
Real Estate Appraisals	N/A	-	N/A
Investment Legal Fees	N/A	34,202	N/A
TOTAL		<u>\$453,534</u>	

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

SCHEDULE OF COMMISSIONS

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
ABEL NOSER CORPORATION	7,825	\$ 291.00	\$0.03719
ADAMS HARKNESS & HILL, INC	16,000	640.00	0.04000
ADP CLEARING & OUTSOURCING INC	13,280	386.58	0.02911
ALEX BROWN & SONS BALTIMORE	578,460	538.40	0.00093
AQUA SECURITIES LP	1,100	22.00	0.02000
ARNHOLD & S BLEICHROEDER INC	2,280	91.20	0.04000
ASIEL & CO	1,850	74.00	0.04000
AVONDALE PARTNERS	2,320	92.80	0.04000
B TRADE SERVICES	630,485	12,609.70	0.02000
BANC AMERICA SECUR. MONTGOMERY DIV.	35,823,293	9,135.37	0.00026
BANK J.VONTOBEL UND CO. AG ZURICH	600	233.13	0.38855
BANQUE PARIBAS LONDON	15,160	549.00	0.03621
BARCLAYS CAPITAL INC LE	201,221	7,033.94	0.03496
BARCLAYS CAPITAL LE	229,934	4,865.03	0.02116
BAYPOINT TRADING LLC	90,060	2,753.40	0.03057
BEAR STEARNS INTL (STOCK BORR.)LON	603,457	1,073.60	0.00178
BEAR STEARNS NEW YORK DTC 352	1,461,697	1,209.72	0.00083
BEAR STEARNS SECURITIES CORP	6,570,823	2,953.20	0.00045
BEAR, STEARNS, SECURITIES CORP	794,626	12,959.64	0.01631
BERNSTEIN, SANFORD C. & CO	578,830	9,495.65	0.01640
BLAIR, WILLIAM & CO	24,320	972.80	0.04000
BLOOMBERG TRADEBOOK LLC	165,843	2,766.61	0.01668
BNY ESI SECURITIES CO.	1,098,626	23,784.72	0.02165
BOENNING AND SCATTERGOOD	84,100	1,892.32	0.02250
BROADCORT CAPITAL CORP	35,950	1,438.00	0.04000
BROCKHOUSE & COOPER MONTREAL	241,150	1,712.18	0.00710
BUCKINGHAM RESEARCH GROUP	3,600	144.00	0.04000
BUNTING WARBURG TORONTO	9,000	84.23	0.00936
CAISSE CENTRALE DESJARDINS DU QUEBE	19,500	622.39	0.03192
CANADIAN IMPERIAL BANK OF COMMERECE	21,640	634.54	0.02932
CANADIAN IMPERIAL BK OF COMM TORONT	3,940	137.66	0.03494
CANTOR FITZGERALD	28,300	417.03	0.01474
CANTOR FITZGERALD & CO	356,170	8,832.36	0.02480
CANTOR FITZGERALD 7310 - MIS BROKERS	3,500	70.00	0.02000
CANTOR FITZGERALD CO NEW YORK	65,447,350	1,420.50	0.00002
CAP INSTITUTIONAL SERVICES INC	457,576	17,695.16	0.03867

SCHEDULE OF COMMISSIONS *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
CAZENOVE & CO	71,050	\$ 2,224.61	\$0.03131
CHEUVREUX DE VIRIEU PARIS	126,440	3,603.79	0.02850
CIBC WORLD MARKETS CORP. NEW YORK	12,060	482.40	0.04000
CITIGROUP GLOBAL MARKETS INC	124,286,678	2,177.43	0.00002
CITIGROUP GLOBAL MARKETS INC/SMITH BARNEY	626,524	20,350.54	0.03248
CITIGROUP GLOBAL MARKETS UK EQUITY	218,900	1,736.80	0.00793
CLSA SINGAPORE	18,221	555.28	0.03047
COLLINS STEWART INC.	2,180	87.20	0.04000
COWEN LLC	136,385	5,227.20	0.03833
CRAIG HALLUM	435	13.05	0.03000
CREDIT LYONNAIS SECS. INC. NEW YORK	172,000	655.41	0.00381
CREDIT SUISSE FIRST BOSTON CORPORATION	39,013,192	25,463.96	0.00065
CREDIT SUISSE FIRST BOSTON NEW YORK	15,878,188	708.20	0.00004
CREDIT SUISSE FIRST BOSTON SA CTVM	81,000	2,378.88	0.02937
CROWELL WEEDON AND CO	13,630	545.20	0.04000
CSFB NEW YORK DTC 355	1,024,347,404	8,724.28	0.00001
CUTTONE AND CO INC	21,700	488.25	0.02250
D. A. DAVIDSON & CO. INC.	7,995	239.85	0.03000
DAHLMAN ROSE & COMPANY	2,150	86.00	0.04000
DAIWA SECS AMERICA NEW YORK	46,023,057	885.46	0.00002
DAIWA SECURITIES AMERICAN INC	3,600	108.00	0.03000
DEUTSCHE ALEX BROWN NY DTC 0573	2,510,280	138.00	0.00005
DEUTSCHE BANK SECURITIES INC	11,779,978	11,744.73	0.00100
DONALDSON LUFKIN AND JENRETTE SECS	89,990	833.60	0.00926
DOUGHERTY COMPANY	25,510	1,020.40	0.04000
DOWLING & PARTNERS 443	14,985	599.40	0.04000
DRESDNER BANK AG,LONDON BRANCH	10,155	746.39	0.07350
EXANE PARIS	18,305	734.81	0.04014
EXECUTION LTD OFFICE	208,200	1,094.95	0.00526
FIDELITY CAPITAL MARKETS	8,465	288.21	0.03405
FIRST ANALYSIS SECURITIES CORP	17,853	535.59	0.03000
FOX PITT KELTON	43,720	1,476.80	0.03378
FRIED ALBERT AND COMPANY	33,330	1,333.20	0.04000
FRIEDMAN BILLING AND RAMSEY	66,102	2,435.56	0.03685
GOLDMAN EXECUTING & CLEARING	806,487	7,511.24	0.00931
GOLDMAN SACHS & CO NW YK DTC 005	228,545,917	2,928.18	0.00001

SCHEDULE OF COMMISSIONS *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
GOLDMAN SACHS & COMPANY	14,198,162	\$ 16,794.70	\$0.00118
GOODBODY STOCKBROKERS DUBLIN	7,700	297.05	0.03858
GREEN STREET ADVISORS 443	2,560	76.80	0.03000
HARRIS NESBITT CORP	3,710	148.40	0.04000
HEFLIN & CO, LLC	33,320	1,332.80	0.04000
HIBERNIA SOUTHCOAST CAPITAL INC.	4,900	196.00	0.04000
HSBC BROKERAGE USA	6,680	222.20	0.03326
IBERIAN EQUITIES S.A.A.V	9,440	219.77	0.02328
ICAP CORPORATES LLC	9,300	93.00	0.01000
INSTINET	19,965	440.04	0.02204
INSTINET - FRANCE	5,000	287.09	0.05742
INSTINET - NEW YORK (CORPORATION)	69,500	2,780.00	0.04000
INSTINET AUSTRALIA CLEARING SERVICE	22,600	225.84	0.00999
INSTINET CANADA TORONTO	31,100	1,396.71	0.04491
INSTINET PACIFIC LTD HK	1,823,600	1,255.18	0.00069
INSTINET SINGAPORE SERVICES PTE LTD	97,000	335.53	0.00346
INSTINET U.K LIMITED LONDON	675,292	11,266.41	0.01668
INSTINET, LLC	15,800	632.00	0.04000
INVESTMENT TECHNOLOGY GROUP INC	430,659	3,910.71	0.00908
ISI GROUP INC.	28,230	1,062.40	0.03763
ITG INC NEW YORK	11,700	234.00	0.02000
J.P. MORGAN SECURITIES INC	3,763,322	12,576.26	0.00334
JANNEY MONTGOMERY SCOTT	25,220	762.80	0.03025
JEFFERIES & CO INC N.JERSEY-DTC 19	1,342,500	25.00	0.00002
JEFFERIES & COMPANY	2,445,976	15,447.58	0.00632
JMP SECURITIES	12,660	506.40	0.04000
JONES TRADING INST SERV	409,313	9,774.34	0.02388
JP MORGAN SECURITIES (ASIA PAC)	4,875,000	10,596.92	0.00217
JP MORGAN SECURITIES AUSTRALIA LTD	38,725	1,314.24	0.03394
JP MORGAN SECURITIES LIMITED LONDON	2,630,340	12,831.94	0.00488
JPMORGAN CHASE BANK NA LONDON	17,070	216.96	0.01271
KAUFMAN BROTHERS	1,625	65.00	0.04000
KEEFE BRUYETTE AND WOOD LIMITED	83,650	955.59	0.01142
KEEFE BRUYETTE AND WOODS INC.	49,430	989.00	0.02001
KELLOGG PARTNERS	7,540	169.65	0.02250
KEPLER EQUITIES	22,340	794.25	0.03555

SCHEDULE OF COMMISSIONS *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
KEPLER EQUITIES, ZURICH BRANCH	1,505	\$ 423.61	\$0.28147
KNIGHT SECURITIES L.P.	315,901	8,457.51	0.02677
LABRANCHE FINANCIAL SERVICES	7,770	310.80	0.04000
LAZARD CAPITAL MARKETS LLC	21,000	461.63	0.02198
LAZARD FRERES & CO.	15,420	616.80	0.04000
LEERINK SWANN & CO./IPO	25,190	859.60	0.03412
LEHMAN BROTHERS INC	1,126,472	128.13	0.00011
LEHMAN BROTHERS INC NEW YORK	94,610	2,199.23	0.02325
LEHMAN BROTHERS INTERNATIONAL EUR.	87,390	3,500.29	0.04005
LEK SECURITIES CORP	37,005	259.05	0.00700
LIQUIDNET ASIA LIMITED	40,000	87.48	0.00219
LIQUIDNET INC	369,923	7,266.34	0.01964
LYNCH JONES & RYAN	96,520	4,096.59	0.04244
MACQUAIRE BANK LIMITED LONDON	2,060	82.40	0.04000
MACQUARIE CAPITAL SECS AUST LTD	139,220	1,054.70	0.00758
MACQUARIE SECURITIES (USA) INC.	400	12.00	0.03000
MACQUARIE SECURITIES LTD, HONG KONG	669,149	6,907.21	0.01032
MACQUARIE SECURITIES LTD,SEOUL BNCH	6,610	1,008.62	0.15259
MACQUARIE SECURITIES USA INC	732,315	1,292.60	0.00177
MCDONALD AND COMPANY/KEYBANC	9,010	350.40	0.03889
MERRILL LYNCH & CO. INC	31,205	544.94	0.01746
MERRILL LYNCH & CO. INC DTC161	2,400	96.00	0.04000
MERRILL LYNCH CAP MARKETS FRANKFURT	786,890	991.40	0.00126
MERRILL LYNCH CAPITAL MARKETS	166,711,500	950.25	0.00001
MERRILL LYNCH FAR EAST HONG KONG	314,000	194.48	0.00062
MERRILL LYNCH FENNER & SMITH INC	1,868,410	11,669.05	0.00625
MERRILL LYNCH INTERNATIONAL, LONDON	500,610	1,964.75	0.00392
MERRILL LYNCH INTL LTD EQUITIES	101,090	6,019.65	0.05955
MERRILL LYNCH JAPAN SECS. TOKYO	26,000	51.84	0.00199
MERRILL LYNCH PIERCE FENNER & SMITH	1,391,586	23,147.49	0.01663
MERRILL LYNCH PROFESSIONAL CLEARING CORP	115,000	2,300.00	0.02000
MERRILL PROFESSIONAL CLEARING CORP.	30,030	772.55	0.02573
MERRIMAN CURHAN FORD & CO	3,030	60.60	0.02000
MIDWEST RESEARCH SECURITIES	22,810	883.40	0.03873
MILLER TABAK & CO LLC	11,300	452.00	0.04000
MONNESS CRESPI HARDT & COMPANY	2,745	109.80	0.04000

SCHEDULE OF COMMISSIONS *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
MORGAN KEEGAN AND COMPANY	8,225	\$ 246.75	\$0.03000
MORGAN STANLEY & CO INC	46,041,487	7,073.80	0.00015
MORGAN STANLEY & CO INC. NEW YORK	12,770,806	27,620.98	0.00216
MORGAN STANLEY EUROPE	2,340,300	212.00	0.00009
MURPHY AND DURIEU	30,280	681.33	0.02250
NATIONAL FINANCIAL SERVICES	10,700	398.00	0.03720
NBC CLEARING SERVICE TWO	3,200	128.00	0.04000
NEEDHAM & COMPANY	21,195	732.60	0.03456
NEONET SECURITIES	8,035	128.71	0.01602
NEONET SECURITIES AB	112,985	1,034.31	0.00915
NOMURA SECURITIES INTERNATIONAL INC	23,100	693.00	0.03000
NOMURA SECURITIES NEW YORK	129,316	4,210.81	0.03256
OPPENHEIMER & COMPANY INC	5,070	202.80	0.04000
OPPENHEIMER AND COMPANY	654,050	762.00	0.00117
PALI CAPITAL INC	114,900	36.00	0.00031
PELLINOR SECURITIES CORP	4,100	82.00	0.02000
PENSON FINANCIAL SERVICES CANADA	2,000	13.00	0.00650
PERSHING LIMITED LONDON	17,100	280.40	0.01640
PERSHING LLC - JERSEY CITY	3,303,649	61,444.98	0.01860
PERSHING LLC FORMERLY DLJ	1,336,684	9,387.06	0.00702
PICKERING ENERGY PARTNERS INC	3,980	159.20	0.04000
PIPELINE TRADING SYSTEMS LLC	35,800	497.10	0.01389
PIPER JAFFRAY INC	108,274	3,681.57	0.03400
POLCARI WEICKER DIV OF ICAP	17,230	689.20	0.04000
PULSE TRADING LLC	170,987	3,639.77	0.02129
RAYMOND JAMES	21,800	827.10	0.03794
RBC DAIN RAUSCHER	15,938,779	3,529.80	0.00022
RICE VOELKER LLC	19,930	597.90	0.03000
ROBBINS AND HENDERSON	3,600	81.00	0.02250
ROBERT W. BAIRD & COMPANY INC MILWAUKEE USA	114,935	4,226.90	0.03678
ROCHDALE SECURITIES CORPORATION	6,460	129.20	0.02000
ROTH CAPITAL PARTNERS LLC	1,330	53.20	0.04000
SANDLER O'NEILL & PARTNER	3,050	122.00	0.04000
SANFORD C. BERNSTEIN LTD	40,550	470.31	0.01160
SCOTT & STRINGFELLOW INVESTMENT	1,107,000	280.00	0.00025
SG COWEN AND COMPANY	2,100	84.00	0.04000

SCHEDULE OF COMMISSIONS *Continued*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
SIDOTI & COMPANY LLC	21,320	\$ 639.60	\$0.03000
SIMMONS & COMPANY INTL	1,610	64.40	0.04000
SJ LEVINSON AND SONS LLC	5,900	236.00	0.04000
SOCIETE GENERALE LONDON	1,010	379.39	0.37563
SOLEIL SECURITIES CORP	1,330	53.20	0.04000
STANFORD GROUP COMPANY	5,955	238.20	0.04000
STATE STREET BROKERAGE SVCS	1,338,939	33,848.83	0.02528
STEPHENS INC	40,026	1,332.48	0.03329
STERNE AGEE AND LEACH INC	3,707,395	1,146.00	0.00031
STIFEL NICOLAUS AND COMPAN	95,469	3,138.72	0.03288
SUNTRUST ROBINSON HUMPHREY	35,120	1,210.75	0.03447
TD WATERHOUSE INVESTOR SERVICES	2,300	27.60	0.01200
TD WATERHOUSE INVESTOR SERVICES UK LTD LEEDS	1,380	31.05	0.02250
THE BENCHMARK CO INC	90	3.60	0.04000
THINKEQUITY PARTNERS LLC	3,280	131.20	0.04000
THOMAS WEISEL PARTNERS 226	122,345	4,113.20	0.03362
TITULO CORRETORA DE VALORES S/A	8,600	436.45	0.05075
UBS AG, (LONDON EQUITIES)	536,562	9,410.26	0.01754
UBS SECURITIES ASIA	1,666,477	3,615.61	0.00217
UBS WARBURG LLC	7,183,062	18,149.44	0.00253
UBS WARBURG SECS LTD SEOUL	16,375	1,173.70	0.07168
UOB KAY HIAN HONG KONG LTD, HK	555,000	572.99	0.00103
UOB KAY HIAN PTE LTD	358,000	1,207.33	0.00337
US CLEARING INSTITUTIONAL TRADING	3,190	127.60	0.04000
VERITAS SECURITIES	6,300	186.00	0.02952
WACHOVIA CAPITAL MARKETS 46171	2,817,385	8,813.65	0.00313
WACHOVIA CAPITAL MARKETS LLC	2,049,465	1,778.60	0.00087
WEDBUSH MORGAN SECURITIES, INC	5,710	228.40	0.04000
WEEDEN AND & CO	186,046	4,665.60	0.02508
WHITE CAP TRADING LLC	2,600	58.51	0.02250
WIEN SECURITIES	1,200	48.00	0.04000
WILLIAMS CAPITAL GROUP LP	38,800	1,746.00	0.04500
TOTAL	1,925,164,166	\$672,859.60	\$0.00035

INVESTMENT SUMMARY

Non-GAAP Basis

As of June 30, 2009

(Dollars in thousands)

<i>Type of Investment</i>	<i>Market Value</i>	<i>% of Portfolio</i>
EQUITIES		
Consumer Discretionary	\$ 33,851	2.36%
Consumer Staples	1,928	0.13%
Energy	11,128	0.77%
Financials	26,230	1.83%
Health Care	25,747	1.79%
Industrials	37,997	2.65%
Materials	8,605	0.60%
Technology/Telecommunication	50,782	3.54%
Utilities	2,516	0.18%
Miscellaneous	5,198	0.36%
Commingled	358,040	24.92%
Foreign Equities	153,271	10.67%
TOTAL EQUITIES	\$ 715,293	49.80%
FIXED INCOME		
US Treasury	\$ 17,499	1.22%
US Government Agency	132,942	9.26%
Domestic Corporate Bonds	270,724	18.85%
Foreign Government	68,810	4.79%
Foreign Corporate	53,279	3.71%
Derivative Instruments	(108)	-0.01%
TOTAL FIXED INCOME	\$ 543,146	37.82%
OTHER INVESTMENTS		
Short Term	\$ 42,712	2.97%
Real Estate	90,034	6.27%
Private Market Equities	58,134	4.05%
TOTAL OTHER INVESTMENTS	\$ 190,880	13.29%
PENDINGS	\$ (13,126)	-0.91%
TOTAL (Non-GAAP Basis)	\$1,436,193	100.00%

INVESTMENT PROPERTY



MILPITAS WAREHOUSE

145,152 square-foot warehouse/distribution building, equally divided into four bays. 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.

This page is intentionally left blank.





ACTUARIAL SECTION



ACTUARIAL CERTIFICATION LETTER



Gabriel Roeder Smith & Company
 Consultants & Actuaries
 7900 East Union Avenue, Suite 1100
 Denver, CO 80237-2746

303-217-7600 phone
 303-217-7609 fax
www.gabrielroeder.com

September 15, 2009

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

RE: ACTUARIAL VALUATION CERTIFICATION

Dear Members of the Board:

The actuarial valuation report for the City of San Jose Federated City Employees' Retirement System, completed as of June 30, 2007, illustrates that the assets of the Federated Retirement System along with future contributions at the level recommended in that report are expected to fully support the benefits of the System. This conclusion is based on plan provisions as were outlined in the valuation, financial and demographic data as of the valuation date and on current actuarial assumptions, which are based on the System's demographic and economic experience. This letter serves as the Actuary's certification letter and offers our independent actuarial review opinion.

In support of this opinion and certification, we have included the following information:

- The funding objective of the plan.
- The frequency of the plan's actuarial valuations and date of the most recent actuarial valuation.
- The source and degree of verification of the data used in the actuarial valuation.
- Supporting schedules that we have prepared and attached.
- The extent of our responsibility for the trend data schedules in the financial section of the report.
- The assumptions and methods used to value retirement plan assets and retirement liabilities relative to the Government Accounting Standards Board (GASB) Statement No. 25 (retiree medical liabilities are valued in accordance with GASB Statement No. 43 and 45 and are part of a separate valuation).
- Other disclosure information.

The Funding Objective of the Plan

Chapters 3.28 and 3.44 of the San Jose Municipal Code and related ordinances establish that the required annual contribution to the plan, shared by the City and members is such that contribution rates, over time, shall remain level as a percentage of payroll.

ACTUARIAL CERTIFICATION LETTER *Continued*



This funding objective is currently being realized through contributions sufficient to pay the System's normal cost as well as amortizing unfunded liabilities over a combination of 30 years and the present value of future salaries.

The Frequency of the Plan's Actuarial Valuations and Date of the most Recent Actuarial Valuation

This plan is valued on a bi-annual basis, as of June 30. The most recent actuarial valuation was completed as of June 30, 2007.

The Source and Degree of Verification of the Data Used in the Actuarial Valuation

Computer files containing data on System membership of June 30, 2007 were provided by the City of San Jose Department of Retirement Services. While these files were not audited, the data was checked for internal consistency and was reviewed for reasonableness and consistency in relation to the data provided for the prior valuation.

Asset-related data were also received from the City of San Jose Department of Retirement Services and were used without further audit in the development of the actuarial value of assets.

Supporting Schedules

We have prepared the following supporting schedules relative to the retirement benefits and liabilities for inclusion in this Financial Statement (the schedules exclude the retiree medical liabilities):

- Summary of actuarial assumptions and methods.
- Schedule of active member valuation data.
- Schedule of retirants and beneficiaries added to and removed from rolls.
- Solvency test.
- Analysis of financial experience.

Trend Data Schedules in the Financial Section

All of the trend data information in the financial section of the report was calculated and summarized by Gabriel, Roeder, Smith & Co.

Actuarial Assumptions and Methods Used for Funding Purposes

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans. In our opinion, the assumptions are reasonably related to past experience and represent our best

ACTUARIAL CERTIFICATION LETTER *Continued*

estimate of future conditions affecting the System. Nevertheless, the emerging costs of the System will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

The undersigned is a Fellow of the Society of Actuaries, an Enrolled Actuary, and a Member of the American Academy of Actuaries with over 30 years of experience in performing valuations.

Sincerely,

A handwritten signature in black ink that reads "Leslie L. Thompson". The signature is written in a cursive style.

Leslie L. Thompson, FSA, FCA, EA, MAAA
Senior Consultant

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

The following assumptions have been adopted by the Retirement Board as of June 30, 2007.

Actuarial Valuation Cost Method. The Entry Age Normal Cost Method is used for the retirement benefits of the System

Financing of Unfunded Actuarial Accrued Liability. The balance of unfunded actuarial accrued liabilities was amortized by level percent of payroll contributions over a 30-year period.

Asset Valuation Method. The Actuarial Value of Assets recognizes 20% of total return in excess of (or less than) the investment return assumption for each of the last five years. This method has the effect of smoothing volatility in investment returns.

The Investment Return Rate used for the actuarial valuation calculations was 8.25% a year, net of administrative expenses, compounded annually. This assumption is used to equate the value of payments due at different points in time. The rate is comprised of two elements:

Inflation	4.00%
Real Rate of Return	4.25%
Total	8.25%

Salary Increase Rates used to project current pays to those upon which a benefit will be based are represented by the following table. Rates do not vary by age, but do reflect an added merit component, for those with 0–4 years of service at the valuation date.

The rate of annual salary increase for all members with at least 5 years of service is set out in the following:

Inflation	4.00%
Merit and Longevity	0.25%
Total	4.25%

The rate of annual salary increase for all members with less than 5 years of service equal to the 4.25% set out above plus the appropriate value from the following table:

Years of Service at Valuation Date	Merit/Longevity
0	5.50%
1	3.50%
2	2.00%
3	1.50%
4	0.75%

Interest credited to member contributions is 3.0%, compounded annually.

Sample rates of separation from active membership are shown below (rates do not include separation on account of retirement or death). This assumption measures the probabilities of members remaining in employment.

For inactive members, the assumed age at retirement is age 58 (previous assumption was 60).

If an inactive member is not vested, the liability valued is their employee contributions with interest.

% of Active Members Separating Within Next Year

Sample Ages	Disability ¹	Withdrawal	Vested Termination ²
20	.04%	11.00%	-%
25	.06	7.00	3.00
30	.07	5.00	3.00
35	.09	2.50	2.75
40	.15	1.50	2.00
45	.25	1.25	2.00
50	.40	1.25	1.50
55	.50	1.00	0.00
60	1.00	1.00	0.00
65	2.00	0.00	0.00
70	0.00	0.00	0.00

¹50% of the disabilities are assumed to be duty-related and 50% are assumed to be non-duty related.
²30% of terminating employees who leave their contributions in the Plan, with 5+ years of service, are assumed to subsequently work for a reciprocal employer and receive 4.0% pay increases per year. (Previous valuation not explicitly valued.)

The post-retirement mortality table used for healthy retirees and beneficiaries was the 1994 Group Annuity Mortality Table (sex distinct). The previous valuation used the 1983 Group Annuity Mortality Table for males with a one-year setback, and for females, with a one-year set forward). The disabled mortality table used was the 1981 Disability Mortality Table. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. Related values are shown below.

Sample Ages	Future Life Expectancy (Years)			% of Benefit Recipients Dying Each Year		
	Retired Men	Retired Women	Disabled	Retired Men	Retired Women	Disabled
	45	35.4	39.7	23.6	0.16%	0.10%
50	30.7	34.9	21.1	0.26	0.14	2.44
55	26.2	30.2	18.7	0.44	0.23	2.84
60	21.8	25.6	16.4	0.80	0.44	3.30
65	17.8	21.3	14.1	1.45	0.86	3.79
70	14.3	17.3	11.7	2.37	1.37	4.37
75	11.1	13.6	9.2	3.72	2.27	5.53
80	8.4	10.3	7.0	6.20	3.94	8.74

The active member mortality assumption measures the probability of mortality before retirement. The new rates include probability of ordinary death, service death, and death while eligible for retirement or disability.

% of Active Members Dying Each Year

Sample Ages	Men	Women
30	.06%	.05%
35	.06	.05
40	.07	.06
45	.09	.08
50	.16	.13
55	.26	.20
60	.38	.30
65	.53	.44

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD *Continued*

The rates of retirement used to measure the probability of eligible active members retiring during the next year.

% of Active Members Retiring Within the Next Year*

Retirement Ages	% of Active Members Retiring Within the Next Year	Retirement Ages	% of Active Members Retiring Within the Next Year
55	15.0%	63	10.0%
56	7.5	64	10.0
57	7.5	65	25.0
58	7.5	66	25.0
59	7.5	67	25.0
60	7.5	68	25.0
61	7.5	69	25.0
62	20.0	70	100.0

*Superseded by 50% retirement probability each year after completion of 30 years of service and attainment of age 50.

Disability Benefit Offset. Workers' Compensation Benefits are assumed to not be an offset.

Survivor Benefits. Marital status and spouses' census data were imputed with respect to active and deferred members.

Marital Status: 75% of men (85% in the previous valuation) and 55% of women (60% in the previous valuation) were assumed married at retirement.

Spouse Census: Women were assumed to be 3 years younger than men.

"Spouse" is assumed to encompass a registered domestic partner.

Health Subsidy Benefits

Increase in Retiree Population: The covered Retiree population is assumed to increase 6.10% per year.

Covered Payroll Increase: 4.0% per year. (4.5% previous valuation)

Medical and Dental Trend Rate: 7.50%

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

June 30, 1997 to June 30, 2007

Valuation Date	Active Count	Annual Payroll	Average Annual Pay	% Change in Average Pay
June 30, 2007	3,942	\$291,404,606	\$73,923	7.0%
June 30, 2005	4,148	286,445,861	69,056	5.6%
June 30, 2003	4,479	292,961,371	65,408	15.6%
June 30, 2001	4,466	252,696,000	56,582	7.9%
June 30, 1999	3,694	193,650,000	52,423	8.3%
June 30, 1997	3,642	176,284,000	48,403	6.8%

CHANGES IN RETIRANTS *(Including Beneficiaries)*

July 1, 1997 to June 30, 2007

Two-Year Period	Beginning of Period		Added to Rolls		Removed from Rolls		End of Period		% Increase in Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances		
2005-2007	2,426	\$69,466,000	389	\$13,818,131	124	\$2,721,303	2,691	\$84,723,000	22.0%	\$31,484
2003-2005	2,172	54,687,000	398	16,679,642	144	2,070,047	2,426	69,466,000	27.0%	28,634
2001-2003	2,030	45,208,000	313	10,151,748	171	503,802	2,172	54,687,000	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

SOLVENCY TEST

June 30, 1997 to June 30, 2007

Year Ended	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Assets		
	Active Member Contributions	Retirees, Beneficiaries & Other Inactives Accrued Liability	Active Accrued Liability (Employer Financed Portion)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	(a)	(b)	(c)	(d)	(d)/(a)	[(d)-(a)]/(b)	[(d)-(a)-(b)]/(c)
2007	\$214,527,000	\$1,003,001,000	\$743,415,000	\$1,622,851,000	100%	100%	55%
2005	230,027,000	824,043,000	657,300,000	1,384,454,000	100%	100%	50%
2003	224,875,000	635,092,000	451,724,000	1,280,719,000	100%	100%	93%
2001	210,377,000	529,853,000	332,103,000	1,060,144,000	100%	100%	96%
1999	196,887,000	441,573,000	223,766,000	804,860,000	100%	100%	74%
1997	167,837,000	383,574,000	184,361,000	678,954,000	100%	100%	69%

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

For the Six-Year Period Ending June 30, 2007

	Change in Contribution Rate
<i>For Plan Year Ended June 30, 2007*</i>	
Investment Performance	(0.99%)
Liability Experience	1.14%
Change in Assumptions	0.00%
Change in Benefit Provision	0.00%
TOTAL	<u>0.15%</u>
<i>For Plan Year Ended June 30, 2005</i>	
Investment Performance	1.77%
Liability Experience	2.37%
Change in Assumptions	(0.59)%
Change in Benefit Provision	0.00%
TOTAL	<u>3.55%</u>
<i>For Plan Year Ended June 30, 2003</i>	
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	<u>2.90%</u>
<i>For Plan Year Ended June 30, 2001</i>	
Investment Performance	(0.46)%
Liability Experience	(1.62)%
Change in Assumptions	0.00%
Change in Benefit Provision	1.51%
TOTAL	<u>(0.57)%</u>

*Change in employer contribution rate for retirement only

SUMMARY OF RETIREMENT BENEFIT PROVISIONS

1. **Eligibility:** Members are eligible on their first day of City employment.
2. **Final Compensation:** Highest 12-month average salary, if separation takes place on or after July 1, 2001.
Highest 36-month average salary, if separation takes place before July 1, 2001.
3. **Service Retirement:**
 - a) **Eligibility:** Age 55 with 5 years of service, or any age with 30 years of service.
 - b) **Benefit:** 2.5% of Final Compensation for each year of service. Maximum benefit is 75% of Final Compensation.
 - c) **Form of Payment:** Monthly benefit payable for the life of the member.
4. **Disability Retirement:**
 - a) **Eligibility:** Physically or mentally incapacitated so unable to perform duties of position. If disability is not service connected, then the member must have at least five years of City service.
 - b) **Benefit:** 2.5% of Final Compensation per year of service. The maximum benefit is 75% and the minimum benefit is 40% of Final Compensation. Any Workers' Compensation benefits are offset from the benefits under this system.
If the disability was non-service connected, then the benefit is reduced by .5% for every year under age 55.
For those members who are hired on or after September 1, 1998, the non-service connected benefit is as follows:
 - 20% of Final Compensation for 6 years of service;
 - Plus 2% for each years of service in excess of 6, but less than 16;
 - Plus 2.5% for each year of service in excess of 16.
 - c) **Form of Payment:** Monthly benefit payable for the life of the member.
5. **Deferred Service Retirement:**
 - a) **Eligibility:** Five years of membership prior to termination of City service. Member must leave contributions on deposit until retirement.
 - b) **Benefit:** Same as Service Retirement, payable anytime after age 55.
 - c) **Form of Payment:** Same as Service Retirement.
6. **Pre-Retirement Death Benefits:**
 - a) **Non-Service Connected with less than five years of service, or No Family Members Eligible for Allowance:** Member's beneficiary or estate receives (i), and (ii) where:
 - (i) = Accumulated contributions with interest.
 - (ii) = Lump sum benefit of one month's salary for each year of service, up to six years.
 - b) **Service-Connected, or Non-Service Connected with five years of service:** Member's eligible survivor receives 2.5% of Final Compensation per years of service. The maximum benefit is 75% and the minimum benefit, if still an active employee at time of death, is 40% of Final Compensation, payable until the spouse remarries. 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.
7. **Post-Retirement Death Benefits:** Member's eligible survivor receives (a) and (b), where:
 - a) = 50% continuance to surviving eligible spouse; if there is no surviving spouse, certain benefits are paid to the children.
 - b) = \$500 death benefit allowance for burial expenses at death of retired member.
8. **Post-Retirement Cost-of-Living Benefits:**

Each April 1, the benefits are increased by the percentage increase in CPI (to a maximum of 3%). Increases in CPI above 3% are "banked" to apply in years when CPI increase is less than 3%.

The first cost-of-living adjustment is on the first day of the month following the one-year anniversary of retirement. The next adjustment will be prorated for the number of months remaining until the following April.
9. **Employee Contributions:** The Members' contribution rates are recalculated on an actuarial basis at each actuarial study. Contributions are credited with 3% interest annually (the interest crediting provision was changed from 7.25% to 3% effective July 1, 2001).
All references to spouse also encompass registered domestic partners.

SUMMARY OF HEALTH SUBSIDY BENEFIT PROVISIONS

1. **Eligibility:**
 - a) **Medical:** Fifteen years of service credit at retirement, or receiving an allowance of at least 37 1/2% of Final Compensation. Must be enrolled in a City medical insurance plan at retirement.
 - b) **Dental:** Five years of service credit at retirement, or receiving an allowance of at least 37 1/2% of Final Compensation. Must be enrolled in a City dental insurance plan at retirement.
2. **Benefit:**
 - a) **Medical:** The Retirement System pays 100% of the premium for the lowest cost medical plan offered by the City for single and family coverage. Members and eligible survivors pay for the difference in the premium for their selected plan and the portion paid by the Retirement System for the lowest cost plan.
 - b) **Dental:** The Retirement System pays the entire cost of dental insurance coverage.
3. **Contributions:** Both the City and the Members contribute to the Retirement System fund for medical and dental insurance benefits.

ACTUARIAL CERTIFICATION LETTER



Gabriel Roeder Smith & Company
Consultants & Actuaries
7900 East Union Avenue, Suite 1100
Denver, CO 80237-2746

303-217-7600 phone
303-217-7609 fax
www.gabrielroeder.com

September 15, 2009

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

RE: ACTUARIAL VALUATION CERTIFICATION

Dear Members of the Board:

The actuarial valuation report for the City of San Jose Federated City Employees' Retiree Health Care Plan, completed as of June 30, 2007, describes the current actuarial condition of the plan and determines the employer contribution rates necessary to fully support the benefits provided by the City of San Jose. This conclusion is based on financial and demographic data as of the valuation date and on current actuarial assumptions, which are based on the System's demographic and economic experience. This letter serves as the Actuary's certification letter and offers our independent actuarial review opinion.

In support of this opinion and certification, we have included the following information:

- The funding objective of the plan
- The frequency of the plan's actuarial valuations and date of the most recent actuarial valuation
- The source and degree of verification of the data used in the actuarial valuation
- Supporting schedules that we have prepared and attached
- The assumptions and methods used to value plan assets and liabilities relative to the Government Accounting Standards Board (GASB) Statement No. 45.

The Funding Objective of the Plan

The Governmental Accounting Standards Board (GASB) recently issued two accounting standards (GASB 43 and GASB 45) applicable to "Other Post-Employment Benefits," or OPEB plans such as the Retiree Health Care Plan offered by the City of San Jose. GASB Statement 45 relates to sponsors of OPEB plans while GASB 43 is applicable to the OPEB plan itself. This report has been completed in accordance with the implementation of these new standards.

ACTUARIAL CERTIFICATION LETTER *Continued*



The GASB standards require that the long-term cost of retiree health care and other OPEB benefits be determined and accrued on an actuarial basis similar to pension plans. The results of these valuations, including an annual OPEB expense (i.e. Annual Required Contribution, or ARC) and net obligation, would have to be disclosed on the City's financial statements. For a plan of this size, valuations are required to be prepared at least once every two years.

The GASB standards do not mandate the pre-funding of OPEB liabilities. However, any pre-funding of OPEB benefits either prior to or after the effective date of these new standards, will help minimize or eliminate the OPEB obligation that will be required to be disclosed in the State's financial statements. This net OPEB obligation would be required to be disclosed on the financial statements and could have a detrimental impact on the employer's perceived financial health.

This funding objective is currently being realized through contributions sufficient to pay the System's normal cost as well as amortizing unfunded liabilities over a combination of 30 years and the present value of future salaries.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100%. Since the plan has been pre-funded prior to the implementation of these new standards, the current funded ratio is 16%.

The Frequency of the Plan's Actuarial Valuations and Date of the most Recent Actuarial Valuation

This plan is valued on at least a bi-annual basis, as of June 30. The most recent actuarial valuation was completed as of June 30, 2007.

The Source and Degree of Verification of the Data Used in the Actuarial Valuation

Computer files containing data on System membership of June 30, 2007 were provided by the City of San Jose Department of Retirement Services. While these files were not audited, the data was checked for internal consistency and was reviewed for reasonableness and consistency in relation to the data provided for the prior valuation.

Asset-related data were also received from the City of San Jose Department of Retirement Services and were used without further audit.

ACTUARIAL CERTIFICATION LETTER *Continued****Supporting Schedules***

We have prepared the following supporting schedules for inclusion in this Financial Statement:

- Summary of actuarial assumptions and methods
- Schedule of funding progress
- Schedule of employer contributions
- Summary of benefits provided by the retiree health benefit plan.

Actuarial Assumptions and Methods Used for Funding Purposes

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. In our opinion, the assumptions are reasonably related to past experience and represent our best estimate of future conditions affecting the System. Nevertheless, the emerging costs of the System will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

Certification

We certify that the information presented herein is accurate and fairly portrays the actuarial position of the plan as of June 30, 2007. We prepared the accompanying Summary of Actuarial Assumptions and Methods and the other supporting schedules in this section, but the staff of the San Jose Department of Retirement Services prepared the trend tables and other supporting schedules in the financial section based on information supplied in our report.

All of our work conforms with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board where applicable. The signatory is a Fellow of the Society of Actuaries, an Enrolled Actuary, and a Member of the American Academy of Actuaries with extensive experience in performing valuations for OPEB plans.

Sincerely,

A handwritten signature in black ink that reads 'Leslie L. Thompson'.

Leslie L. Thompson, FSA, EA, MAAA
Senior Consultant

SUMMARY OF POST-EMPLOYMENT BENEFIT PROVISIONS EVALUATED

ELIGIBILITY

Medical

Employees retiring (including deferred vested members) at age 55 with 15 years of service; or with a monthly pension equal to at least 37.5% of final average compensation.

Employees who become disabled and have a monthly pension equal to at least 37.5% of final average compensation.

Spouse/domestic partners of retired members who are qualified for medical are eligible to receive coverage if married and enrolled in one of the City's medical plans at the time of the member's retirement.

Dependent children under 19 years of age (24 if a full-time student) are eligible to receive coverage.

Surviving spouses/domestic partners/children of deceased members are eligible for coverage only if

- the employee has 15 years of service at the time of death or is entitled to a monthly pension of at least 37.5% of final compensation; and
- both the member and survivor are enrolled in a City medical insurance plan at the time of death; and
- the survivor will receive a monthly pension allowance.

Dental

Employees retiring or becoming disabled directly from City service must

- have 5 or more years of service; and
- is enrolled in one of the dental insurance plans sponsored by the City

Spouses/domestic partners/children are eligible to receive coverage if enrolled and married at the time of the member's retirement.

Surviving spouses/domestic partners/children of deceased members are eligible for coverage only if

- the employee has 5 years of service at the time of death; and
- both the member and survivor are enrolled in a City dental plan at the time of death; and
- the survivor will receive a monthly pension allowance.

BENEFITS

Medical

The Retirement System 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, 2007 the lowest cost health plan is Kaiser; family coverage is \$999.40 and single coverage is \$401.36 per month.

Dental

The Retirement System pays 100% of the dental insurance premiums.

RETIREE PREMIUM RATES

Monthly rates used for 2007 are shown below.

	<i>Effective January 1, 2007</i>	
MEDICAL	<i>Single</i>	<i>Family</i>
Non-Medicare Monthly Rates		
Kaiser - Traditional (CA)	\$401.36	\$999.40
Blue Shield HMO	\$399.28	\$1,025.64
Blue Shield POS or PPO	\$607.08	\$1,560.12
Supplemental Medicare Monthly Rate		
Kaiser - Senior Advantage	\$385.53	\$771.06
Secure Horizons - Medicare + Choice	\$365.75	\$731.50
Blue Shield - Medicare PPO	\$471.78	\$943.56
Blue Shield - Medicare HMO	\$301.21	\$602.42
DENTAL	<i>Single</i>	<i>Family</i>
Delta Dental PPO	\$99.42	\$99.42
Delta Care PMI	\$50.10	\$50.10

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The following assumptions have been adopted by the Retirement Board as of June 30, 2007.

Basic Benefits. Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an Individual Entry-Age Actuarial Cost Method having the following characteristics:

- a) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;
- b) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities (UAAL) (full funding credit if assets exceed liabilities) were amortized by level (principal & interest combined) percent-of-payroll contributions. The UAAL was determined using the funding value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL amortization payment (one component of the contribution requirement), is the level percent-of-payroll required to fully amortize the UAAL over a closed 30 year period.

The expensing and benefit values of the Plan are calculated by applying actuarial assumptions to the benefit provisions and member information furnished, using the actuarial cost methods described above.

The principal areas of financial risk which require assumptions about future experiences are:

- (1) long-term rates of investment return to be generated by the assets of the Fund.
- (2) patterns of future medical inflation rates.
- (3) rates of mortality among actives, retirants, and beneficiaries.
- (4) rates of withdrawal of active employees (without entitlement to a retirement benefit).
- (5) the age patterns of actual retirements.

In performing a valuation, the monetary effect of each assumption is calculated for as long as a present covered person survives – a period of time which can be as long as a century.

Actual experience of the system will not coincide exactly with assumed experience, regardless of the choice of the assumptions, the skill of the actuary and 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 (usually small) to the computed expense. 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).

The annual rate has been computed to remain relatively level from year to year so long as benefits and the basic experience and make-up of employees do not change. Examples of favorable experiences which would tend to reduce the amount expensed are:

- (1) Employee non-vested terminations at a higher rate than assumed.
- (2) Mortality among retirees and beneficiaries at a higher rate than indicated by our mortality assumptions.
- (3) Lower rates of medical inflation than assumed.
- (4) Actual retirement ages higher than assumed.

Actuarial Value of System Assets. The Actuarial Value of Assets is set equal to the reported market value of assets.

The investment return rate used for the actuarial valuation is 6.6% per annum, compounded annually. This assumption is used to equate the value of payments due at different points in time.

The inflation rate used for the actuarial valuation calculations was 4.0% per year, compounded annually, the rate used in the City's pension valuation. It represents the difference between the investment return rate and the assumed real rate of return.

The payroll growth rate: for financing Unfunded Actuarial Accrued Liabilities was assumed to be 4.00% per year. This is the rate at which payroll for the total population is assumed to grow each year. It is not the salary increase rate assumed for any one individual member.

Date of Increase	Assumed Medical Inflation	Assumed Dental Inflation
12/31/07	8.0%	6.0%
12/31/08	7.5%	6.0%
12/31/09	7.0%	5.5%
12/31/10	6.5%	5.5%
12/31/11	6.0%	5.0%
12/31/12	5.5%	5.0%
12/31/13	5.0%	4.5%
12/31/14	4.5%	4.5%
12/31/2015+	4.5%	4.0%

Rates of separation from active membership are shown below (rates do not include separation on account of retirement or death). This assumption measures the probabilities of members remaining in employment.

Sample Ages	Disability*	Withdrawal	Vested Termination
20	.04%	11.00%	--- %
25	.06	7.00	3.00
30	.07	5.00	3.00
35	.09	2.50	2.75
40	.15	1.50	2.00
45	.25	1.25	2.00
50	.40	1.25	1.50
55	.50	1.00	0.00
60	1.00	1.00	0.00
65	2.00	0.00	0.00
70	0.00	0.00	0.00

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

For inactive members, the assumed age at retirement is age 58.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS *Continued*

The **post-retirement mortality table** used for healthy retirees and beneficiaries was the 1994 Group Annuity Mortality Table (sex distinct). The disabled mortality table used was the 1981 Disability Mortality Table. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. Sample values are shown below.

Sample Ages	Future Life Expectancy (Years)			% of Benefit Recipients Dying Each Year		
	Retired Men	Retired Women	Disabled	Retired Men	Retired Women	Disabled
	50	30.7	34.9	21.1	0.26	0.14
55	26.2	30.2	18.7	0.44	0.23	2.84
60	21.8	25.6	16.4	0.80	0.44	3.30
65	17.8	21.3	14.1	1.45	0.86	3.79
70	14.3	17.3	11.7	2.37	1.37	4.37
75	11.1	13.6	9.2	3.72	2.27	5.53
80	8.4	10.3	7.0	6.20	3.94	8.74

The **active member mortality** assumption measures the probability of mortality before retirement. The rates include probability of ordinary death, service death, and death while eligible for retirement or disability.

Sample Ages	% of Active Members Dying Each Year	
	Men	Women
35	.06	.05%
40	.07	.05
45	.09	.08
50	.16	.13
55	.26	.20
60	.38	.30
65	.53	.44

The **rates of retirement** used to measure the probability of eligible active members retiring during the next year.

Retirement Ages	% of Active Members Retiring Within the Next Year	Retirement Ages	% of Active Members Retiring Within the Next Year
55	15.0%	63	10.0%
56	7.5	64	10.0
57	7.5	65	25.0
58	7.5	66	25.0
59	7.5	67	25.0
60	7.5	68	25.0
61	7.5	69	25.0
62	20.0	70	100.00

*Superseded by 50% retirement probability each year after completion of 30 years of service and attainment of age 50.

Additional Medical Assumptions

The **eligibility conditions for retiree medical coverage** we used were after attainment of age 55 and 15 years of service at retirement, or a monthly pension equal to 37.5% of final average compensation. Deferred retirements and disabled retirements meeting this requirement are also eligible for medical coverage. The eligibility condition for medical coverage for future surviving spouses was assumed to be the active member's attainment of 15 years of service.

Participation in retiree medical plans: We assume 85% of future retirees meeting the eligibility conditions above will participate in the retiree medical plan.

The **probability of electing spouse/domestic partner coverage at retirement** was assumed to be 55% for future retirees, with males assumed to be three years older than their spouses, and females assumed three years younger. Also, 55% of active members dying in service are assumed to leave surviving spouses who elect medical coverage. 100% of surviving spouses of retired members are assumed to continue coverage.

Additional Dental Assumptions

The **eligibility conditions for retiree dental coverage** we used were after attainment of 5 years of service at retirement, or eligible for disabled retirement. Deferred retirements are not eligible for dental coverage. The eligibility condition for dental coverage for future surviving spouses was assumed to be the active member's attainment of 5 years of service.

Participation in retiree dental plans: We assume 100% of future retirees meeting the eligibility conditions above will participate in the retiree dental plan.

The **probability of electing spouse/domestic partner coverage at retirement** was assumed to be 65% for future retirees, with males assumed to be three years older than their spouses, and females assumed three years younger. Also, 65% of active members dying in service are assumed to leave surviving spouses who elect medical coverage. 100% of surviving spouses of retired members are assumed to continue coverage.

Implicit Subsidy and Premium Development: Premium development is required for the two classes of retirees (pre-age 65 and post-age 65). These premiums were developed using fully-insured premium rates from the health plans offered in conjunction with census data for the active and retired participants of the City's medical benefit plan (see page 26). These premium rates were adjusted to reflect the increase in utilization expected of an older population and the decrease in expected number of dependents covered under family coverage. In addition, these premium rates were adjusted to reflect differing utilization rates by age and sex. Sex-specific aging factors used reflect the expectation that women will have about the same per capita claims as men at age 57 years, have higher claims before age 57, and have lower claims after age 57. Gross imputed single coverage rates at sample ages are shown below.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS *Continued*

The impact of the recently enacted Federal legislation creating a prescription drug benefit under Medicare has not been reflected in this report since the impact will affect contributions (in the form of on-behalf contributions), not liabilities of the plan (GASB Technical Bulletin 2006-1).

GROSS IMPUTED SINGLE COVERAGE MONTHLY PREMIUM RATES BY AGE

<i>Pre-Age 65 Retiree Rates</i>			<i>Post-Age 65 Retiree Rates</i>		
<i>Age</i>	<i>Male</i>	<i>Female</i>	<i>Age</i>	<i>Male</i>	<i>Female</i>
40	\$199.09	\$311.93	65	\$367.10	\$338.05
50	\$365.97	\$414.67	75	\$470.10	\$417.20
60	\$600.90	\$577.60	85	\$524.19	\$460.21
64	\$699.42	\$648.30			

Dental Premium: Based on census data for current retiree dental plan participants (see page 26); we assumed 97% of future eligible retirees would choose Delta Dental PPO and 3% of future eligible retirees would choose Delta Care PMI. This produced a monthly dental premium rate of \$97.44.

FUNDING PROGRESS INDICATORS

There is no single all-encompassing indicator which measures a retirement system's funding progress and current funded status. A traditional measure has been the relationship of valuation assets to unfunded actuarial accrued liability – a measure that is influenced by the choice of actuarial cost method.

We believe a better understanding of funding progress and status can be achieved using the following indicators which are independent of the actuarial cost method.

(1) **The ratio of assets to the actuarial present value of credited projected benefits** allocated in the proportion accrued service is to projected total service – a plan continuation indicator. The

ratio is expected to increase in the absence of benefit improvements or strengthening of actuarial assumptions.

(2) **The ratio of the unfunded actuarial present value of credited projected benefits to member payroll** – a plan continuation indicator. In a soundly financed retirement system, the amount of the unfunded actuarial present value of credited projected benefits will be controlled and prevented from increasing in the absence of benefit improvements or strengthening of actuarial assumptions. However, in an inflationary environment, it is seldom practical to impose this control on dollar amounts which are depreciating in value. The ratio is a relative index of condition where inflation is present in both items. The ratio is expected to decrease in the absence of benefit improvements or strengthening of actuarial assumptions.

SCHEDULE OF FUNDING PROGRESS FOR RETIREE MEDICAL BENEFITS

<i>Actuarial Valuation Date</i>	<i>Actuarial Value of Assets (a)</i>	<i>AAL (b)</i>	<i>UAAL (b-a)</i>	<i>Funding Ratio (a/b)</i>	<i>Payroll (c)</i>	<i>UAAL as % of Payroll ((b-a)/c)</i>
6/30/06	\$81,288,000	\$702,938,665	\$621,650,665	11.6%	\$275,558,882	225.6%
6/30/07	\$96,601,000	\$616,748,714	\$520,147,714	15.7%	\$271,832,564	191.3%

EMPLOYER CONTRIBUTIONS RETIREE MEDICAL BENEFITS ONLY

<i>Year Ended</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>
June 30, 2007	\$38,526,038	28%
June 30, 2008	\$38,526,038	30%
June 30, 2009	\$33,380,977	51%*

*Amount represents the annual required employer contributions based on the Board adopted contribution rates in the absence of the City's elected lump sum payment. The actual amount contributed by the employer, based on discounted contribution rates, was \$16,352.

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, Post-employment Medical Benefits and Non-OPEB Benefits. This section also provides multi-year trend of financial and operating information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for the Plan's net assets, benefits, refunds, contribution rates and different types of retirement benefits. The financial and operating trend information is located on the following pages.



STATISTICAL SECTION



STATISTICAL REVIEW (Unaudited)

CHANGES IN NET ASSETS FOR FISCAL YEARS 2000-2009 (Dollars in thousands)

Pension Benefits (Schedule 1a)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<i>Additions</i>										
Member contributions	\$10,804	\$10,306	\$11,071	\$11,776	\$12,394	\$12,393	\$12,395	\$12,370	\$13,366	\$13,848
Employer contributions	34,146	35,284	41,011	38,411	39,534	41,552	41,267	51,004	54,958	57,020
Investment Income*	73,839	(2,934)	(24,140)	71,179	192,373	115,618	132,873	244,210	(60,101)	(295,773)
Total additions	118,789	42,656	27,942	121,366	244,301	169,563	186,535	307,584	8,223	(224,905)
<i>Deductions (See Schedule 2a)</i>										
Benefit payments	44,655	43,761	48,235	46,814	53,578	60,438	68,438	75,135	83,291	89,767
Death benefits	20	105	22	4,752	5,454	5,437	5,721	5,867	6,263	6,923
Refunds	1,386	1,886	1,207	714	1,188	927	1,246	1,008	972	1,395
Administrative expenses and other	1,059	1,322	1,378	1,532	1,799	1,588	1,790	1,845	2,358	2,108
Total deductions	47,120	47,074	50,842	53,812	62,019	68,390	77,195	83,855	92,884	100,193
CHANGE IN NET ASSETS	\$71,669	\$(4,418)	\$(22,900)	\$67,554	\$182,282	\$101,173	\$109,340	\$223,729	\$(84,661)	\$(325,098)

*Net of Expenses

Post-employment Healthcare Benefits (Schedule 1b)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<i>Additions</i>										
Member contributions	\$1,679	\$1,462	\$2,787	\$3,032	\$3,191	\$5,219	\$5,226	\$9,612	\$10,403	\$15,076
Employer contributions	1,596	1,750	4,127	3,866	3,948	5,996	5,961	10,728	11,560	16,368
Investment Income*	4,132	(536)	(1,558)	4,193	11,066	6,539	7,273	13,343	(3,715)	(18,543)
Total additions	7,407	2,676	5,356	11,091	18,205	17,754	18,460	33,683	18,248	12,901
<i>Deductions (See Schedule 2b)</i>										
Health insurance premiums	5,236	6,530	7,804	9,191	11,438	13,393	15,904	18,265	20,195	21,725
Administrative expenses and other	77	98	94	99	114	95	103	105	134	132
Total deductions	5,313	6,628	7,898	9,290	11,552	13,488	16,007	18,370	20,329	21,857
CHANGE IN NET ASSETS	\$2,094	\$(3,952)	\$(2,542)	\$1,801	\$6,653	\$4,266	\$2,453	\$15,313	\$(2,081)	\$(8,956)

*Net of Expenses

STATISTICAL REVIEW (Unaudited) *Continued*

BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE *(Dollars in thousands)*

Pension Benefits (Schedule 2a)

Type of Benefit	2009	2008	2007	2006
Age and Service Benefits				
<i>Retirees</i>				
Service	\$ 77,444	\$71,849	\$64,978	\$59,391
Deferred Vested	6,219	5,730	4,860	4,134
<i>Survivors</i>				
Service	3,867	3,561	3,320	3,195
Deferred Vested	126	122	108	87
Death in Service Benefits				
	2,032	1,815	1,722	1,750
Disability Benefits				
<i>Retirees</i>				
Duty	3,256	3,102	2,920	2,702
Non-Duty	1,884	1,835	1,737	1,640
<i>Survivors</i>				
Duty	263	218	197	187
Non-Duty	635	547	519	502
Ex-Spouse Benefits	964	775	640	571
TOTAL BENEFITS	\$ 96,690	\$89,554	\$81,002	\$74,159
Type of Refund				
Separation	\$ 1,395	\$ 972	\$ 1,008	\$1,246
TOTAL REFUNDS	\$ 1,395	\$ 972	\$1,008	\$1,246

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

Post-employment Healthcare Benefits (Schedule 2b)

Type of Benefit	2009	2008	2007	2006
Age and Service Benefits				
<i>Retirees – Service</i>				
Medical	\$ 14,772	\$13,524	\$ 12,029	\$ 10,341
Dental	2,150	2,148	2,022	1,870
<i>Retirees – Deferred Vested*</i>				
Medical	1,063	949	767	652
Dental	27	29	35	-
<i>Survivors – Service</i>				
Medical	862	800	730	628
Dental	268	269	251	235
<i>Survivors – Deferred Vested *</i>				
Medical	11	10	9	11
Dental	1	-	-	-
Death in Service Benefits				
Medical	335	327	313	293
Dental	67	69	72	71
Disability Benefits				
<i>Retirees – Duty</i>				
Medical	1,165	1,113	1,098	956
Dental	142	143	145	131
<i>Retirees – Non-Duty</i>				
Medical	510	483	478	433
Dental	79	81	78	73
<i>Survivors – Duty</i>				
Medical	80	75	69	59
Dental	20	19	18	17
<i>Survivors – Non-Duty</i>				
Medical	139	123	119	103
Dental	34	33	32	31
Ex-Spouse Benefits				
Medical	-	-	-	-
Dental	-	-	-	-
TOTAL BENEFITS	\$21,725	\$20,195	\$18,265	\$15,904

**Deferred Vested dental data unavailable in 2006*

STATISTICAL REVIEW (Unaudited) *Continued***EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2000-2009**
(Schedule 3)

<i>Fiscal Year</i>	<i>Employee Rate (%)</i>	<i>Employer Rate (%)</i>
2000	5.31	16.52
2001	4.76	16.09
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

RETIRED MEMBERS BY TYPE OF BENEFIT

PENSION BENEFITS *As of June 30, 2009*

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement*						Option Selected**			Total
		1	2	3	4	5	6	A	B	C	
\$1 - 500	148	49	4	1	1	39	54	100	17	31	148
501 - 1000	330	125	13	18	14	100	60	209	34	87	330
1001 - 1500	397	216	14	34	32	59	42	263	39	95	397
1501 - 2000	335	218	12	36	12	28	29	233	23	79	335
2001 - 2500	289	214	6	20	15	17	17	200	33	56	289
2501 - 3000	257	218	7	7	7	1	17	175	23	59	257
3001 - 3500	233	202	3	6	2	3	17	171	24	38	233
3501 - 4000	177	163	6	2	-	1	5	124	18	35	177
4001 - 4500	141	131	2	1	-	1	6	93	13	35	141
4501 - 5000	143	138	1	1	-	-	3	99	16	28	143
5001 - 5500	284	104	11	4	5	90	70	189	14	81	284
5500 - 6000	81	77	1	1	-	-	2	51	9	21	81
Over \$6000	182	176	-	1	-	-	5	148	6	28	182
TOTAL	2997	2031	80	132	88	339	327	2055	269	673	2997

*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

**OPTION DESCRIPTIONS

- A Unmodified - 50% Continuance
- B Option 1 - 100% Continuance/reduced pension
- C No Survivor - No Continuance

POST-EMPLOYMENT HEALTHCARE BENEFITS

Amount Monthly Benefit	Type of Subsidy	
	Health	Dental
Ineligible/Deferred	841	481
\$1 - 60	-	77
61 - 250	-	2439
251 - 500	1033	-
501 - 750	4	-
751 - 1000	245	-
Over \$1000	874	-
TOTAL	2997	2997

AVERAGE BENEFIT PAYMENT AMOUNTS

PENSION BENEFITS

	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
Retirement Effective Dates							
<i>Period 7/1/2008 to 6/30/2009</i>							
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
<i>Period 7/1/2007 to 6/30/2008</i>							
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
<i>Period 7/1/2006 to 6/30/2007</i>							
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
<i>Period 7/1/2005 to 6/30/2006</i>							
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.

AVERAGE BENEFIT PAYMENT AMOUNTS *Continued***POST-EMPLOYMENT HEALTHCARE BENEFITS**

	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
Retirement Effective Dates							
<i>Period 7/1/2008 to 6/30/2009</i>							
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
<i>Period 7/1/2007 to 6/30/2008</i>							
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
<i>Period 7/1/2006 to 6/30/2007</i>							
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
<i>Period 7/1/2005 to 6/30/2006</i>							
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.

RETIREMENTS DURING FISCAL YEAR 2008-09

SERVICE RETIREMENTS

ABUNDIZ, RICARDO	FACCHINO, MARGARET	MC CLENDON, TESS	RAMOS, SHIRLEY
ALFARO, ANGELICA	FARBAKSH, ARDAVAN	MCDONALD, RAY	ROBERTS, ESTHER
ALLEN, ERNESTINE	FARRELL, RUSSELL	MENDEZ-ORTIZ, LINDA	ROLLIS, MARGARET
ANDERSON, BARRON	FLEMATE, ANNA	MENDIOLA, SALVADOR	SAIIDNIA, HABIBOLLAH
ANDERSON, MORETTE	FULLER, JUDY	MENDIZABAL, MICHAEL	SATO, TAKASHI
ARAGON, TERRY	GALLEGOS, JOHN	METZGER, NEIL	SCHREIER, MARYANNE
ATTARD, BARBARA	GARCIA, SANDRA	MEYDBRAY, ARNOLD	SCHROEDER, ALAN
BACHTELL-HOOTMAN, ANITA	GEARY, LILLY	MIHARA, SUZANNE	SHU, EMILY
BERRY, CHARLES	GILBERT, TAMARA	MITCHEM, JUDITH	SKIPWORTH, CHERIE
BETTENDORF, DEBORAH	HAYES, ALICE	MOORE, EDWARD	SMITH, WILLIAM
BOERGER, MICHAEL	HILL, SANDRA	MORRISON, ELIZABETH	SOMONTES, GLORIA
BOGART, DEBORAH	IMAMURA, BRADLEY	MOSBY, CAROLYN	STONE, KENNETH
BOLENDER, ELAINE	ISA, ELIZABETH	MUNOZ, TERESA	STOWELL, DAVID
BRIGGS, KEVIN	IWANAGA, CALVIN	NASIATKA, WILLIAM	STRAND, ROBERT
BRINKLEY, OLA	IZADYAR, PAUL	NODAL, LAURA	TERRASAS, JOHN
BUNNELL, MARK	JOHNSON, CAROLYN	NUNES, SANDRA	THOMPSON, MARGIE
BURNHAM, PETER	KELLEY, REGINALD	OLIVAS, GUADALUPE	TOBIN, MARY
CAMPOS, MICHELE	KIMURA, LEON	OSORIO, DENNIS	VAN KEUREN, NEAL
CANCILLA, LOUIS	KIRKBRIDE, FRANK	OUIMET, DORA	WALSH, NEIL
CARLYON, ROSEMARY	KLEIN, DON	PADILLA, ROLANDO	WEAR, CHARLES
CASTILLO, ANGELITA	KORPI, PAULA	PARDUN, LYLE	WILSON, KATHLEEN
COCO, RICHARD	LACY, JUDITH	PARKER, GWEN	WILSON, ROBERT
CREAL, KEITH	LEUNG, JULITA	PENNINGTON, KIRK	WING, KAREN
CRSPAN, GEORGE	LIM, MANUEL	PEREZ, ROSALINDA	WING, STEVEN
CRUZ, MARTA	LLOYD, PATRICIA	PEYTON, DAVID	WONG, KING
DEWALD, DONALD	LOU, TERRY	PROCTOR, GLENN	WRIGHT, TIMOTHY
DOVALINA, GIL	LOWE, PATRICIA	RABE-UYENO, ANITA	
DUNN, MICHAEL	MALEK, MANSOUR	RAMIREZ, LILIAN	
	MARTINEZ, JOE	RAMIREZ, ROBERT	

RETIREMENTS DURING FISCAL YEAR 2008-09 *Continued*

DEFERRED VESTED RETIREMENTS

COULTER, DONALD	HAASE, STEPHEN	MATHIESON, MARGARET	RUIGH, CARLA
DALTON, DEAN	HARRIS, ELIZABETH	MAZZA, MARTHA	STUBBEE, GROVER
FIRTH, DANIEL	HAUBENSTEIN, THERESE	MORRELL, CYNTHIA	TETRAULT, RICHARD
FLORES, MICHAEL	HELMER, KATHY	PAPENFUHS, LINDA	TZANAVARAS, MAYUKO
FOX, SANDRA	KNIGHT, BEVERLE	RAMSEY, BARBARA	VESSA, BEVERLY
GOTSCHALL, DAVID	KWIATKOWSKI, RICHARD	ROBERSON, CHARLES	

SERVICE-CONNECTED DISABILITY RETIREMENTS

CRESCINI, LORELEI	MARTINEZ, JESSIE
-------------------	------------------

NON-SERVICE-CONNECTED DISABILITY RETIREMENTS

CAHILL, PAUL	DOLEZAL, SUSAN
DELGADO, MARLEY	REINER, SCOTT

DEATHS DURING FISCAL YEAR 2008-09

DEATHS AFTER RETIREMENT

ANDREWS, DONALD	HIGA, JAMES	MOLDENHAUER, PEGGY	SELLAROLE, REGINA
BEGIL, RICHARD	HILSON, CLYDE	MORA, MANUEL	SILVERSTEIN, RUTH
BISHOP, LEONA	HOLMES, JAMES	NAGAREDA, AMY	SMITH, LOIS
BOYD, RICHARD	HUBBARD, GARY	NEGOVAN, ALBERT	SOLIZ, PHILLIP
BRAGER, TONY	JACKLICH, ROBERT	NICHOLAS, PHILLIP	STAINBROOK, MILDRED
CARLITZ, JOSEPH	KAMIMORI, SUE	NODAL, ALBERT	STRUSS, ROSEMARY
COOPER, MARY	KLEINER, RICHARD	LOTZ, NATHALIE	TIBBS, MINNIE
DAVILLA, RICHARD	KOMARA, MARGARET	LUCCHESI, JOHN	TUTTELMAN, VERNA
DAVIS, JEROLD	KYLE, GERALDINE	MARIANELLI, ANGIE	WELCH, LEIGH
DUNCANSON, TONA	LAMARRA, ANTHONY	NUTTER, SHELDON	NUTTER, SHELDON
FULLER, JUDY	LOTZ, NATHALIE	PAPA, PHYLLIS	PAPA, PHYLLIS
GIER, FLOYD	LUCCHESI, JOHN	POLK, SHARON-RAE	POLK, SHARON-RAE
GLEESON, JOHN	MARIANELLI, ANGIE	PRESTIGIACOMO, GEORGE	WILSON, EVELYN
GOFF, FRANCES	MC CABE, FRANCES	RADON, JOHN	ZAMORA, MIKE
HANSON, ROY	MC NATT, DANNY	RUIZ, ANGEL	ZOTTA, PAUL
HARNESS, KENNETH	MESTAZ, CHRISTOPHER	SACZYNSKI, EDWIN	
HASS, ALBERT	MILLER, ESTHER	SALBERG, HELEN	

DEATHS BEFORE RETIREMENT

BOHN, THOMAS	HAWKE, CYNTHIA
CHENG, TYRONE	SCAGLIONE, JOE
HAIGHT, JEANNE	

This page is intentionally left blank.





Department of Retirement Services

1737 North First Street, Suite 580

San José, California 95112-4505

408 794-1000 Phone

408 392-6732 Fax

www.sjretirement.com