CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José Police and Fire Department Retirement Plan

Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012

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

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José Police and Fire Department Retirement Plan

Donna Busse
Acting Director

Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012

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

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

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Department of Retirement Services

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

November 28, 2012

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

Dear Mayor, Council Members, and Plan Members:

On behalf of the members of the Board of Administration, I am pleased to present the Police and Fire Department Retirement Plan's (Plan) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012.

The Plan earned a time-weighted gross of investment fees rate of return of -0.1% and net of investment fees rate of return of -0.5% on investments for the fiscal year, compared to a 1.3% return for its policy benchmark and a 0.8% return for the Independent Consultants Cooperative's (ICC) Public Funds Median. Additionally, the Plan earned a time-weighted gross of investment fees rate of return of 10.6% and 1.0% for the three-year and five-year periods ending June 30, 2012, respectively, while the ICC Public Fund Median earned a time-weighted rate of return of 11.6% and 1.6% for the same periods. In contrast, the net rate of return assumed by the Plan's actuary is 7.50%. The net asset value of the Plan decreased from $2,687,397,000 to $2,641,442,000, net of pending purchases and sales (see the Financial Section beginning on page 19). The net decrease in Plan assets for fiscal year 2011-2012 was $45,955,000.

At the beginning of the fiscal year 2011-2012, much of the Plan's assets were invested in index funds and optimized portfolios designed to earn index returns. During the second quarter of 2012, the Trustees focused on completing an asset liability study which was adopted in August 2012.

A major focus for the Board during the fiscal year 2011-2012 was the implementation of the governance structure. The Board hired a governance consultant to develop policies and charters relating to roles and responsibilities of the Board and staff, staffing structure, strategic planning, education and training, and communications protocol.

In May 2012, the Director of Retirement Services, Russell Crosby, announced his intentions to retire. The Trustees conveyed their appreciation for Mr. Crosby's leadership and management of the Plan during a time when significant beneficial changes were realized. Following Mr. Crosby's retirement in September 2012, the Chief Operations Officer, Donna Busse, was appointed as the Acting Director to lead the Retirement Services Department. Ms. Busse has over sixteen years of experience with the City and brings a wealth of knowledge across all groups of the Department. The Plan also saw the departure of its Chief Investment Officer (CIO), Carmen Racy-Choy, in July 2012.

The Board has engaged an executive recruiting firm to search for a Director and a CIO, as well as four Investment Officers, and is working closely in a collaborative process with the City and the Board of Administration for the Federated City Employees' Retirement System to select highly qualified candidates to fill these key leadership positions.

1737 N. First St. Suite 580, San Jose, CA 95112-4504 ***tel*** (408) 794-1000 ***fax*** (408) 392-6732 www.sjretirement.com

During the fiscal year, the Board hired Albourne America LLC to provide absolute return asset class consulting as well as Russell Investments to provide policy overlay service on the Plan's assets in order to reduce the unintended risk of asset allocation drift. In addition, the Board sold seven of its nine individually owned real estate properties with the assistance of American Realty Advisors. The Board also hired Reed Smith LLP as the Plan's general and investment counsel, Ice Miller LLP as the Plan's tax counsel, and Saltzman and Johnson Law Corporation to provide domestic relations order services.

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

Sincerely,

Sean Kaldor, Chairman

Board of Administration

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Department of Retirement Services

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

November 28, 2012

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

Dear Trustees:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Police and Fire Department Retirement Plan (Plan) for the fiscal year ended June 30, 2012. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the Plan's management. This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the Plan are reported on the accrual basis of accounting. For an overview and analysis of the financial activities of the Plan for the fiscal years ended June 30, 2011 and 2012 refer to the Management's Discussion and Analysis on page 19.

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

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

Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that the Government Finance Officers Association of the United States and Canada (GFOA) awarded its Certificate of Achievement for Excellence in Financial Reporting to the Plan for its CAFR for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This report satisfies both generally accepted accounting principles and applicable legal requirements. We believe this report continues to conform to the Certificate of Achievement Program Requirements and staff will submit it to the GFOA to determine its eligibility for another certificate for the fiscal year ended June 30, 2012. The Plan also received the Public Pension Standards Award in recognition of meeting professional standards for plan design and administration by the Public Pension Coordinating Council.

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

Funding

The Plan's funding objective for both its defined benefit pension plan and its defined benefit other postemployment healthcare (OPEB) plan is to meet

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long-term benefit obligations through contributions and investment income. As of June 30, 2011, the funding ratio of the defined benefit pension plan was 84% and for the defined benefit OPEB plan was 6% based on the actuarial value of assets.

For the valuation of pension and OPEB benefits, the actuarial assumption for the net rate of return to be earned by the Plan is currently 7.50% and 5.70%, respectively. The impact of the difference between the actual net rate of return earned by the Plan and the 7.50% and 5.70% assumptions will result in deferred investment losses that will be reflected in the pension and OPEB unfunded liabilities, respectively, in next year's CAFR. The net decrease in Plan assets for fiscal year 2011-2012 was $45,955,000. Details of the components of this decrease are included in the Statement of Changes in Plan Net Assets on page 32. The defined benefit pension plan's funding progress is presented on page 57 and the defined benefit OPEB plan's funding progress is presented on page 58.

Financial and Economic Summary

The 2011-2012 fiscal year began with heightened market volatility and risk aversion affecting the markets, due in part to a renewed focus on the faltering global economy and sovereign debt issues in the Eurozone. The third quarter of calendar year 2011 was the worst quarter for equities since 2008 despite efforts by policymakers, including the announcement of the U.S. Federal Reserve's "Operation Twist" and an expansion of the European Financial Stability Facility. During the fourth quarter of calendar year 2011, investors returned to risky assets due partly to improved economic data and hopes of a resolution to the sovereign debt issues in the Eurozone. Investor optimism persisted during the first few months of calendar year 2012, as global equity markets soared and U.S. stocks experienced their best quarter since 1998. However, a number of near-term issues remained unresolved, including sovereign debt issues in Europe, the potential for a "hard landing" in China, and a stalled recovery in the U.S. economy.

Fiscal year 2013 promises continued volatility in the markets and, while the Plan is diversified in a way that provides the best possible chance for achieving long-term returns to meet its obligations and objectives, it is of critical importance that the Plan continues to focus on low volatility and stability of returns going forward.

Investment Summary

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

Over the past fiscal year, the Plan's gross of fees rate of return was -0.1% and net of investment fees rate of return was -0.5%, while the policy benchmark returned 1.3% and the Independent Consultants Cooperative's (ICC) Public Funds Median returned 0.8%. Additionally, the Plan's gross of fees rate of return was 10.6% and 1.0% for the three-year and five-year periods ending June 30, 2012, respectively, while the ICC Public Funds Median was 11.6% and 1.6% for the same periods. The net asset value of the Plan decreased from $2,687,397,000 to $2,641,442,000, net of pending purchases and sales (see the Financial Section beginning on page 19).

At the beginning of the fiscal year 2011-2012, much of the Plan's assets were actively managed. In the fourth quarter of 2011, the assets were transitioned from active to passive management where the portfolio was invested in index funds and optimized portfolios designed to earn index returns. During the second quarter of 2012, the Trustees focused on completing an asset liability study which was adopted in August 2012.

Major Initiatives

In May 2012, the Director of Retirement Services, Russell Crosby, announced his intention to retire. The Trustees conveyed their appreciation for Mr. Crosby's leadership and management of the Plan. Under Mr. Crosby's leadership, the Plan was named Mid-Sized Public Pension Plan of the Year in 2009 for dramatic changes implemented in a complex environment with two separate pension plans and multiple consultants and money managers. Mr. Crosby was also instrumental in the City of San Jose's governance study that resulted in the seating of five public trustees independent of the City on the Board.

The Plan also saw the departure of its Chief Investment Officer (CIO), Carmen Racy-Choy, who resigned in July 2012. Ms. Racy-Choy was instrumental in the implementation of policy overlay on the Plan's assets and transitioning the assets from active management to optimized portfolios designed to earn index returns. The Board has engaged an executive recruiting firm to search for a Director and a CIO, as well as four Investment Officers.

The Trustees continued implementation of the governance structure by hiring a governance consultant to develop policies and procedures relating to roles and responsibilities of the Board and staff, staffing structure, strategic planning, education and training, and communications protocol.

During the fiscal year, the Board hired Albourne America LLC to provide absolute return asset class consulting as well as Russell Investments to provide policy overlay service on the Plan's assets in order to reduce the unintended risk of asset allocation drift. In addition, the Board sold seven of its nine individually owned real estate properties with the assistance of American Realty Advisors. The Board also hired Reed Smith LLP as the Plan's general and investment counsel, Ice Miller LLP as the Plan's tax counsel, and Saltzman and Johnson Law Corporation to provide domestic relations order services.

The Retirement Services staff participated in the Vision and Life Insurance Provider selection for the City of San Jose in conjunction with the City's Human Resources and Labor Groups. A mid-year special open enrollment was conducted for retirees to select a vision provider due to the expiration of the current provider's contract. The special open enrollment allowed retirees the opportunity to enroll or change their Personal Accident Insurance policy. Over 5,000 letters were mailed out and close to 2,000 documents were received.

The agreements between the City and certain bargaining groups stipulated that employees be not allowed to have dual coverage under the medical and dental coverage with City retirees. Retirement Services assisted to identify affected employees and in providing clarification of the San Jose Municipal Code provisions as it pertained to survivorship benefits. As a not-for-profit health plan committed to provide access to high quality care at an affordable price, Blue Shield of California pledged to limit their annual net income to 2% of revenue collected and give back any excess to its customers starting with their 2010 revenues. Retirement Services received a total of $1.6 million of which 17% was refunded to retirees. The retiree participation during Open Enrollment continues to increase, and in addition to the free flu shots, staff organized bio-metric screenings for retirees for the duration of the Retiree Health Fair.

Conclusion

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

Respectfully Submitted,

Donna Busse
Acting Director

Certificate of Achievement for Excellence in Financial Reporting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Jose Police and Fire Department Retirement Plan

California

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

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

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

Linda C. Davison

President

Jeffrey R. Esser

Executive Director

Certificate of Meeting Professional Standards in Public Pensions

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2011

Presented to

City of San Jose San Jose
Police and Fire Department Retirement Plan

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H Winkle

Alan H. Winkle
Program Administrator

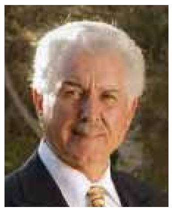
Board of Administration, Administration, and Outside Consultants

BOARD OF ADMINISTRATION

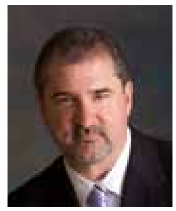
The Retirement System is administered by a nine-member Board of Administration composed of two City employees elected by members of the system, two Retired Plan members elected by the Retiree Associations, four public members, who are not connected with the City and have significant banking or investment experience, and another public member, who is selected by the eight Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08, Part 12 of the San Jose Municipal Code.

As of June 30, 2012, the members of the Board were as follows:

SEAN KALDOR, CHAIR
Employee Representative for the Fire Department appointed to the Board in May 2010. His current term expires November 30, 2015.



RICHARD SANTOS, VICE CHAIR
Retired Plan member appointed to the Board in March 2011. His current term expires November 30, 2014.



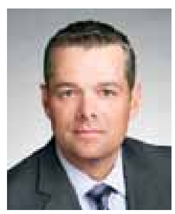
VINCENT SUNZERI, TRUSTEE
Public member appointed to the Board in December 2010. His current term expires November 30, 2012.

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

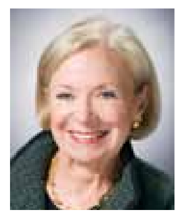
SEAN BILL, TRUSTEE
Public member appointed to the Board in December 2010. His current term expires November 30, 2014.

DAMON KRYTZER, TRUSTEE
Public member appointed to the Board in December 2010. His current term expires November 30, 2014.

ANDREW LANZA, TRUSTEE
Public member appointed to the Board in April 2011. His current term expires April 30, 2015.



JAMES MASON
Employee Representative for the Police Department appointed to the Board in May 2012. His current term expires November 30, 2013.

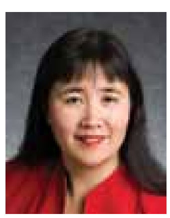


ELIZABETH ROUNDS, TRUSTEE
Public member appointed to the Board in September 2011. Her current term expires November 30, 2014.

PETE CONSTANT,
NON-VOTING BOARD MEMBER

DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION

RUSSELL U. CROSBY
DIRECTOR OF RETIREMENT SERVICES
(Position vacant as of September 6, 2012)



DONNA BUSSE
DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER

CARMEN RACY-CHOY
DEPUTY DIRECTOR
CHIEF INVESTMENT OFFICER
(Position vacant as of July 31, 2012)

STANDING PUBLIC MEETINGS

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

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

OUTSIDE CONSULTANTS

ACTUARY
Cheiron, Inc.
Encinitas, CA

GENERAL & FIDUCIARY COUNSEL
Reed Smith LLP
San Francisco, CA

INVESTMENT COUNSEL
Reed Smith LLP
Falls Church, VA

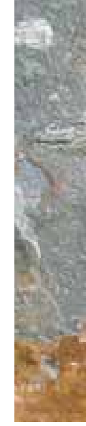
INVESTMENT CONSULTANTS
Albourne America LLC – Absolute Return
San Francisco, CA

NEPC, LLC – General Consultant
Redwood City, CA

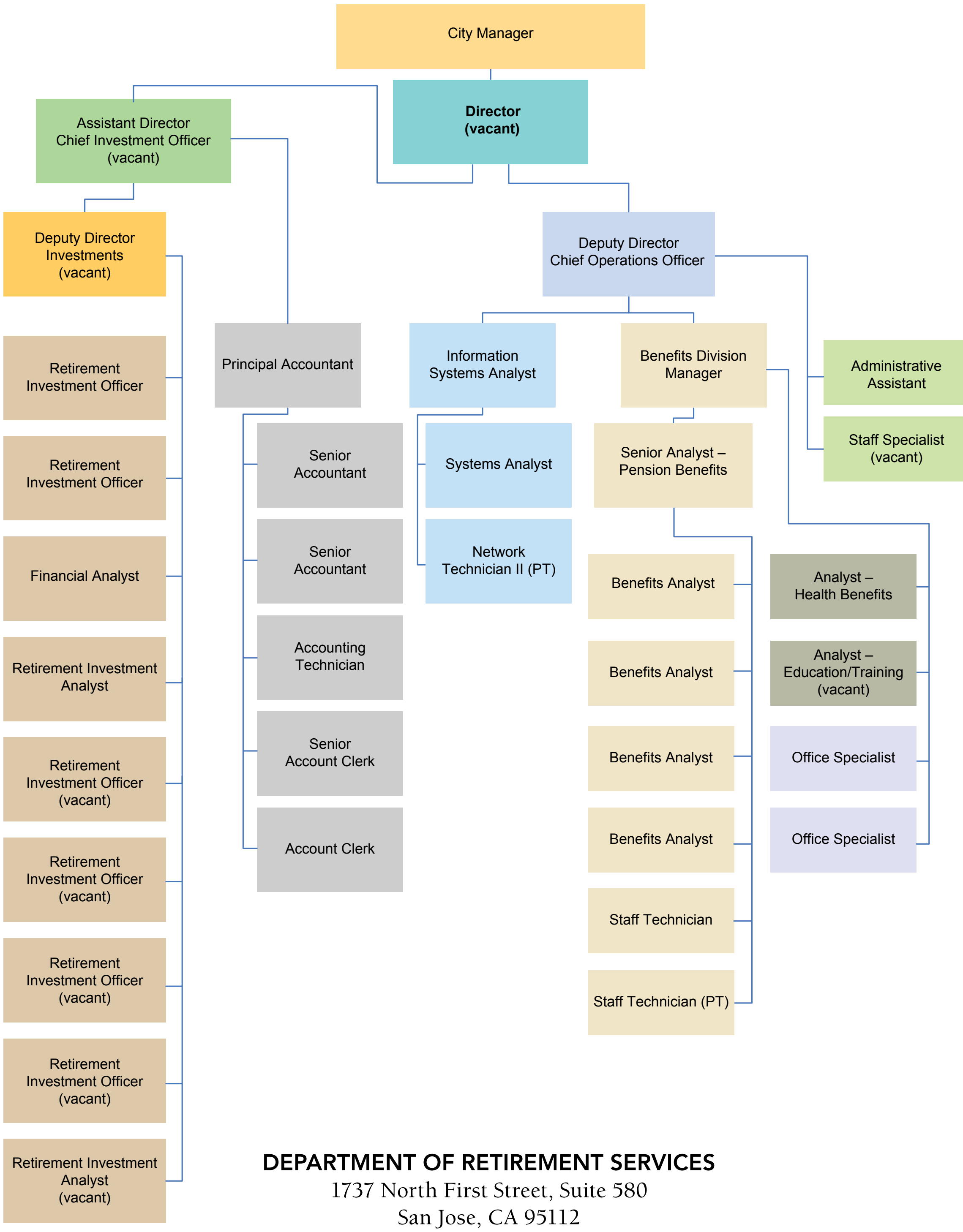
AUDITOR
Macias Gini & O'Connell LLP
Walnut Creek, CA

A list of Investment Professionals begins on page 82 of the Investment Section of this report.

2012 Department of Retirement Services Organizational Chart



Department of Retirement Services



DEPARTMENT OF RETIREMENT SERVICES
1737 North First Street, Suite 580
San Jose, CA 95112

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

www.sjretirement.com

Financial Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012

MGO Certified Public Accountants.

Walnut Creek
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596
925.274.0190

Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

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

We have audited the accompanying statements of plan net assets of the City of San José Police and Fire Department Retirement Plan (Plan), a pension trust fund of the City of San José, California, as of June 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2(a), the financial statements of the Plan are intended to present only the plan net assets and changes in plan net assets of the Plan. They do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2012 and 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Plan as of June 30, 2012 and 2011, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5, based on the most recent actuarial valuation as of June 30, 2011, the Plan's independent actuaries determined that, at June 30, 2011, the value of the defined benefit pension plan's actuarial accrued liability exceeded the actuarial value of its assets by $510 million. The most recent actuarial value of assets as of June 30, 2011 does not reflect the impact of deferred investment losses of $58 million that will be recognized in future valuations. As described in Note 6, based on the most recent actuarial valuation as of June 30, 2011, the Plan's independent actuaries determined that, at June 30, 2011, the value of the postemployment healthcare plan's actuarial accrued liability exceeded the actuarial value of its assets by $943 million.

In accordance with Government Auditing Standards, we have also issued our report dated November 27, 2012 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other

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matters for the year ended June 30, 2012. 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the Schedules of Funding Progress and Employer Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Macias Gini & O'Connell LLP

Walnut Creek, California
November 27, 2012

Management's Discussion and Analysis (Unaudited)

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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

We are pleased to provide this overview and analysis of the financial activities of the Police and Fire Department Retirement Plan (the Plan) for the fiscal years ended June 30, 2012 and 2011. The Plan, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established to provide retirement benefits for sworn employees of the Police and Fire Departments of the City of San José (City). We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 11 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2012

- As of June 30, 2012, the Plan had $2,641,442,000 in total net plan assets held in trust for pension benefits and postemployment healthcare benefits. Net pension assets of $2,578,464,000 are available to meet the Plan ongoing obligations to Plan participants and their beneficiaries except the Supplemental Retiree Benefit Reserve of $33,417,000. The postemployment healthcare net assets of $62,978,000 are only available for the exclusive use of retiree medical benefits.
- The Plan's total net assets held in trust for pension benefits and postemployment healthcare benefits decreased by approximately $45,955,000 or 1.71%, primarily as a result of investment losses experienced in the first two quarters of the fiscal year. While the Plan had no changes to the asset allocation, the Plan restructured several investment managers and investment strategies. The Plan terminated five active global equity managers and transitioned the assets to passive management. The Plan sold seven separately held real estate properties and transitioned the assets to comingled real estate investments. In addition, the Board hired an alternative investment consultant, Albourne America, to advise the Board on hedge fund investments. The Board also engaged Russell Investments to provide asset overlay services to rebalance the Plan's assets to the Board approved long-term targets.
- Additions to Plan net assets for the year were $137,887,000, which includes member and employer contributions of $173,033,000, net investment losses before securities lending income of $37,342,000, and net securities lending income of $2,196,000.
- Deductions from Plan net assets increased from $168,593,000 to $183,842,000 over the prior year, or approximately 9.04% due primarily to increased retirement benefit payments and refunds of contributions.

Overview of the Financial Statements

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

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

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

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

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

Both statements are in compliance with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board. GAAP requires state and local government pension plan and postemployment benefit plan reports to use full accrual accounting and make certain disclosures. The Plan complies with all significant requirements of these pronouncements.

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

These two statements report the Plan's net assets held in trust for pension benefits and postemployment healthcare benefits (net assets)—the difference between assets and liabilities. Over time, increases and decreases in the Plan's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as the Plan's funding progress and funded status, should also be considered in measuring the Plan's overall health (see the Schedules of Funding Progress and Schedules of Employer Contributions on pages 57- 58 of this report).

Notes to Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see Notes to Basic Financial Statements on pages 34 - 56 of this report).

Other Information In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning employer contributions and the Plan's progress in funding its obligations to provide pension and postemployment healthcare benefits to members (see Required Supplementary Information beginning on page 57 of this report).

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

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the Plan's financial position (see Table 1a on page 24). The assets of the Plan exceeded its current liabilities at the close of fiscal years 2012 and 2011.

The funded status of the Plan should also be considered when evaluating the Plan's financial health. As of June 30, 2011, the Plan's most recent valuation date, the actuarial funded status of the Plan increased from 79.8% to 84.0% for the Defined Benefit Pension Plan. The increase in the Plan's funded status (on an actuarial basis) was primarily due to demographic experience during the year including a 14% reduction in active members, an 11.5% reduction in average pay, and a 24% reduction in total payroll. Reflecting these changes, the unfunded actuarial accrued liability (UAAL) decreased from $653.8 million to $510.3 million. The UAAL was also impacted by the reduction in the Plan's expected rate of return from 7.75% to 7.50% and the reduction of the wage growth assumption from 4.25% to 0% for two years (fiscal years 2013 and 2014) and 3.5% thereafter. The expected investment rate of return of 7.50% includes the Board approved actuarial recommendation to explicitly include administrative expenses and SRBR costs as additions to normal cost (valued at $3.0 million for administrative expenses and 0.22% of the market value of assets for the SRBR) in the June 30, 2011 valuation. The expected rate of return of 7.50% is now only net of investment manager fees. The Postemployment Healthcare Plan's actuarial funded status remained at 6% as of June 30, 2011.

As of June 30, 2012, $2,578,464,000 and $62,978,000 in total net assets were held by the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively (see Tables 1a and 1c on page 24). Net assets decreased by 1.9% and increased by 5.5% for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively. The decrease in the Defined Benefit Pension Plan from the prior year was due to the net investment losses experienced by the Plan as the result of depreciation in the fair value of investments of $108,807,000. While the Plan's asset allocation remained constant the Plan terminated five active global equity managers and transitioned the assets to passive management. The increase in the Postemployment Healthcare Plan was primarily due to the $4,204,000 or 24.7% increase in employer contributions as a result of the Board's contribution funding policy (see note 6 of the financial statements on page 52 for more information).

As of June 30, 2011, $2,627,727,000 and $59,670,000 in total net assets are held by the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively (see Tables 1b and 1d on page24). The total net assets for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by 16.1% and 17.4%, respectively, from the prior year primarily due to the net appreciation in the fair value of investments of $336,027,000. The appreciation in the fair value of investments was due to the recovery in the investment markets and the Plan's implementation of an improved asset allocation strategy with higher allocation to fixed income and alternative investments, which performed well over fiscal years 2011 and 2010. In the 2011 fiscal year, the Plan continued to implement and invest in an asset allocation with increased allocation to alternative investments. The Plan's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 36.

As of June 30, 2012, receivables decreased by $7,878,000 or 32.4% and $642,000 or 39.7% in the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively, due to a decrease in receivables from brokers and others for year-end investment trades. In the previous year, receivables for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan decreased by $16,264,000 or 40.1% and $287,000 or 15.1%, respectively, also due to the amount of receivables from brokers and others for year-end investment trades.

As of June 30, 2012, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan decreased by $104,246,000, or 29.1% and $1,809,000 or 22.6%, respectively, compared with June 30, 2011, due mainly to a decrease in payables to brokers and others for year-end investment trades and securities lending collateral due to borrowers. The decrease in securities lending balance from the prior year was due to a decline in market demand for securities as of June 30, 2012. In the previous year, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan decreased by $109,382,000, or 23.4% and $2,295,000 or 22.2%, respectively, compared with June 30, 2010, due mainly to a decrease in payables to brokers and others for year-end investment trades and securities lending collateral due to borrowers. The decrease in securities lending balance from the prior year was due to a decline in market demand for securities in the market as of June 30, 2011.

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

POLICE AND FIRE PLAN'S DEFINED BENEFIT PENSION PLAN NET ASSETS (Table 1a)

As of June 30, 2012, and 2011

	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 16,445,000	$ 24,323,000	$ (7,878,000)	-32.4%
Investments at Fair Value	2,816,123,000	2,961,754,000	(145,631,000)	-4.9%
Total Assets	**2,832,568,000**	**2,986,077,000**	**(153,509,000)**	**-5.1%**
Current Liabilities	254,104,000	358,350,000	(104,246,000)	-29.1%
Total Liabilities	**254,104,000**	**358,350,000**	**(104,246,000)**	**-29.1%**
Net Assets	**$ 2,578,464,000**	**$ 2,627,727,000**	**$(49,263,000)**	**-1.9%**

POLICE AND FIRE PLAN'S DEFINED BENEFIT PENSION PLAN NET ASSETS (Table 1b)

As of June 30, 2011, and 2010

	2011	2010	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 24,323,000	$ 40,587,000	$ (16,264,000)	-40.1%
Investments at Fair Value	2,961,754,000	2,691,195,000	270,559,000	10.1%
Total Assets	**2,986,077,000**	**2,731,782,000**	**254,295,000**	**9.3%**
Current Liabilities	358,350,000	467,732,000	(109,382,000)	-23.4%
Total Liabilities	**358,350,000**	**467,732,000**	**(109,382,000)**	**-23.4%**
Net Assets	**$ 2,627,727,000**	**$ 2,264,050,000**	**$ 363,677,000**	**16.1%**

POLICE AND FIRE PLAN'S POSTEMPLOYMENT HEALTHCARE PLAN NET ASSETS (Table 1c)

As of June 30, 2012, and 2011

	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 977,000	$ 1,619,000	$ (642,000)	-39.7%
Investments at Fair Value	68,212,000	66,071,000	2,141,000	3.2%
Total Assets	**69,189,000**	**67,690,000**	**1,499,000**	**2.2%**
Current Liabilities	6,211,000	8,020,000	(1,809,000)	-22.6%
Total Liabilities	**6,211,000**	**8,020,000**	**(1,809,000)**	**-22.6%**
Net Assets	**$ 62,978,000**	**$ 59,670,000**	**$ 3,308,000**	**5.5%**

POLICE AND FIRE PLAN'S POSTEMPLOYMENT HEALTHCARE PLAN NET ASSETS (Table 1d)

As of June 30, 2011, and 2010

	2011	2010	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	$ 1,619,000	$ 1,906,000	$ (287,000)	-15.1%
Investments at Fair Value	66,071,000	59,229,000	6,842,000	11.6%
Total Assets	**67,690,000**	**61,135,000**	**6,555,000**	**10.7%**
Current Liabilities	8,020,000	10,315,000	(2,295,000)	-22.2%
Total Liabilities	**8,020,000**	**10,315,000**	**(2,295,000)**	**-22.2%**
Net Assets	**$ 59,670,000**	**$ 50,820,000**	**$ 8,850,000**	**17.4%**

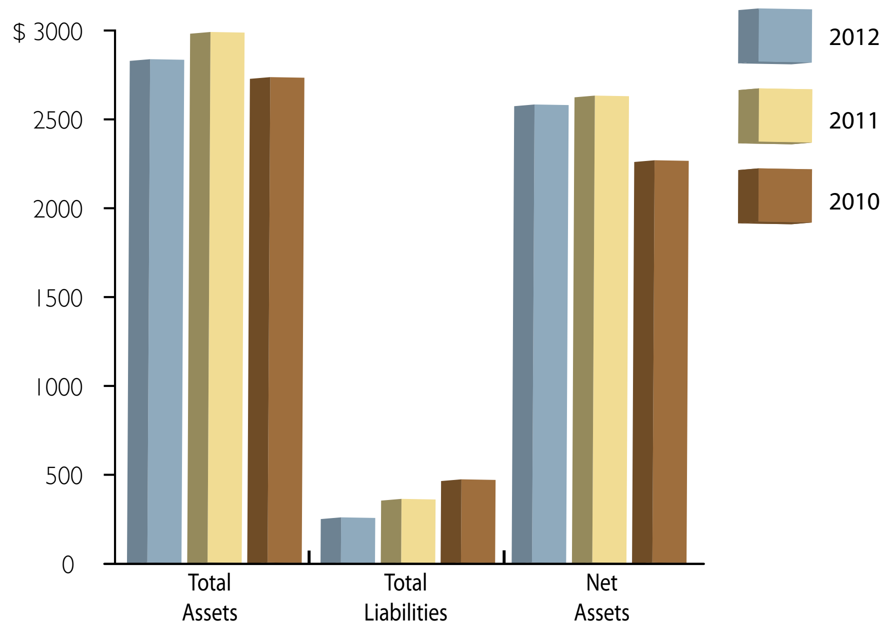
Reserves

The Plan is required by the City of San José Municipal Code to establish various reserves in the Plan net assets. The Plan net assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. Within the Defined Benefit Pension Plan Retirement Fund there are three reserves: the general reserve, employee contributions reserve, and supplemental retiree benefit reserve. The Postemployment Healthcare Plan has a general reserve and employee contributions reserve. See the reserve table on Note 2 for a complete listing and year-end balances of the Plan's reserves.

The Plan's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses. Additionally, the appreciation (depreciation) in the fair value of investments is held in the unrealized gain/loss account, a component of the general reserve.

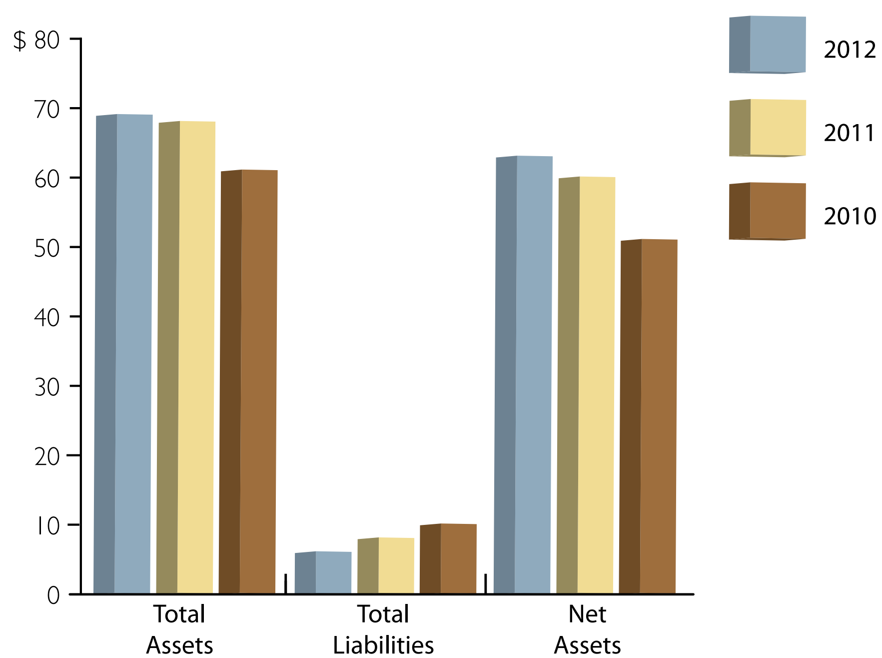
POLICE AND FIRE PLAN'S DEFINED BENEFIT PENSION PLAN NET ASSETS

As of June 30, 2012, 2011, and 2010 (In Millions)



POLICE AND FIRE PLAN'S POSTEMPLOYMENT HEALTHCARE PLAN NET ASSETS

As of June 30, 2012, 2011, and 2010 (In Millions)



CHANGES IN PLAN NET ASSETS FOR THE POLICE AND FIRE PLAN'S DEFINED BENEFIT PENSION PLAN
(Table 2a)
For the Fiscal Years Ended June 30, 2012 and 2011

	2012	2011	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 19,345,000	$ 29,629,000	$ (10,284,000)	-34.7%
Employer Contributions	121,009,000	77,918,000	43,091,000	55.3%
Net Investment Income/(Loss)*	(36,485,000)	393,892,000	(430,377,000)	-109.3%
Net Securities Lending Income	2,144,000	2,485,000	(341,000)	-13.7%
Total Additions	**106,013,000**	**503,924,000**	**(397,911,000)**	**-79.0%**
* *Net of Investment Expenses of $10,122,000 and $9,604,000 in 2012 and 2011, respectively.*				
Retirement Benefits	142,314,000	129,472,000	12,842,000	9.9%
Death Benefits	7,480,000	7,213,000	267,000	3.7%
Refund of Contributions	1,926,000	435,000	1,491,000	342.8%
Administrative	3,556,000	3,127,000	429,000	13.7%
Total Deductions	**155,276,000**	**140,247,000**	**15,029,000**	**10.7%**
Net Increase/(Decrease) in Plan Assets	**(49,263,000)**	**363,677,000**	**(412,940,000)**	**-113.5%**
Beginning Net Assets	**2,627,727,000**	**2,264,050,000**	**363,677,000**	**16.1%**
Ending Net Assets	**$ 2,578,464,000**	**$ 2,627,727,000**	**$ (49,263,000)**	**-1.9%**

CHANGES IN PLAN NET ASSETS FOR THE DEFINED BENEFIT PENSION PLAN
(Table 2b)
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 29,629,000	$ 20,097,000	$ 9,532,000	47.4%
Employer Contributions	77,918,000	52,315,000	25,603,000	48.9%
Net Investment Income*	393,892,000	306,878,000	87,014,000	28.4%
Net Securities Lending Income	2,485,000	7,575,000	(5,090,000)	-67.2%
Total Additions	**503,924,000**	**386,865,000**	**117,059,000**	**30.3%**
* *Net of Investment Expenses of $9,604,000 and $9,056,000 in 2011 and 2010, respectively.*				
Retirement Benefits	129,472,000	114,604,000	14,868,000	13.0%
Death Benefits	7,213,000	6,519,000	694,000	10.6%
Refund of Contributions	435,000	196,000	239,000	121.9%
Administrative	3,127,000	2,955,000	172,000	5.8%
Total Deductions	**140,247,000**	**124,274,000**	**15,973,000**	**12.9%**
Net Increase in Plan Assets	**363,677,000**	**262,591,000**	**101,086,000**	**38.5%**
Beginning Net Assets	**2,264,050,000**	**2,001,459,000**	**262,591,000**	**13.1%**
Ending Net Assets	**$ 2,627,727,000**	**$ 2,264,050,000**	**$ 363,677,000**	**16.1%**

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

For the Fiscal Years Ended June 30, 2012 and 2011

	2012	2011	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 11,474,000	$ 11,229,000	$ 245,000	2.2%
Employer Contributions	21,205,000	17,001,000	4,204,000	24.7%
Net Investment Income/(Loss)*	(857,000)	8,909,000	(9,766,000)	-109.6%
Net Securities Lending Income	52,000	57,000	(5,000)	-8.8%
Total Additions	**31,874,000**	**37,196,000**	**(5,322,000)**	**-14.3%**
* *Net of Investment Expenses of $244,000 and $220,000 in 2012 and 2011, respectively.*				
Healthcare Insurance Premiums	28,479,000	28,273,000	206,000	0.7%
Administrative	87,000	73,000	14,000	19.2%
Total Deductions	**28,566,000**	**28,346,000**	**220,000**	**0.8%**
Net Increase in Plan Assets	**3,308,000**	**8,850,000**	**(5,542,000)**	**-62.6%**
Beginning Net Assets	**59,670,000**	**50,820,000**	**8,850,000**	**17.4%**
Ending Net Assets	**$ 62,978,000**	**$ 59,670,000**	**$ 3,308,000**	**5.5%**

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

For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010	Increase/(Decrease) Amount	Increase/ (Decrease) Percent
Employee Contributions	$ 11,229,000	$ 10,650,000	$ 579,000	5.4%
Employer Contributions	17,001,000	11,284,000	5,717,000	50.7%
Net Investment Income*	8,909,000	6,701,000	2,208,000	33.0%
Net Securities Lending Income	57,000	169,000	(112,000)	-66.3%
Total Additions	**37,196,000**	**28,804,000**	**8,392,000**	**29.1%**
* *Net of Investment Expenses of $220,000 and $200,000 in 2011 and 2010, respectively.*				
Healthcare Insurance Premiums	28,273,000	20,701,000	7,572,000	36.6%
Administrative	73,000	66,000	7,000	10.6%
Total Deductions	**28,346,000**	**20,767,000**	**7,579,000**	**36.5%**
Net Increase in Plan Assets	**8,850,000**	**8,037,000**	**813,000**	**10.1%**
Beginning Net Assets	**50,820,000**	**42,783,000**	**8,037,000**	**18.8%**
Ending Net Assets	**$ 59,670,000**	**$ 50,820,000**	**$ 8,850,000**	**17.4%**

The Police and Fire Activities

Investment losses were the main driver of the decrease in the Defined Benefit Pension Plan and Postemployment Healthcare Plan net assets, which decreased by $45,955,000, thereby accounting for a 1.7% decrease from fiscal year 2011. Key elements of the Plan's financial activities are described in the sections that follow.

Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plan for the fiscal year ended June 30, 2012, were $106,013,000 and $31,874,000, respectively (see Tables 2a and 2c on pages 26-27).

For the fiscal year ended June 30, 2012, additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan decreased by $397,911,000 and $5,322,000, or 79.0% and 14.3%, respectively, from the prior year primarily due to decreases of $430,377,000 and $9,766,000, respectively, in net investment income excluding securities lending income, which was a result of the large losses experienced by the Plan in the first two quarters of the fiscal year. The Plan's time-weighted gross rate of return, as determined by the Plan's investment consultant on an investment (non GAAP) basis, for the fiscal year ended June 30, 2012, was -0.1% compared to 18.4% for the fiscal year ended June 30, 2011. On a net of management fee expenses basis, the Plan's time-weighted rate of return for the fiscal year ended June 30, 2012, was -0.5% compared to 18.1% for the fiscal year ended June 30, 2011.

Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plan for fiscal year ended June 30, 2011, increased by $117,059,000 and $8,392,000, or 30.3% and 29.1%, respectively, from the prior year primarily due to increases of $87,014,000 and $2,208,000, respectively, in net investment income excluding securities lending income, which was a result of the implementation and investment in the Plan's diversified asset allocation and overall improvement in the financial markets. The asset allocation strategy adopted by the Board in fiscal year 2010 increased the Plan's allocation to fixed income and alternative investments, which performed well over the past two fiscal years. The Plan's asset allocation strategy increased the allocation to alternative investments while reducing the allocation to equity investments. The allocation strategy reduced the equity exposure by 9 percentage points from 49% to 40% of the Plan. The Plan's time-weighted gross rate of return for the fiscal year ended June 30, 2011, was 18.4% compared to 14.3% for the fiscal year ended June 30, 2010. On a net of management fee expenses basis, the Plan's time-weighted rate of return for the fiscal year ended June 30, 2011, was 18.1% compared to 14.0% for the fiscal year ended June 30, 2010.

Deductions from Plan Net Assets

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

Deductions for the fiscal year ended June 30, 2012, totaled $155,276,000 and $28,566,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased by 10.7% from the previous year due to an increase in retirees and beneficiaries, and final average salaries (see Table 2a on page 26). Deductions for the Postemployment Healthcare Plan, increased by 0.80% over the previous year due to a $206,000 increase in health insurance premiums from the prior year.

Deductions for the fiscal year ended June 30, 2011, totaled $140,247,000 and $28,346,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased by 12.9% from the previous year due to an increase in retirees and beneficiaries, and final average salaries (see Table 2b on page 26). Deductions for the Postemployment Healthcare Plan, increased by 36.5% over the previous year due to increased healthcare insurance premium costs and the reporting of the actuarially determined implicit rate subsidy amount of $4,939,000. The Plan also reported corresponding employer contributions in the same amount.

The Plan's Fiduciary Responsibilities

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

Economic Factors and Rates Affecting Next Year

The Plan's most recent annual valuation as of June 30, 2011, was used to determine the contribution rates effective June 24, 2012, for fiscal year 2012-2013. The annual required contribution rates and dollar amounts calculated in the June 30, 2011, valuation were adopted by the Board and became effective in fiscal year 2012-2013.

Defined Benefit Pension Plan

The Plan's funding objective is to meet long-term benefit obligations through contributions and investment income. The Plan's actuarial valuation uses a five year smoothing method for investment returns. This means that the current year's gains or losses compared to the actuarially assumed rate of return, as calculated at year-end, are recognized over five years. The UAAL of $510.3 million, as of June 30, 2011, does not include the impact of approximately $58 million of deferred investment losses primarily resulting from unfavorable investment returns in the fiscal years 2008 and 2009. It is anticipated that future actuarial valuations will recognize these remaining deferred investment losses as described above and the smoothing of any new gains or losses over a five year period.

The Plan is exposed to general investment market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is currently 7.50%, net of investment expenses. Underperforming the assumed rate of return would negatively impact the funded status of the Plan and the City's required contribution to the Plan.

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

On June 5, 2012, the voters of San Jose enacted the Sustainable Retirement Benefits and Compensation Act (Pension Act). The Pension Act amended the City Charter to change some benefits for current employees to establish different benefits for new employees and to place other limitations on benefits. Significant portions of the Pension Act applicable to existing employees and effective June 23, 2013 are currently subject to legal challenge by members of the Plan. Additionally, the bargaining units representing members of the Plan have filed unfair labor practice charges with the California Public Employment Relations Board related to the Pension Act. Implementation of the provisions of the Pension Act will have a material effect on the Plan in the foreseeable future.

Additionally, the Plan's financial reporting will be impacted in fiscal year ending June 30, 2014 as a result of the implementation of Statement No. 67 of the Governmental Accounting Standards Board (GASB), *Financial Reporting for Pension Plan*. GASB Statement No. 67 will replace GASB 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution*, and No. 50, *Pension Disclosures*. This statement establishes standards of financial reporting and specifies the required approach to measuring the pension liability of employers. The statement relates to accounting and financial reporting and does not apply to how pension plans approach funding.

Postemployment Healthcare Plan

This year the Postemployment Healthcare Plan completed its fifth GASB Statement No. 43 compliant Other Postemployment Benefits (OPEB) valuation study as of June 30, 2011. A summary of the results is presented in Note 6 to the Financial Statements. The June 30, 2012 OPEB valuation will continue to include the phase-in contribution rates for retiree health and dental contributions for Fire and Police members in order to phase-in to fully contributing the GASB Statement 43 annual required contribution as a result of the Memorandum of Agreement (MOA) entered into by the Fire and Police members and the City of San Jose on March 3, 2011 and June 28, 2009, respectively, over a five year period. Fiscal year 2012 was the first year of the phase-in for the Fire members of the Plan. The first year for the Police members was fiscal year 2010. The Fire and Police members entered into separate MOA's with the City, however both agreements contain incremental increase contribution caps of 1.25% and 1.35% of pensionable pay in each year for the members and City, respectively. Additionally, if the retiree healthcare contribution rates exceed 10% for members and 11% for the City (excluding the implicit rate subsidy), the parties shall meet and confer on how to address the contribution rates above 10% and 11% of pensionable pay.

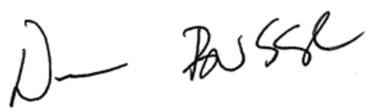
On June 22, 2012, a new Internal Revenue Code Section 115 Trust was established by the San José City Council (Ordinance number 29065) to provide an alternative to the existing 401(h) account within the Pension Trust for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. Employer contributions to the new trust will be made in fiscal year 2012-2013 for contributions made on or after June 24, 2012. The City Council has requested advice from outside tax counsel on the tax treatment of employee contributions deposited into the 115 Trust prior to determining whether to direct employee contributions into the 115 Trust. Pursuant to the Municipal Code, the Board has been named as the Trustee of the 115 Trust. The Board has directed that no employee contributions be accepted into the 115 Trust pending further clarification of the tax treatment and refundability of employee contributions.

Requests for Information

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

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

Respectfully Submitted,



Donna Busse
Acting Director

Basic Financial Statements

STATEMENTS OF PLAN NET ASSETS

June 30, 2012 and 2011 (In Thousands)

	2012		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
Assets			
Receivables:			
Employee contributions	$ 397	$ 263	$ 660
Employer contributions	2,521	355	2,876
Brokers and others	4,149	126	4,275
Accrued investment income	9,378	233	9,611
Total receivables	**16,445**	**977**	**17,422**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	598,612	14,499	613,111
International fixed income	15,282	370	15,652
Pooled fixed income bond funds	18,218	442	18,660
Collective short term investments	81,974	1,985	83,959
Corporate convertible bonds	71,340	1,728	73,068
Domestic equity	603,761	14,623	618,384
International equity	504,291	12,214	516,505
Private equity	122,496	2,967	125,463
Opportunistic	189,421	4,588	194,009
Real assets	273,756	6,630	280,386
Real estate	102,764	2,489	105,253
International currency contracts, net	477	12	489
Securities lending cash collateral investment pool	233,731	5,665	239,396
Total investments	**2,816,123**	**68,212**	**2,884,335**
TOTAL ASSETS	**2,832,568**	**69,189**	**2,901,757**
Liabilities			
Payable to brokers	14,119	370	14,489
Securities lending collateral due to borrowers	236,151	5,724	241,875
Other liabilities	3,834	117	3,951
TOTAL LIABILITIES	**254,104**	**6,211**	**260,315**
Net Assets Held In Trust For:			
Pension benefits	2,578,464	-	2,578,464
Postemployment healthcare benefits	-	62,978	62,978
TOTAL NET ASSETS	**$ 2,578,464**	**$ 62,978**	**$ 2,641,442**

See accompanying notes to basic financial statements.

(Continued)

Basic Financial Statements *(Continued)*

STATEMENTS OF PLAN NET ASSETS (continued)

June 30, 2012 and 2011 (In Thousands)

	2011		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Assets			
Receivables:			
Employee contributions	$ 1,457	$ 625	$ 2,082
Employer contributions	3,429	549	3,978
Brokers and others	11,271	261	11,532
Accrued investment income	8,166	184	8,350
Total receivables	**24,323**	**1,619**	**25,942**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	652,124	14,545	666,669
International fixed income	15,081	336	15,417
Pooled fixed income bond funds	11,111	248	11,359
Collective short term investments	39,596	883	40,479
Corporate convertible bonds	70,559	1,574	72,133
Domestic equity	659,107	14,701	673,808
International equity	348,622	7,776	356,398
Pooled international equity	166,973	3,724	170,697
Private equity	124,382	2,774	127,156
Opportunistic	117,242	2,615	119,857
Real assets	299,562	6,681	306,243
Real estate	124,258	2,771	127,029
International currency contracts, net	404	9	413
Securities lending cash collateral investment pool	332,733	7,434	340,167
Total investments	**2,961,754**	**66,071**	**3,027,825**
TOTAL ASSETS	**2,986,077**	**67,690**	**3,053,767**
Liabilities			
Payable to brokers	20,364	469	20,833
Securities lending collateral due to borrowers	335,478	7,495	342,973
Other liabilities	2,508	56	2,564
TOTAL LIABILITIES	**358,350**	**8,020**	**366,370**
Net Assets Held In Trust For:			
Pension benefits	2,627,727	-	2,627,727
Postemployment healthcare benefits	-	59,670	59,670
TOTAL NET ASSETS	**$ 2,627,727**	**$ 59,670**	**$ 2,687,397**

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2012 and 2011 (In Thousands)

	2012		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
Additions			
Contributions:			
Employee	$ 19,345	$ 11,474	$ 30,819
Employer	121,009	21,205	142,214
Total contributions	**140,354**	**32,679**	**173,033**
Investment income:			
Net depreciation in fair value of investments	(108,807)	(2,552)	(111,359)
Interest income	43,194	1,017	44,211
Dividend income	33,337	784	34,121
Net rental income	5,913	138	6,051
Less investment expense	(10,122)	(244)	(10,366)
Net investment loss before securities lending income	**(36,485)**	**(857)**	**(37,342)**
Securities lending income:			
Earnings	2,943	71	3,014
Rebates	(277)	(7)	(284)
Fees	(522)	(12)	(534)
Net securities lending income	**2,144**	**52**	**2,196**
Net investment loss	**(34,341)**	**(805)**	**(35,146)**
TOTAL ADDITIONS	**106,013**	**31,874**	**137,887**
Deductions			
Retirement benefits	142,314	-	142,314
Healthcare insurance premiums	-	28,479	28,479
Death benefits	7,480	-	7,480
Refund of contributions	1,926	-	1,926
Administrative expenses and other	3,556	87	3,643
TOTAL DEDUCTIONS	**155,276**	**28,566**	**183,842**
NET INCREASE (DECREASE)	**(49,263)**	**3,308**	**(45,955)**
Net Assets Held In Trust For Pension Benefits and Postemployment Healthcare Benefits			
BEGINNING OF YEAR	**2,627,727**	**59,670**	**2,687,397**
END OF YEAR	**$ 2,578,464**	**$ 62,978**	**$ 2,641,442**

See accompanying notes to basic financial statements.

(Continued)

STATEMENTS OF CHANGES IN PLAN NET ASSETS (continued)

For the Fiscal Years Ended June 30, 2012 and 2011 (In Thousands)

	2011		
	Defined Benefit Pension Plan	**Postemployment Healthcare Plan**	**Total**
Additions			
Contributions:			
Employee	$ 29,629	$ 11,229	$ 40,858
Employer	77,918	17,001	94,919
Total contributions	**107,547**	**28,230**	**135,777**
Investment income:			
Net appreciation in fair value of investments	328,588	7,439	336,027
Interest income	45,192	1,020	46,212
Dividend income	20,039	452	20,491
Net rental income	9,677	218	9,895
Less investment expense	(9,604)	(220)	(9,824)
Net investment income before securities lending income	**393,892**	**8,909**	**402,801**
Securities lending income:			
Earnings	3,625	83	3,708
Rebates	(707)	(16)	(723)
Fees	(433)	(10)	(443)
Net securities lending income	**2,485**	**57**	**2,542**
Net investment income	**396,377**	**8,966**	**405,343**
TOTAL ADDITIONS	**503,924**	**37,196**	**541,120**
Deductions			
Retirement benefits	129,472	-	129,472
Healthcare insurance premiums	-	28,273	28,273
Death benefits	7,213	-	7,213
Refund of contributions	435	-	435
Administrative expenses and other	3,127	73	3,200
TOTAL DEDUCTIONS	**140,247**	**28,346**	**168,593**
NET INCREASE	**363,677**	**8,850**	**372,527**
Net Assets Held In Trust For Pension Benefits and Postemployment Healthcare Benefits			
HEALTHCARE BENEFITS:			
BEGINNING OF YEAR	**2,264,050**	**50,820**	**2,314,870**
END OF YEAR	**$ 2,627,727**	**$ 59,670**	**$ 2,687,397**

See accompanying notes to basic financial statements.

(Continued)

Notes to Financial Statements

NOTE 1 – DESCRIPTION OF THE PLAN

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

(a) General

The current Plan, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1961 to provide retirement benefits for certain employees of the City of San José (City). On January 27, 2011, the Plan submitted a request for compliance statement and favorable determination letter from the IRS under the streamline procedures of the voluntary compliance program for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan. To date the request with the IRS is still pending.

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

On June 22, 2012, a new Internal Revenue Code Section 115 Trust was established by the San José City Council (Ordinance number 29065) to provide an alternative to the existing 401(h) account within the Pension Trust for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. Employer contributions to the new trust will be made in fiscal year 2012-2013. The City Council has requested advice from outside tax counsel on the tax treatment of employee contributions deposited into the 115 Trust prior to determining whether to direct employee contributions into the 115 Trust. Pursuant to the Municipal Code, the Board has been named as the Trustee of the 115 Trust. The Board has directed that no employee contributions be accepted into the 115 Trust pending further clarification of the tax treatment and refundability of employee contributions.

The Plan is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The Plan is administered by the Director of Retirement Services, an employee of the City, under the direction of a Board of Administration. The contribution and benefit provisions and all other requirements are established by City ordinance. The Plan is responsible for all direct administrative costs except for certain support services, which are provided by the City. Total direct administrative expenses and other expenses amounted to approximately $3,643,000 and $3,200,000 for 2012 and 2011, respectively. These costs are financed through the Plan's assets.

All sworn officers of the City's Police and Fire Departments are required to be members of the Plan. Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan.

Defined Benefit Pension Plan:	2012	2011
Retirees and beneficiaries currently receiving benefits*	1,910	1,790
Terminated vested members not yet receiving benefits	166	78
Active members	1,718	2,026
Total	**3,794**	**3,894**

Postemployment Healthcare Plan:	2012	2011
Retirees and beneficiaries currently receiving benefits*	1,852	1,798
Terminated vested members not yet receiving benefits	5	31
Active members	1,718	1,886
Total	**3,575**	**3,715**

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

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

(b) Pension Benefits

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

Notes to Financial Statements *(Continued)*

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

monthly allowance for a service retirement consists of final average salary multiplied by 2.5% for the first 20 years of service. If Fire members have more than 20 years of service, the monthly allowance consists of final average salary multiplied by 3.0% for each year of service (maximum benefit, 90% of final average salary).

Currently final average salary is the average monthly salary during the highest 12 consecutive months of service. However, if any of the highest period is within the last 12 months of work, that highest year will be capped at 108% of the 12 months before the last 12 months of service. If none of the highest 12 months are in the last 12 months of service, there is no cap. In addition, retirement benefits are adjusted for an annual cost-of-living allowance (COLA). The current maximum COLA increase is 3% per year.

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

(c) Death Benefits

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

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

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

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

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

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

(d) Disability Benefits

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

Effective July 1, 2006, the monthly allowance for Police members only consists of final average salary multiplied by 50% plus 4% for each year in excess of 20 years of service (maximum benefit, 90% of final average salary). Effective July 1, 2008 for Fire members only, the monthly allowance consists of final average salary multiplied by 60%, plus final average salary multiplied by 3% for each full year of service in excess of 20 years (maximum 90%). For less than 20 years of service, the allowance consists of final average salary multiplied by 50%.

Retirement for a non-service connected disability with at least 2 years of service will provide the following benefit: For members with 2 to 20 years of service, the monthly

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

retirement allowance is 32% multiplied by the final average salary for the first two years plus 1% for each additional year of service not to exceed 50% of final average salary. For members retiring on or after February 4, 1996 but prior to February 4, 2000, for members with over 20 years of service, the benefit consists of 50% of final average salary, plus final average salary multiplied by 3% for each year over 20 years of service (maximum benefit, 80% of final average salary). For members retiring on or after February 4, 2000, the monthly allowance consists of 50% of the final average salary, plus final average salary multiplied by 3% for each year over 20 but less than 25 years of service, plus 4% of final average salary for each year over 25 (maximum benefit, 85% of final average salary). Effective July 1, 2006, the monthly allowance for Police members only consists of final average salary multiplied by 50% plus 4% for each year in excess of 20 years of service (maximum benefit, 90% of final average salary). Effective July 1, 2008, for Fire members only with at least 20 years of service, the monthly allowance consists of final average salary multiplied by 3.0% for each year of service (maximum benefit, 90% of final average salary).

(e) Postemployment Healthcare Benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

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

(b) Basis of Accounting

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

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

(c) Investments

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

In 2010, the Board adopted an asset allocation structure that reduced the equity exposure to a target allocation of 40%, increased the fixed income exposure to 25%, and increased the alternatives allocation to 35%. The Board also approved the addition of inflation-linked assets and opportunistic strategies to the alternatives asset class. The Plan's investment asset allocation as of June 30, 2012 is as follows:

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

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

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

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

Alternative Assets – Target of 35%, minimum of 10% and maximum 60% of the fair value of the aggregate portfolio. Under allocated asset classes have been temporarily invested in other asset classes.

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

The Plan's investment policy authorizes the Plan to invest in domestic equity, international equity, emerging market equity, domestic fixed income, global (international) fixed income, long duration fixed income, U.S. Treasury Inflation Protected Securities (TIPS), high yield/credit opportunities, international currency contracts, private equity, real estate,

Notes to Financial Statements *(Continued)*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

derivatives, securities lending, and short-term investment funds. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market, such as private equity, commingled real estate funds and certain pooled fund investments, are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. The fair value of derivative investments that are not exchange traded, such as swaps, and rights is determined by the Plan's custodian based on the base market value of similar instruments. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period. The fair value of the separate real estate properties are based on annual independent appraisals. As of June 30, 2012, the separate real estate properties include: office buildings in O'Fallon, MO and San José, CA. In fiscal year 2012, the Plan sold the following properties: apartment complexes in Houston, TX, and Colorado Springs, CO; office buildings in Denver, CO, near Chicago, IL, and in Anchorage, AK; and warehouses near Minneapolis, MN. As of June 30, 2012, the office building in O'Fallon, MO had a mortgage payable with a fair value of $9,014,000. As of June 30, 2011, the office buildings in O'Fallon, MO and Anchorage, AK had mortgage loans payable with combined fair values of approximately $20,200,000. The outstanding mortgage loans payable do not exceed 50% of the assets as allowed in the Plan's Real Estate Investment Guidelines.

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

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

The Plan is required by the City of San José Municipal Code to establish various reserves in the Plan net assets. The Plan net assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan. As of June 30, 2012 and 2011, the net assets, totaling $2,641,442,000 and $2,687,397,000, respectively, are allocated as follows (in thousands):

	Retirement Fund	Cost-of-Living Fund	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
June 30, 2012:					
Employee contributions	$ 195,770	$ 56,884	$ 252,654	$ 28,008	$ 280,662
Supplemental retiree benefit	33,417	-	33,417	-	33,417
General reserve	1,475,639	816,754	2,292,393	34,970	2,327,363
TOTAL	**$ 1,704,826**	**$ 873,638**	**$ 2,578,464**	**$ 62,978**	**$ 2,641,442**
June 30, 2011:					
Employee contributions	$ 187,418	$ 52,155	$ 239,573	$ 16,677	$256,250
Supplemental retiree benefit	33,343	-	33,343	-	33,343
General reserve	1,541,487	813,324	2,354,811	42,993	2,397,804
TOTAL	**$ 1,762,248**	**$ 865,479**	**$ 2,627,727**	**$ 59,670**	**$ 2,687,397**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

In fiscal year 2012, the Plan's current actuary, Cheiron, Inc. (Cheiron), prepared the excess earnings, SRBR interest credit, and charge to the SRBR for poor investment earnings amounts based on the audited June 30, 2011 financial statements. Cheiron prepared and the Board adopted and declared that there were no excess earnings for 2011. The SRBR was also charged $848, 000, effective July 1, 2012, for poor investment earnings as determined in the June 30, 2011 valuation where actual investment earnings on an actuarial value of assets were below the assumed investment return of 7.75%. In addition, Cheiron computed an interest transfer to the SRBR reserve in the amount of approximately $1.3 million for 2011. An SRBR distribution of approximately $1.3 million to eligible retirees and beneficiaries as per San Jose Municipal Code was calculated for fiscal year ended June 30, 2011. However, SRBR distributions continue to be suspended through fiscal year 2012 by San Jose City Council Ordinance number 28915 adopted on May 24, 2011.

In fiscal year 2011, the Plan's actuary, The Segal Company (Segal), prepared the excess earnings and SRBR interest amounts based on the audited June 30, 2010 financial statements. Segal prepared and the Board adopted and declared that there were no excess earnings for 2010. In addition, Segal computed an interest transfer to the SRBR reserve in the amount of approximately $1.0 million for 2010. An SRBR distribution of approximately $1.0 million to eligible retirees and beneficiaries as per San Jose Municipal Code was calculated for fiscal year ended June 30, 2010. However, due to San Jose City Council Ordinance number 28848, adopted on November 16, 2010, distribution of funds from the SRBR was suspended for fiscal year 2011.

General Reserve is a reserve that represents net earnings resulting from investment earnings, employer contributions, and realized and unrealized investment gains and losses.

(e) Allocation of Investment Income

Earnings on investments, excluding unrealized gains and losses, are recorded first in the general reserve category of net assets. An allocation is made biannually from the general reserve category to the employee contributions category of net assets based on the balance in that account at an annual rate of 2%, as specified by the City of San José Municipal Code. After the close of each fiscal year, the SRBR will be allocated, if applicable, 10% of the net investment earnings in excess of the assumed actuarial rate for the Retirement Fund For fiscal years 2011 and 2010, there were no excess earnings declared.

NOTE 3 – INVESTMENTS

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

Interest Rate Risk – The fair value of fixed income investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. The Plan does not have a policy regarding interest

NOTE 3 – INVESTMENTS (Continued)

rate risk. As of June 30, 2012, $12,215,000 of bank loan securities and corporate bonds were floating rate securities tied to the 1 to 3 month London Interbank Offered Rate (LIBOR). As of June 30, 2011, $22,695,000 of bank loan securities and corporate bonds were floating rate securities tied to the 1 to 3 month LIBOR.

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in years) as of June 30, 2012 and 2011, concerning the fair value of investments and interest rate risk:

INVESTMENT MATURITIES AT FAIR VALUE

as of June 30, 2012 (Dollars in thousands)

	0-3 Months	3-6 Months	6 Months - 1 Year	1-5 Years	5-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Income								
Domestic Fixed Income:								
Asset Backed Securities	$ 2,025	$ -	$ -	$ 2,020	$ 1,249	$ 4,650	$ 9,944	$ 11,781
Bank Loans	-	1,142	1,094	10,280	-	-	12,516	10,987
Collateralized Mortgage Obligations	-	-	-	-	12,534	13,522	26,056	24,019
Corporate Bonds	-	2,789	4,305	31,476	26,037	111,685	176,292	155,145
FHLMC	-	-	-	-	4,688	11,159	15,847	15,585
FNMA	-	-	-	-	1,092	21,344	22,436	22,116
GNMA	-	-	-	-	-	3,301	3,301	3,086
State and Local Obligations	-	-	-	-	739	10,535	11,274	9,639
U.S. Treasury Inflation Protected Securities	-	-	-	130,289	137,528	-	267,817	249,484
U.S. Treasury Securities	5,799	-	-	31,878	2,605	27,346	67,628	65,306
Total Domestic Fixed Income	**7,824**	**3,931**	**5,399**	**205,943**	**186,472**	**203,542**	**613,111**	**567,148**
International Corporate Bonds	**40**	**-**	**917**	**4,290**	**4,645**	**5,760**	**15,652**	**15,422**
Pooled Fixed Income Bond Funds	**-**	**-**	**-**	**18,660**	**-**	**-**	**18,660**	**18,295**
Corporate Convertible Bonds	**-**	**-**	**13,437**	**38,725**	**9,809**	**11,097**	**73,068**	**72,789**
Collective Short Term Investment Fund	**12,791**	**-**	**-**	**-**	**-**	**71,168**	**83,959**	**83,976**
TOTAL FIXED INCOME	**$ 20,655**	**$ 3,931**	**$ 19,753**	**$ 267,618**	**$ 200,926**	**$ 291,567**	**$ 804,450**	**$ 757,630**

NOTE 3 – INVESTMENTS (Continued)

INVESTMENT MATURITIES AT FAIR VALUE *as of June 30, 2011*
(Dollars in thousands)

	0-3 Months	3-6 Months	6 Months - 1 Year	1-5 Years	5-10 Years	More Than 10 Years	Total Fair Value	Cost
Fixed Income								
Domestic Fixed Income:								
Asset Backed Securities	$ -	$ -	$ 2,025	$ 4,017	$ -	$ 1,367	$ 7,409	$ 7,368
Bank Loans	-	-	-	21,743	-	-	21,743	19,428
Collateralized Mortgage Obligations	-	-	-	-	-	20,148	20,148	19,455
Corporate Bonds	-	1,015	507	36,039	31,403	105,672	174,636	160,935
FHLMC	-	-	-	-	-	15,210	15,210	14,720
FNMA	-	-	-	-	2,847	47,994	50,841	49,967
GNMA	-	-	-	-	-	6,074	6,074	5,948
State and Local Obligations	-	-	-	-	-	7,519	7,519	7,321
U.S. Treasury Inflation Protected Securities (TIPS)	-	-	-	130,966	136,773	48,441	316,180	298,737
U.S. Treasury Securities	-	12,151	-	5,486	8,993	20,279	46,909	47,162
Total Domestic Fixed Income	**-**	**13,166**	**2,532**	**198,251**	**180,016**	**272,704**	**666,669**	**631,041**
International Corporate Bonds	**-**	**701**	**-**	**3,346**	**5,878**	**5,492**	**15,417**	**16,824**
Pooled Fixed Income Bond Funds	**-**	**-**	**-**	**-**	**-**	**11,359**	**11,359**	**10,853**
Corporate Convertible Bonds	**-**	**-**	**3,646**	**52,654**	**6,209**	**9,624**	**72,133**	**67,125**
Collective Short Term Investment Fund	**4,106**	**-**	**-**	**-**	**-**	**36,373**	**40,479**	**40,437**
TOTAL FIXED INCOME	**$ 4,106**	**$ 13,867**	**$ 6,178**	**$ 254,251**	**$ 192,103**	**$ 335,552**	**$ 806,057**	**$ 766,280**

NOTE 3 – INVESTMENTS (Continued)

Custodial Credit Risk – Custodial credit risk is the risk that the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan does not have a policy regarding custodial credit risk. As of June 30, 2012 and 2011, all of the Plan's investments, excluding invested securities lending collateral, are held in the Plan's name, and/or are not exposed to custodial credit risk. Securities lending collateral are invested in the lending agent's investment fund (see Note 4 – Securities Lending Program).

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

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

The following table provides information as of June 30, 2012 concerning credit risk. Investments issued or explicitly guaranteed by the U.S. government of $338,746,000 and $371,176,000 as of June 30, 2012 and 2011, respectively, are not considered to have credit risk and are excluded from the tables below.

RATINGS OF FIXED INCOME INVESTMENTS

June 30, 2012 (Dollars In Thousands)

S&P quality rating	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 15,541	3.3%
AA	74,524	16.0%
A	90,989	19.6%
BBB	79,742	17.1%
BB	19,300	4.1%
B	10,109	2.2%
CCC & Below	1,726	0.4%
Not Rated	173,773	37.3%
TOTAL	**$ 465,704**	**100.0%**

RATINGS OF FIXED INCOME INVESTMENTS

June 30, 2011 (Dollars In Thousands)

S&P quality rating	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 81,831	18.7%
AA	33,518	7.7%
A	84,196	19.4%
BBB	69,651	16.0%
BB	28,497	6.6%
B	18,629	4.3%
CCC & Below	1,601	0.4%
Not Rated	116,958	26.9%
TOTAL	**$ 434,881**	**100.0%**

Notes to Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

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

The following tables provide information as of June 30, 2012 and 2011, concerning the fair value of investments and foreign currency risk:

FORIEGN CURRENCY RISK ANALYSIS

June 30, 2012 (Dollars In Thousands)

Currency Name	Cash	Equity	Fixed income	International Currency Contracts, Net	Total Exposure
Austalian Dollar	$ 144	$ 26,277	$ -	$ 79	$ 26,500
Brazilian Dollar	186	8,896	35	-	9,117
British Pound Sterling	594	95,834	-	94	96,522
Canadian Dollar	82	41,626	-	24	41,732
Chilean Peso	41	1,985	-	-	2,026
Colombian Peso	47	789	-	-	836
Danish Krone	3	3,057	-	-	3,060
Euro Currency	2,764	103,118	7,489	352	113,723
Hong Kong Dollar	230	22,282	125	-	22,637
Indonesian Rupiah	36	2,341	-	-	2,377
Israeli Shekel	1	300	-	-	301
Japanese Yen	1,102	87,316	7,806	(128)	96,096
Malaysian Ringgit	17	1,363	-	-	1,380
Mexican Peso	5	541	-	-	546
New Taiwan Dollar	-	-	-	16	16
Norwegian Krone	80	3,789	-	61	3,930
Philippine Peso	-	480	-	-	480
Polish Zloty	-	703	-	-	703
Singapore Dollar	126	8,704	2,651	-	11,481
South African Rand	8	4,644	-	-	4,652
South Korean Won	154	16,798	-	-	16,952
Swedish Krona	125	7,989	1,556	(9)	9,661
Swiss Franc	166	23,077	-	-	23,243
Thailand Baht	21	1,619	-	-	1,640
Turkish Lira	21	2,438	-	-	2,459
TOTAL	**$ 5,953**	**$ 465,966**	**$ 19,662**	**$ 489**	**$ 492,070**

Notes to Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS (Continued)

FORIEGN CURRENCY RISK ANALYSIS

June 30, 2011 (Dollars In Thousands)

Currency Name	Cash	Equity	Fixed income	International Currency Contracts, Net	Total Exposure
Australian Dollar	$ -	$ 376	$ -	$ -	$ 376
Brazilian Real	13	5,151	81	-	5,245
Canadian Dollar	33	15,055	-	(16)	15,072
Chilean Peso	-	536	-	-	536
Danish Krone	8	2,360	-	-	2,368
Euro Currency	1,843	92,655	4,404	1	98,903
Hong Kong Dollar	41	9,777	586	3	10,407
Indian Rupee	-	2,526	-	(3)	2,523
Indonesian Rupiah	-	3,664	-	-	3,664
Israeli Shekel	9	1,024	-	-	1,033
Japanese Yen	1,172	77,155	4,048	21	82,396
Mexican Peso	-	785	-	-	785
New Taiwan Dollar	566	1,374	-	3	1,943
New Zealand Dollar	-	1,051	-	-	1,051
Norwegian Krone	-	401	-	(9)	392
Philippine Peso	-	412	-		412
Pound Sterling	1,127	58,830	3,827	404	64,188
Singapore Dollar	-	3,707	-	-	3,707
South African Rand	-	3,016	-	-	3,016
South Korean Won	12	4,206	-	(3)	4,215
Swedish Krona	-	6,691	-	9	6,700
Swiss Franc	-	12,796	-	3	12,799
Thailand Baht	-	795	-	-	795
Turkish Lira	-	744	-	-	744
TOTAL	**$ 4,824**	**$ 305,636**	**$ 12,946**	**$ 413**	**$ 323,819**

NOTE 3 – INVESTMENTS (Continued)

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

As of June, 30, 2012 and 2011, the Plan did not hold investments in any one issuer, excluding U.S. government guaranteed investments that represented five percent or more of the total Plan net assets.

Derivatives – The Plan's investment policy allows for investments in derivative instruments that comply with the Plan's basic objective of achieving the highest return on investment funds, consistent with safety, and in accordance with accepted investment practices. Due to the level of volatility associated with certain derivative investments in general, the Plan specifically prohibits investment managers from using derivative or synthetic securities that expose the Plan to potentially high price volatility or are leveraged, or whose marketability may become severely limited. Derivative investments are reported at fair value. Derivative instruments traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. The fair value of derivative investments that are not exchange traded, such as swaps and rights is determined by the Plan's custodian based on the base market value of similar instruments. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2012 or 2011. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

The fair values and notational amounts of derivative instruments outstanding as of June 30, 2012 and 2011, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2012 and 2011 financial statements are as follows (amounts in thousands):

	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2012		Fair Value at June 30, 2012		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
International currency forwards	Investment income	$ 668	International currency contracts, net	$ 489	$ 62,324
Futures long/short (domestic and foreign)	Investment income	1,318	Fixed income (domestic and foreign)	-	30,300
Index futures long/short (domestic and foreign)	Investment income	2,361	Equity income (domestic and foreign)	-	768
Rights	Investment loss	(4)	Global equity	5	8
Warrants	Investment income	7	Global equity	36	18
		$ 4,350		**$ 530**	

NOTE 3 – INVESTMENTS (Continued)

	Net Appreciation (Depreciation) in Fair Value of Investments through June 30, 2011		Fair Value at June 30, 2011		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount**
Commodity swaps	Investment income/(loss)	$ 77,183	Real assets	$ -	$ -
International currency forwards	Investment income/(loss)	(2,579)	International currency contracts, net	413	82,520
Rights	Investment income/(loss)	21	Global equity	1	3 Shares
Warrants	Investment income/(loss)	(1)	Global equity	-	-
		$ 74,624		**$ 414**	

Derivative investments are subject to certain types of risks, including counterparty credit risk (non-exchange traded), interest rate risk, and foreign currency risk. The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2012 and 2011:

Counterparty Credit Risk – The Plan is exposed to credit risk on derivative instruments that are in asset positions. As of June 30, 2012, the Plan held rights and warrants with fair values of approximately $5,000 and $36,000 with notional values of $8,000 and $18,000 held by unrated counterparties. As of June 30, 2011, the Plan held rights with a fair value of approximately $1,000 and a notional value of $3,000 held by an unrated counterparty.

The Plan's investments in forward currency contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2012, total commitments in forward currency contracts to purchase and sell international currencies were $62,324,000 and $62,324,000 respectively, with fair values of $62,574,000 and $62,085,000, respectively, held by counterparties with an S&P rating of at least AA-. As of June 30, 2011, total commitments in forward currency contracts to purchase and sell international currencies were $82,520,000 and $82,520,000 respectively, with fair values of $82,566,000 and $82,153,000, respectively, held by counterparties with a S&P rating of at least AA-.

Foreign Currency Risk – This is the risk that changes in the exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the Plan's investment policy permits individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The Plan's investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The Plan utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2012 and 2011, the Plan's net position in these contracts is recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The Plan's commitments relating to forward currency contracts are settled on a net basis.

NOTE 3 – INVESTMENTS (Continued)

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

2012

Currency Name	International currency contracts, net
Austalian dollar	$ 79
British pound sterling	94
Canadian dollar	24
Euro currency	352
Japanese yen	(128)
New Taiwan dollar	16
Norwegian krone	61
Swedish krona	(9)
TOTAL	**$ 489**

2011

Currency Name	International currency contracts, net
Canadian Dollar	$ (16)
Euro Currency	1
Hong Kong Dollar	3
Indian Rupee	(3)
Japanese Yen	21
New Taiwan Dollar	3
Norwegian Krone	(9)
Pound Sterling	404
South Korean Won	(3)
Swedish Krona	9
Swiss Franc	3
TOTAL	**$ 413**

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NOTE 4 – SECURITIES LENDING PROGRAM

The Plan has a custodial agreement with State Street Corporation (State Street), which authorizes State Street to lend the securities in the Plan's investment portfolio under such terms and conditions as State Street deems advisable and to permit the lent securities to be transferred into the name of the borrowers. The Plan does not have a threshold for securities lending. As of June 30, 2012, the Plan had no exposure to borrower credit risk related to the securities lending transactions as State Street is responsible for replacement of the lent securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, State Street is required to credit the Plan's account with the market value of such unreturned lent securities if the lent securities are not returned by the borrower. The Plan receives a fee from the borrower for the use of the lent securities.

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

The loaned securities as of June 30, 2012 and 2011 consisted of U.S. Treasury securities, domestic corporate bonds, domestic equity securities, international corporate bonds, and international equity securities. In return, the Plan receives collateral in the form of cash or securities equal to 102% for domestic and 105% for international of the transferred securities plus accrued interest for reinvestment of the collateral.

The Plan authorized State Street to invest and reinvest cash collateral in State Street's Quality D Short-term Investment Fund, which, effective December 3, 2010, consists of a liquidity pool and a liquidating account known as the duration pool. The duration pool was established and allocated the asset-backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater. Each Quality D Fund investor owns a specified percentage interest in the duration pool, which is redeemable only in-kind, not cash. The Quality D duration pool will not make additional investments.

NOTE 4 – SECURITIES LENDING PROGRAM (Continued)

The liquidity pool investment policy guidelines provide that the State Street Investment Manager shall maintain the dollar-weighted average maturity of the fund in a manner that the Investment Manager believes is appropriate to the objective of the fund; provided (a) in no event shall any eligible security be acquired with a remaining legal final maturity (i.e., the date on which principal must be repaid) of greater than 18 months, (b) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity of the fund not to exceed 75 calendar days and (c) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity to final of the Quality D Fund not to exceed 180 days. At the time of purchase, all securities with maturities of 13 months or less shall be rated at least A1, P1 or F1 by at least any two nationally recognized statistical rating organizations (NRSROs), or be determined by the Investment Manager to be of comparable quality. Securities with maturities in excess of 13 months shall be rated at least A-, A3 or A- by at least any two of S&P, Moody's, or Fitch, or be determined by the Investment Manager to be of comparable quality. The fund may invest up to 10% of its assets at the time of purchase in commingled vehicles that conform with the State Street Investment Policy Guidelines. Investments made prior to December 3, 2010, shall continue to be permissible to the extent they complied at the time of purchase.

As of June 30, 2012, the cash collateral pool for the duration and liquidity pools totaled $1.4 billion and $15.1 billion, respectively. The weighted average maturities for the duration and liquidity pools were 40.32 and 35.93 days, respectively. The cash collateral duration pool included asset backed securities (99.54%) and other securities (0.46%). The liquidity pool included asset backed securities (17.84%), certificates of deposit (34.33%), bank notes (2.49%), commercial paper (19.70%), repurchase agreements (repos) (22.62%) and other securities (3.02%).

As of June 30, 2011, the cash collateral pool for the duration and liquidity pools totaled $6.3 billion and $17.2 billion, respectively. The weighted average maturities for the duration and liquidity pools were 35.97 and 31.67 days, respectively. The cash collateral duration pool included asset backed securities (54.97%), certificates of deposit (13.56%), bank notes (23.16%), U.S. Agency (8.22%) and other securities (.09%). The liquidity pool included asset backed securities (21.57%), certificates of deposit (40.02%), bank notes (4.09%), commercial paper (19.26%), repo (12.75%) and other securities (2.31%).

As of June 30, 2012, the underlying securities loaned by the Plan as a whole amounted to approximately $257,596,000. The Plan received cash collateral and non-cash collateral totaling $241,875,000 and $18,572,000, respectively, at carrying cost. The Plan's share of the cash collateral pool at June 30, 2012 was at $1.01 or $211,526,000 and $0.9177 or $27,870,000 for the liquidity and duration pools, respectively, on a mark to market basis. The NAV of less than $1.00 for the duration pool is due to the decline in the fair value of assets held by the cash collateral pool. The NAV of $0.9177 of the duration cash collateral pool results in an unrealized loss of approximately $2,499,000 for the Plan. The Plan's investment in the liquidity and duration cash collateral investment pools are presented in the statement of net plan assets at their respective NAV or $239,396,000. The unrealized loss of $2,479,000 is reflected in the securities lending income earnings line of the statement of changes in plan net assets. The Plan is exposed to market risk including the possible loss of principal value in the cash collateral pool due to the fluctuation in the market value of the assets held by the cash collateral pool.

As of June 30, 2011, the underlying securities loaned by the Plan as a whole amounted to approximately $340,802,000. The Plan received cash collateral and non-cash collateral totaling $342,973,000 and $3,527,000, respectively, at carrying cost. The Plan's share of the cash collateral pool at June 30, 2011 was at $1.00 or $222,580,000 and $0.9767 or $117,587,000 for the liquidity and duration pools, respectively on a mark to market basis. The NAV of less than $1.00 for the duration pool is due to the decline in the fair value of assets held by the cash collateral pool. The NAV of $0.9767 of the duration cash collateral pool results in an unrealized loss of approximately $2,806,000 for the Plan. The Plan's investment in the liquidity and duration cash collateral investment pools are presented in the statement of net plan assets at their respective NAV or $340,167,000. The unrealized loss of $2,806,000 for the duration pool is reflected in the securities lending income earnings line of the statement of changes in plan net assets.

Notes to Financial Statements *(Continued)*

NOTE 4 – SECURITIES LENDING PROGRAM (Continued)

SECURITIES LENDING – INVESTMENT AND COLLATERAL RECEIVED (*at Fair Value in thousands*)

	2012	2011
Type of Investment Lent		
For Cash Collateral		
Domestic corporate bonds	$ 45,050	$ 45,785
Domestic equity securities	95,501	239,823
U.S. treasury securities	58,421	35,864
International corporate bonds	-	252
International equity securities	40,541	15,590
Total Lent for Cash Collateral	239,513	337,314
For Non-Cash Collateral:		
Domestic equity securities	805	3,488
U.S. treasury securities	17,278	-
Total Lent for Non-Cash Collateral	18,083	3,488
Total Securities Lent	**$ 257,596**	**$ 340,802**
Type of Collateral Received		
Cash Collateral	$ 239,396	$ 340,167
Non-cash Collateral		
For lent domestic equity securities	821	3,527
For lent US treasury securities	17,751	-
Total Non-cash collateral	18,572	3,527
Total Collateral Received	**$ 257,968**	**$ 343,694**

* *Amount represents the mark-to-market value of the cash collateral pool at a 100.00% for the liquidity portfolio and 91.77% for the duration portfolio for fiscal year 2012. In 2011, the net asset values were 100.00% and 97.67%.*

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

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

In January 2011, the Board adopted a funding policy setting the annual required contribution to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll, if actual payroll exceeds the actuarial payroll, reported in the valuation to the actual payroll for the fiscal year. The annual required contribution determined in the June 30, 2010 valuation for fiscal year ending June 30, 2012 was the greater of $121,008,000 (if paid at the beginning of the fiscal year) or 51.05% for fire members and 49.29% for police members of actual payroll for the fiscal year. The actual payroll for the fiscal year of $184,746,000 was less than the actuarial payroll of $251,058,000 resulting in the required annual contribution of $121,008,000 as of July 1, 2011, excluding year end contributions receivable and prior year contribution adjustments.

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

In fiscal year 2010-2011, the City paid the actuarially determined amount of $86,023,000 and $3,120,000 on July 2, 2010 and September 16, 2010, respectively, for bi-weekly pension and health contributions to be made for the 26 pay dates from July 2, 2010 through June 17, 2011. The City also received a credit of approximately $2,146,000 for the reconciliation of fiscal year 2010-2011 pension and health contributions per San José Municipal Code 3.36.1590(F), that requires the Board to determine whether the lump sum advance payment(s) and the payments that otherwise would have been required in the absence of the lump sum advance payment are actuarially equivalent.

In addition, effective June 26, 2010 through June 25, 2011, the bargaining unit representing the Police Officers Association (POA) agreed in a Memorandum of Agreement (MOA) with the City to have the Police members of the Plan make a one-time additional retirement contribution that would be applied to reduce the contributions that the City would otherwise be required to make during that time period for the pension unfunded liability. The one-time additional contribution amounts all summed to 5.25% of pensionable earnings. The MOA also included language recognizing that the additional required contributions could not be implemented by June 27, 2010, and allowed for the Finance Department of the City to compute a rate that would generate the total amount of additional retirement contributions over the remaining pay periods in the fiscal year as if the contribution rate had been implemented on June 27, 2010. The City's Finance Department calculated and implemented a contribution rate shift of 6.17% of pay for contributions effective on August 22, 2010. The contribution rates provided below do not reflect the additional retirement contributions.

Contributions to the Defined Benefit Pension Plan for both the City and the participating members are based upon an actuarially determined percentage of each member's covered payroll sufficient to provide adequate assets to pay benefits when due. The Plan transitioned to annual valuations beginning June 30, 2010, from biennial actuarial valuations. The contribution rates for fiscal years ended June 30, 2012 and 2011 were based on the actuarial valuations performed on June 30, 2010 and June 30, 2009, respectively, except for the period of June 24 through June 30, 2012, which were based on the June 30, 2011 valuation

The City and the participating member's contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2012 and 2011 were as follows:

Period	City – Board Adopted *		Member	
	Police	Fire	Police	Fire
06/24/12 – 06/30/12	56.57%	58.43%	11.13%	11.21%
06/26/11 – 06/23/12	49.29%	51.05%	10.46%	10.76%
07/01/10 – 06/25/11	38.32%	40.24%	9.81%	10.09%

**The actual contribution rates paid by the City for fiscal year ended June 30, 2012 differed due to the City funding the annual required contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year. In fiscal year 2011 the actual contributions rates paid by the City differed as a result of the City exercising its option to make annual lump sum payments and due to the additional contribution paid by the employees.*

The funded status of the Defined Benefit Pension Plan as of June 30, 2011, the most recent actuarial valuation date, is as follows: (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a) / (b)	(c)	((b-a)/c)
06/30/2011	$ 2,685,721	$ 3,196,007	$ 510,286	84.0%	$ 190,726	268%

Notes to Financial Statements *(Continued)*

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

The UAAL of $510,286,000 does not reflect the impact of approximately $321 million of deferred investment losses resulting from unfavorable investment returns in fiscal years 2008 and 2009. The Plan's actuarial valuation uses a five year smoothing method for investment returns. This means that the current year's gains or losses, as calculated at year-end, are smoothed with the results from the prior four years. The deferred investment loss is net of deferred gains of approximately $263 million for fiscal years 2010 and 2011. It is anticipated that future actuarial valuations will recognize the remaining net deferred investment losses of approximately $58 million as described above. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

As of June 30, 2011, the Plan's most recent valuation, the Plan's AAL decreased by $34.5 million due to favorable demographic experience and changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2011 experience study. The Plan's UAAL decreased from $653.8 million as of June 30, 2010 to $510.3 million as of June 30, 2011. The decrease in the UAAL was primarily due to a 14% reduction in the number of active members and a 24% reduction in expected payroll. The June 30, 2011 valuation also included a reduction in the discount rate from 7.75% (net of expenses) as of June 30, 2010 to 7.50% (net of investment expenses only) as of June 30, 2011. The Board approved the actuary's recommendation to explicitly include administrative expenses and SRBR costs as additions to normal cost (valued at $3.0 million for administrative expenses and 0.22% of the market value of assets for the SRBR) in the June 30, 2011 valuation. The expected rate of return of 7.50% is now only net of investment manager fees. The wage growth assumption was also reduced from 4.25% in the prior valuation to a rate of 0% for two years and 3.5% thereafter.

In addition, the June 30, 2011 valuation reflects the increase in amortization period for changes in methods and assumptions from closed 16-year periods to closed 20-year period beginning with the valuation date in which they are effective. Actuarial gains and losses and plan changes continue to be amortized as a level percentage of pay assuming a 3.5% annual growth in payroll over a 16-year period beginning with the valuation date in which they first arise.

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

In the June 30, 2010 valuation, the Plan's AAL increased by $267 million due to experience losses and changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2010 experience study. The Plan's UAAL increased from $393.9 million as of June 30, 2009 to $653.8 million as of June 30, 2010. The increase in the UAAL was primarily due to the net of unfavorable investment returns, lower than expected salary increases, more deaths than expected among retirees/beneficiaries, more service retirements offset by fewer disability retirements, other actuarial experience, and a reduction in the discount rate from 8.00% (net of expenses) as of June 30, 2009 to 7.75% (net of expenses) as of June 30, 2010. In addition, the June 30, 2010 valuation reflects the Plan's return to an 80-120% market value corridor from the one year 70-130% market value corridor increase in the June 30, 2009 valuation. The market value of assets corridor limits the smoothing of assets to be no greater than 120% and no less than 80% of the market value of assets as of June 30, 2010. Under this practice, investment gains or losses would be recognized immediately if necessary to maintain the smoothed assets within the 80-120% market value corridor. The total unrecognized investment losses, for pension and health assets, were $353.8 million before and after the application of the 120% market value of assets corridor. A listing of significant actuarial methods and valuation assumptions for the June 30, 2009, 2010 and 2011 valuations are presented below.

Additionally, the June 30, 2010 and 2009 valuations and contribution rates included a one-time 0.49% (approximately $1.3 million) and 0.45% (approximately $1.2 million), respectively, reductions in the City's pension contribution rate effective June 26, 2011 and June 27, 2010, respectively. The one time annual reductions in the City's contribution rates were a result of a transfer from the Supplemental Retiree Benefit Reserve (SRBR) due to poor investment earnings. Per San José Municipal Code section 3.36.580(c), if the City's contribution rate as determined by the Board's actuary during any actuarial valuation will increase as a result of poor investment earnings in the retirement fund, the SRBR reserve will transfer an amount equal to ten percent of the City's increased contributions for the first twelve months following the increase in the contribution rates, but the transfer will not exceed five percent of the accrued balance in the SRBR reserve as of the date of the actuarial valuation.

Notes to Financial Statements *(Continued)*

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

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

The Plan transitioned from biennial to annual valuations beginning June 30, 2010. The contribution rates for fiscal years ended June 30, 2012 and 2011 were based on the actuarial valuations performed as of June 30, 2010 and June 30, 2009, respectively, except for the period June 24 through June 30, 2012, which were based on the June 30, 2011 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Description	Method/Assumption		
Valuation date	June 30, 2011	June 30, 2010	June 30, 2009
Actuarial cost method	Entry age normal cost method	Entry age normal cost method	Entry age normal cost method
Amortization method for actuarial accrued liabilities	Level percentage of pay, closed, layered; equivalent single amortization period 13.6 years	Level percentage of payroll (assuming a 4.25% total payroll increase), closed, layered: equivalent single amortization period of 15 years	Level percentage of payroll (assuming a 4.25% total payroll increase), closed, layered: equivalent single amortization period of 15 years
Remaining amortization period	(1) Outstanding balance of the unfunded actuarial accrued liability calculated through the June 30, 2003 valuation amortized over the next 6 years; (2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 6 years; and (3) Actuarial gains and losses and plan changes are amortized over 16 years from the date of each such event, beginning with the June 30, 2005 valuation. (4) Actuarial methods and assumption changes are amortized over 20 years from the date of each such event, beginning with the June 30, 2011 valuation.	(1) Outstanding balance of the unfunded actuarial accrued liability calculated through the June 30, 2003 valuation amortized over the next 7 years; (2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 7 years; and (3) Future actuarial experience gains and losses, changes in assumptions, and benefit improvements amortized over 16 years from the date of each such event, beginning with the June 30, 2005 valuation.	(1) Outstanding balance of unfunded actuarial accrued liability calculated through June 30, 2003 valuation amortized over the next 8 years; (2) Prior service cost for the February 4, 1996 benefit improvement amortized over the next 8 years; and (3) Future actuarial experience gains and losses, changes in assumptions, and benefit improvements amortized over 16 years from the date of each such event, beginning with June 30, 2005 valuation.
Actuarial asset valuation method	5 year smoothed market with a 80% to 120% Market Value Corridor	5 year smoothed market with a 80% to 120% Market Value Corridor	5 year smoothed market with a 70% to 130% Market Value Corridor

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

Description	Method/Assumption		
Valuation date	June 30, 2011	June 30, 2010	June 30, 2009
ACTUARIAL ASSUMPTIONS:			
Assumed rate of return on investments	7.5% per annum (net of investment expenses)	7.75% per annum (net of administrative, SRBR and investment expenses)	8.00% per annum (net of administrative, SRBR and investment expenses)
Post-retirement mortality	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 3 years)	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 4 years)	RP-2000 Male Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 4 years)
(a) Service:	RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years.	RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years.	RP-2000 Female Combined Healthy Mortality Table with no collar adjustment, projected 10 years. (set back 1 year)
(b) Disability:	RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years, set back 2 years.	RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years, set back 1 year.	RP-2000 combined healthy male mortality table with no collar adjustment, projected 10 years, set back 1 year.
Rates of service retirement, withdrawal, death, disability retirements	Based upon the June 30, 2011 actuarial experience analysis	Based upon the June 30, 2009 Actuarial Experience Analysis	Based upon the June 30, 2009 Actuarial Experience Analysis
Salary increases	0.00% for FY 2013 and 2014, and 3.50% thereafter. Merit component added based on an individual year's of service ranging from 8.00% to 2.25%	0-5 years of service - 9.75% 6-7 years of service - 6.75% 8+ years of service - 6.00% Of the total salary increase, 4.25% is for the combined inflation and real across-the-board salary increase	0-5 years of service - 9.75% 6-7 years of service - 6.75% 8+ years of service - 6.00% Of the total salary increase, 4.25% is for the combined inflation and real across-the-board salary increase

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

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

Contributions to the Postemployment Healthcare Plan are made by both the City and the participating members.

Contributions to the Plan prior to June 26, 2011 for fire members and June 28, 2009 for police members were based on the Board's 10-year cash flow funding policy. Effective June 26, 2011, the Fire members agreed in a Memorandum of Agreement (MOA) with the City to phase-in to fully contributing the GASB Statement No. 43 annual required contribution (ARC) over a five year period; fiscal year 2011-2012 was the first year of the phase-in. Effective June 28, 2009, the Police members of the Plan agreed in a MOA with the City to increase the contribution rates for retiree health and dental in order to phase-in full funding of the ARC over the next five years; fiscal year 2011-2012 was the third year of the phase-in.

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

Notes to Financial Statements *(Continued)*

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

In January 2011, the Board adopted a funding policy setting the funding policy contribution amount to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll, if actual payroll exceeds the actuarial payroll, reported in the valuation to the actual payroll for the fiscal year. The funding policy contribution amount determined in the June 30, 2010 valuation for fiscal year ending June 30, 2012 was the greater of $16,299,000 (if paid at the beginning of the fiscal year) or 5.27% for fire members and 7.61% for police members of actual payroll for the fiscal year. The actual payroll for the fiscal year of $184,746,000 was less than the actuarial payroll of $251,058,000 resulting in an annual contribution of $16,299,000 as of July 1, 2011, excluding year end contributions receivable, the implicit subsidy, and prior year contribution adjustments.

In fiscal year 2010-2011, the City paid the actuarially determined amount of $86,023,000 and $3,120,000 on July 2, 2010 and September 16, 2010, respectively, for bi-weekly pension and health contributions to be made for the 26 pay dates from July 2, 2010 through June 17, 2011. The City also received a credit of approximately $2,146,000 for the reconciliation of fiscal year 2010-2011 pension and health contributions per San José Municipal Code 3.36.1590(F), that requires the Board to determine whether the lump sum advance payment(s) and the payments that otherwise have been required in the absence of the lump sum advance payment are actuarially equivalent.

The contributions for Fire and Police members are not sufficient to meet the ARC in accordance with the requirements of GASB Statement No. 43.

The City and the participating member's contribution rates in effect during the fiscal years ended June 30, 2012 and 2011 for the Postemployment Healthcare Plan were as follows:

Period	City – Board Adopted *		Member	
	Police	Fire	Police	Fire
06/24/12 – 06/30/12	8.96%	6.62%	8.26%	6.11%
06/26/11 – 06/23/12	7.61%	5.27%	7.01%	4.86%
07/01/10 – 06/25/11	6.26%	3.92%	5.76%	3.61%

** The actual contribution rates paid by the City for fiscal year ended June 30, 2012 differed due to the City funding the annual required contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year. In fiscal year 2011 the actual contribution rates paid by the City differed as a result of the City exercising their option to make annual lump sum payments.*

The funded status of the Postemployment Healthcare Plan as of June 30, 2011, the most recent actuarial valuation date, is as follows: (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a) / (b)	(c)	((b)-(a)/c))
06/30/2011	$ 60,709	$ 1,003,795	$ 943,087	6%	$ 190,726	494%

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

As of June 30, 2011, the Plan's most recent valuation, the Plan's UAAL increased by $55 million primarily due to the accumulation of interest for another year net of the payment of benefits and the accrual of benefits by active members. The Plan's OPEB discount rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (4.0%) and the expected return on the Plan's invested assets (7.50%), resulting in a blended discount rate of 5.70%. The June 30, 2011 valuation included a reduction in the expected return on the City's unrestricted assets from 4.75% to 4.00% and the Plan's expected rate of return from 7.75% to 7.50%. The expected rate of return of 7.5% is now only net of investment manager fees. Actuarial assumption changes in the June 30, 2011 valuation also included changes in expected current and future healthcare claims and expense costs, including the addition of trend assumptions for per person costs and demographic assumptions changes as determined in the June 30, 2011 experience study. In addition, the June 30, 2011 OPEB valuation included retirees paying the difference between the actual premium for the elected plan and the $25 co-pay plans offered for the first time by the City

As of June 30, 2010 valuation, the Plan's AAL increased by $185 million due to changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2010 experience study. The Plan's UAAL increased from $705.9 million as of June 30, 2009 to $887.7 million as of June 30, 2010. Changes to the UAAL were due to increased health care trend rate assumptions and a decrease in the Plan's discount rate from 8.00% (net of expenses) as of June 30, 2009 to 7.75% (net of expenses) as of June 30, 2010. In addition, the June 30, 2010 valuation reflects the Plan's return to an 80-120% market value corridor from the one year 70-130% market value corridor increase in the June 30, 2009 valuation. A listing of significant actuarial methods and valuation assumptions for the June 30, 2009, 2010, and 2011 valuations are presented below.

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

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

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

Notes to Financial Statements *(Continued)*

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

The Plan's contribution rates were based on the actuarial valuation performed as of June 30, 2010 and June 20, 2009, respectively, except for the period June 24 through June 30, 2012, which were based on the June 30, 2011 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Description	**Method/Assumption**		
Valuation date	June 30, 2011	June 30, 2010	June 30, 2009
Actuarial cost method	Entry age normal, level of percent of pay	Entry age normal, level of percent of pay	Entry age normal, level of percent of pay
Amortization method	30 years, level percent of pay	30 years, level percent of pay	30 years, level percent of pay
Remaining amortization period	30 years as of June 30, 2011, open	30 years as of June 30, 2010, open	30 years as of June 30, 2009, open
Actuarial asset valuation method	5 year smoothed market with an 80% to 120% Market Value Corridor	5 year smoothed market with an 80% to 120% Market Value Corridor	5 year smoothed market with a 70% to 130% Market Value Corridor
ACTUARIAL ASSUMPTIONS:			
Discount rate	5.70% †	6.3% †	6.7% †
Projected payroll increases	0.00% for FY 2013 and 2014, and 3.50% thereafter. Merit component added based on an individual year's of service ranging from 8.00% to 2.25%	4.25% and 0.75% across-the-board increases	4.25% and 0.75% across-the-board increases
HEALTH CARE COST TREND RATE:			
Medical	The valuation assumes that future medical inflation will be at a rate of 9.17% to 4.5% per annum graded down over a 15 year period for medical-pre age 65 and 6.83% to 4.5% per annum graded down over a 15 year period for medical-post age 65.	Projected premiums for FY 2010-2011 and 9.75% beginning FY11-12, decreasing by 0.50% for each year for ten years until it reaches an ultimate rate of 5%	Projected premiums for FY 2009-2010 and 8.25% beginning FY 2010-2011, decreasing by 0.50% for each year for seven years until it reaches an ultimate rate of 5%
Dental	Dental inflation is assumed to be 4.50% graded down to 4% over a three year period.	5%	5%

† Determined as a blended rate of the expected long-term investment returns on plan assets and on the City's investments, based on the portion of the ARC contributed by the City for fiscal year.

NOTE 7 – CONTINGENCY

Commitments – As of June 30, 2012, the Plan had unfunded commitments to contribute capital for private equity, real estate and direct lending investments in the amount of $115,934,000.

Contribution overstatement - On January 14, 2009, the Plan was advised by the City's Finance Department that a portion of non-pensionable Fair Labor Standards Act ("FLSA") earnings for Fire members of the Plan had been erroneously transmitted and paid into the Plan by the Fire members and City for a period of approximately 10 years. As of February 2009, the City has corrected the transmittal error on a go forward basis. The City's FLSA overstatement correction amounts were reviewed by the City's internal auditor and the Plan's external accountants. The Plan's external accountants identified variances in the estimated overstatements.

In fiscal year 2012, the City's Finance Department reviewed and prepared revised overstatement amounts. On June 1, 2012 the City's Finance Department refunded approximately $252,000 of overstated contributions to active members. The City and Plan are currently working with legal counsel to determine the overstated amounts for separated and/or retired members. The impact of the overstated pensionable earnings, due to the FLSA transmittal error, on retirement benefits is undetermined at this time.

New Benefit Tier - On June 5, 2012, the voters of San Jose enacted the Sustainable Retirement Benefits and Compensation Act (Pension Act). The Pension Act amended the City Charter to change some benefits for current employees to establish different benefits for new employees and to place other limitations on benefits. Significant portions of the Pension Act applicable to existing employees and effective June 23, 2013 are currently subject to legal challenge by members of the Plan. Additionally, the bargaining units representing members of the Plan have filed unfair labor practice charges with the California Public Employment Relations Board related to the Pension Act. Implementation of the provisions of the Pension Act will have a material effect on the Plan in the foreseeable future.

Required Supplementary Information

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

Actuarial Valuation Date	Actuarial Value of Assets (1)	Entry Age Actuarial Accrued Liability (AAL) (2)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll (3)	(OAAL)/UAAL as a % of Covered
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c))
06/30/2003	$ 1,826,287	$ 1,823,200	$ (3,087)	100.2%	$ 202,222	-1.5%
06/30/2005	1,983,090	2,027,432	44,342	97.8%	210,018	21%
06/30/2007 (4)	2,365,790	2,372,386	6,596	99.7%	227,734	3%
06/30/2009	2,569,569	2,963,482	393,913	86.7%	243,196	162%
06/30/2010	2,576,705	3,230,456	653,751	79.8%	222,699	294%
06/30/2011	2,685,721	3,196,007	510,286	84.0%	190,726	268%

1 Excludes accounts payable and Postemployment Healthcare Plan assets.
2 Excludes postemployment healthcare liability.
3 Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for the June 30, 2011 and the 2007 and prior valuations. The amount presented for the June 30, 2009 and 2010 valuations represents actual annual covered payroll.
4 After reflection of benefit improvements effective July 1, 2006 for Police members and July 1, 2008 for Fire.

As of June 30, 2011, the Plan's most recent valuation, the Plan's AAL decreased by $34.5 million due to favorable demographic experience and changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2011 experience study. The Plan's UAAL decreased from $653.8 million as of June 30, 2010 to $510.3 million as of June 30, 2011. The decrease in the UAAL was primarily due to a 14% reduction in the number of active members and a 24% reduction in expected payroll. The June 30, 2011 valuation also included a reduction in the discount rate from 7.75% (net of expenses) as of June 30, 2010 to 7.50% (net of investment expenses only) as of June 30, 2011. The Board approved the actuary's recommendation to explicitly include administrative expenses and SRBR costs as additions to normal cost (valued at $3.0 million for administrative expenses and 0.22% of the market value of assets for the SRBR) in the June 30, 2011 valuation. The expected rate of return of 7.50% is now only net of investment manager fees. The wage growth assumption was also reduced from 4.25% in the prior valuation to a rate of 0% for two years and 3.5% thereafter.

In addition, the June 30, 2011 valuation reflects the increase in amortization period for changes in methods and assumptions from closed 16-year periods to closed 20-year period, beginning with the valuation date in which they are effective. Actuarial gains and losses and plan changes continue to be amortized as a level percentage of pay assuming a 3.5% annual growth in payroll over a 16-year period beginning with the valuation date in which they first arise.

As of June 30, 2010, the Plan's AAL increased by $267 million due to experience losses and changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2010 experience study. The Plan's UAAL increased from $393.9 million as of June 30, 2009 to $653.7 million as of June 30, 2010. The increase in the UAAL was primarily due to the net impact of unfavorable investment returns, lower than expected salary increases, more deaths than expected among retirees/beneficiaries, more service retirements offset by fewer disability retirements, other actuarial experience, and a reduction in the discount rate from 8.00% (net of expenses) as of June 30, 2009 to 7.75% (net of expenses) as of June 30, 2010. In addition, the June 30, 2010 valuation reflects the Plan's return to an 80-120% market value corridor from the one year 70-130% market value corridor increase in the June 30, 2009 valuation. The market value of assets corridor limits the smoothing of assets to be no greater than 120% and no less than 80% of the market value of assets as of June 30, 2010. Under this practice, investment gains or losses are recognized immediately if necessary to maintain the smoothed assets within 80-120% market value corridor. The total unrecognized investment losses, for pension and health assets, were $353.8 million before and after the application of the 120% market value of assets corridor.

As of June 30, 2009, the Plan's AAL increased by $591 million due to demographic experience losses and changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2009 experience study. The Plan's UAAL increased from $6.6 million as of June 30, 2007 to $393.9 million as of June 30, 2009. Changes to the UAAL were primarily the result of (a) unfavorable investment returns during the last two years, (b) higher than expected salary increases, (c) earlier than expected retirements, (d) data corrections, and (e) changes in the actuarial assumptions including the one year increase in the Plan's 80-120% market value corridor to 70-130%.

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

(In Thousands)

Fiscal year ended June 30,	Annual required employer contributions	Percentage contributed
2007	$ 46,625	100%
2008	56,372	100%
2009*	53,103	100%
2010*	52,315	100%
2011*	77,918	100%
2012*	121,009	100%

* The annual required employer contributions (ARC) provided above are based on the Board adopted ARC rates adjusted for the timing of actual contributions including year-end contributions receivable and prior year contribution adjustments. In addition, in fiscal year ended June 30, 2011, the ARC has been reduced to reflect the additional employee contributions.

SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	(OAAL)/UAAL as a % of Covered
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c))
06/30/2006	$ 38,381	$ 851,217	$ 812,836	5%	$ 218,521	372%
06/30/2007	45,393	666,228	620,835	7%	227,734	273%
06/30/2009	55,618	761,604	705,986	7%	243,196	290%
06/30/2010	58,586	946,308	887,722	6%	222,699	399%
06/30/2011	60,709	1,003,795	943,087	6%	190,726	494%

Effective June 30, 2010 the Plan transitioned to annual valuations.

As of June 30, 2011, the Plan's most recent valuation, the Plan's UAAL increased by $55 million primarily due to the passage of time and accrual of benefits by active members. The Plan's OPEB discount rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (4.0%) and the expected return on the Plan's invested assets (7.50%) resulting in a blended discount rate of 5.70%. The June 30, 2011 valuation included a reduction in the expected return on the City's unrestricted assets from 4.75% to 4.00% and the Plan's expected rate from 7.75% to 7.50%. The expected rate of return of 7.5% is now only net of investment manager fees. Actuarial assumption changes in the June 30, 2011 valuation also included changes in expected current and future healthcare claims and expense costs, including the addition of the $25 co-pay plans; trend assumptions for per person costs; and demographic assumptions changes as determined in the June 30, 2011 experience study.

As of June 30, 2010, the Plan's AAL increased by $185 million due to changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2010 experience study. The Plan's UAAL increased from $705.9 million as of June 30, 2009 to $887.7 million as of June 30, 2010. Changes to the UAAL were due to increased health care trend rate assumptions and a decrease in the Plan's discount rate from 8.00% (net of expenses) as of June 30, 2009 to 7.75% (net of expenses) as of June 30, 2010. In addition, the June 30, 2010 valuation reflects the Plan's return to an 80-120% market value corridor from the one year 70-130% market value corridor increase in the June 30, 2009 valuation.

As of June 30, 2009, the Plan's AAL increased by $95 million due to changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2009 experience study. The Plan's UAAL increased from $620.8 million as of June 30, 2007 to $706.0 million as of June 30, 2009. Changes to the UAAL were primarily the result of unfavorable investment returns during the last two years and changes in the actuarial assumptions including the one year increase in the Plan's 80-120% market value corridor to 70-130%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

(In Thousands)

Fiscal Year Ended	Annual required employer contributions(1)	Actual Contributions	Percentage contributed
06/30/2008	$ 61,344	$ 10,618	17%
06/30/2009	50,119	9,888	20%
06/30/2010	50,438	11,284	22%
06/30/2011	62,322	17,001	27%
06/30/2012	62,079	21,205	34%

(1) The ARC provided above are based on the Board adopted ARC rates adjusted for the timing of actual contributions and include the actuarially determined implicit subsidy amounts of $3,006 for 2008; $3,175 for 2009; $4,262 for 2010; $4,939 for 2011; and $4,750 for 2012. The actual contributions include year-end contributions receivable and prior year contribution adjustments. In addition, beginning with fiscal year 2011 the implicit subsidy amounts have also been included in actual contributions.

Other Supplementary Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS

June 30, 2012 (In Thousands)

	Retirement Fund	Cost-of-Living	Total
Assets			
Receivables:			
Employee contributions	$ 273	$ 124	$ 397
Employer contributions	1,421	1,100	2,521
Brokers and others	3,434	715	4,149
Accrued investment income	6,350	3,028	9,378
Total receivables	**11,478**	**4,967**	**16,445**
Investments, at fair value:			
Securities and other:			
Domestic fixed income	395,977	202,635	598,612
International fixed income	10,109	5,173	15,282
Pooled fixed income bond funds	12,051	6,167	18,218
Collective short term investments	54,225	27,749	81,974
Corporate convertible bonds	47,191	24,149	71,340
Domestic equity	399,383	204,378	603,761
International equity	333,584	170,707	504,291
Private equity	81,030	41,466	122,496
Opportunistic	125,300	64,121	189,421
Real assets	181,088	92,668	273,756
Real estate	67,978	34,786	102,764
International currency contracts, net	316	161	477
Securities lending cash collateral investment pool	154,722	79,009	233,731
Total investments	**1,862,954**	**953,169**	**2,816,123**
TOTAL ASSETS	**1,874,432**	**958,136**	**2,832,568**
Liabilities			
Payable to brokers	10,097	4,022	14,119
Securities lending collateral due to borrowers	156,324	79,827	236,151
Other liabilities	3,185	649	3,834
TOTAL LIABILITIES	**169,606**	**84,498**	**254,104**
Net Assets Held In Trust For:			
Pension benefits	1,704,826	873,638	2,578,464
TOTAL NET ASSETS	**$ 1,704,826**	**$ 873,638**	**$ 2,578,464**

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS

June 30, 2012 (In Thousands)

	Retirement Fund	Cost-of-Living	Total
Additions			
Contributions			
Employee	$ 13,352	$ 5,993	$ 19,345
Employer	70,960	50,049	121,009
Total contributions	**84,312**	**56,042**	**140,354**
Investment income:			
Net depreciation in fair value of investments	(72,150)	(36,657)	(108,807)
Interest income	28,750	14,444	43,194
Dividend income	22,165	11,172	33,337
Net rental income	3,915	1,998	5,913
Less investment expense	(6,885)	(3,237)	(10,122)
Net investment loss before securities lending income	**(24,205)**	**(12,280)**	**(36,485)**
Securities lending income:			
Earnings	1,999	944	2,943
Rebates	(184)	(93)	(277)
Fees	(347)	(175)	(522)
Net securities lending income	**1,468**	**676**	**2,144**
Net investment loss	**(22,737)**	**(11,604)**	**(34,341)**
TOTAL ADDITIONS	**61,575**	**44,438**	**106,013**
Deductions			
Retirement benefits	110,648	31,666	142,314
Death benefits	4,355	3,125	7,480
Refund of contributions	1,540	386	1,926
Administrative expenses and other	2,454	1,102	3,556
TOTAL DEDUCTIONS	**118,997**	**36,279**	**155,276**
NET INCREASE	**(57,422)**	**8,159**	**(49,263)**
Net Assets Held In Trust For Pension Benefits			
BEGINNING OF YEAR	**1,762,248**	**865,479**	**2,627,727**
END OF YEAR	**$ 1,704,826**	**$ 873,638**	**$ 2,578,464**

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2012 and 2011

	2012			2011
	Original Budget	Actual	Variance Positive (Negative)	Actual
Personal services	$ 2,498,250	$ 1,917,061	$ 581,189	$ 2,021,230
Non-personal/equipment	1,112,594	652,551	460,043	631,814
Professional services	1,081,345	1,072,925	8,420	547,145
TOTAL ADMINISTRATIVE EXPENSES & OTHER	**$ 4,692,189**	**$ 3,642,538**	**$ 1,049,651**	**$ 3,200,189**

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2012 and 2011

	2012	2011
Investment Manager's Fees		
Global Equity	**$ 2,049,915**	**$ 3,195,878**
Fixed income	**2,464,925**	**2,411,768**
Private equity	**2,054,643**	**1,537,608**
Real assets*	**1,012,624**	**-**
Opportunistic	**845,000**	**507,465**
Real estate	**867,565**	**945,952**
TOTAL INVESTMENT MANAGERS' FEES	**9,294,671**	**8,598,672**
Other Investment Fees		
Investment consultant	767,504	708,348
Proxy voting	35,486	36,489
Real estate legal fees**	-	28,741
Real estate appraisals	3,382	137,223
Investment legal fees	63,983	114,720
Custodian	200,000	200,000
Total other investment service fees	**1,070,355**	**1,225,521**
TOTAL INVESTMENT EXPENSES	**$ 10,365,026**	**$ 9,824,192**

** Prior to fiscal year 2012, the real asset income was reported net of fees.*

*** At the end of fiscal year 2011 the plan transitioned the real estate legal fees from the overall Plan level to the separately held property level, as such the associated real estate fees are reported in net rental income.*

Other Supplementary Information *(Continued)*

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2012 and 2011

Firm	Nature of Service	2012	2011
Cheiron, Inc.	Actuarial consultant	$ 319,258	$ -
Cortex	Governance consultant	95,313	-
Financial Knowledge/Peter Sepsis	Educational Services	11,348	22,529
Ice Miller, LLC	Tax Counsel	2,357	74,117
L.R. Wechsler, LTD	Pension Administration selection consulant	145,478	-
Levi, Ray, & Shoup	Web development and maintenance	11,720	11,753
Levi, Ray, & Shoup	Programing changes and business continuance services	18,891	11,933
Macias Gini & O'Connell LLP	External Auditors	52,497	50,907
Medical Director/Other Medical	Medical consultants	152,886	143,709
Pension Benefit Information	Reports on deceased benefit recipients	2,083	1,722
ReedSmith, LLP	Legal counsel	101,429	-
Robert Half Mangement Resources	Temporary staff	50,579	6,090
Saltzman & Johnson	Legal counsel	59,570	43,274
Silicon Valley Professonals	Temporary staff	15,090	-
The Segal Company	Actuarial consultant	3,180	181,111
Trendtec, Inc.	Temporary staff	31,246	-
TOTAL		**$ 1,072,925**	**$ 547,145**

Investment Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012

Report of Investment Activity

NEPC, LLC

Allan Martin
Partner

November 5, 2012

Ms. Donna Busse
Acting Director of Retirement Services
City of San Jose Police and Fire Department Retirement Plan
1737 North First Street, Suite 580
San Jose, CA 95112

Dear Ms. Busse,

The overall objective of the City of San Jose Police and Fire Department Retirement Plan (the "Plan') is to ensure continued access to retirement, disability and survivor benefits for current and future SJP&F participants. To insure a solid foundation for the future of the Plan, the Board of Administration carefully plans and implements an investment program designed to produce superior long-term investment returns, while prudently managing the risk of the portfolio. Investment policy and asset allocation are reviewed and revised by the Board of Administration, at least annually, to reflect the Plan's actuarial assumptions, the accrued liabilities, and the investment outlook. Following is a report on the performance of the Plan for the fiscal year ending June 30, 2012.

Although investment manager performance is key in the future "success" of the Plan, the overall asset allocation policy will be the primary determinant of such "success". Modern Portfolio Theory maintains that long-term investors, who assume prudent levels of risk, will be rewarded with incremental returns above lower returning and risk-free assets (i.e. T-Bills). The Plan, in its asset allocation policy, is required to satisfy the need to pay accumulated/earned retirement benefits today, while at the same time be prepared for "uncertain" future benefits. This balancing of short-term versus long-term needs is a key tenant in the overall construction of the portfolio. To facilitate this demand balance of short term versus long-term, the Board of Administration has adopted a diversified asset allocation structure that includes traditional asset classes such as U.S. and non-U.S. equities and fixed income, as well as alternative asset classes such as private equity, absolute return strategies or hedge funds, real estate, inflation-linked assets, and opportunistic investment strategies such as senior secured direct lending.

The Board of Administration continues to work diligently on expanding the alternative investment program, which will further assist in the diversification of the portfolio. Asset classes such as hedge funds are designed to lower the overall volatility of the program, while private equity is designed to provide higher long-term performance above what is expected from traditional equity markets. As the allocation strategy evolves year after year, diversification and risk mitigation will continue to be the pillars of the asset allocation structure.

NEPC provides the Plan with quarterly economic and investment market updates and performance reviews, investment manager monitoring and selection advice, and related investment services for traditional and non-traditional asset classes. In preparing our performance analysis for the Plan, we rely on the accuracy of financial data provided by the Plan's custodian bank and investment managers. Investment performance analysis and comparisons produced by NEPC have been calculated

900 Veterans Blvd. | Ste. 340 | Redwood City, CA 94063-1741 | TEL: 650.364.7000 | www.nepc.com
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using standard performance evaluation methodologies and are consistent with industry standards. Performance results are calculated using a time-weighted return methodology. The Plan's goal of achieving market rates of returns, while mitigating unwarranted risk, is measured against appropriate benchmarks and comparative universes on a quarterly basis. Performance is measured on a most recent quarter, year-to-date, and accumulated trailing annual periods, as well as three- and five-year periods (full market cycle). Risk-adjusted performance on an absolute basis and a comparative basis is also measured. This review process allows the Plan to evaluate and determine whether established goals and objectives are being achieved.

NEPC will recommend termination and replacement when individual manager goals and objectives are not being met, when there are significant changes to an investment management firm's organizational structure, departures of key investment professionals, or when a manager deviates from the investment style for which they were hired.

Fiscal Year 2012 Market Review

Fiscal Year 2012 proved to be an extremely difficult and volatile year for investors. The year ending June 30th, 2012 was a "risk on/risk off" roller coaster ride driven largely by headline risks related to the European debt crisis and fears of a global slowdown. As the 2011 calendar year came to a close, most domestic equity markets recovered and ended 2011 in positive territory, similar to year end 2010. Globally, investor sentiment soured as a clear solution to the European debt crisis did not appear to be on the horizon. U.S. equity markets continued to gain an advantage over non-U.S. stocks, and European markets lagged. In the first quarter of 2012 we saw macro fears subside and attention return to improving fundamentals. In fact, the first quarter proved to be the strongest quarter for equity returns over the fiscal year as U.S. stocks posted their strongest first quarter gains in more than 10 years and continued to outpace international and emerging markets. The final quarter of the fiscal year once again experienced the "risk off" environment that started the period. Greater political concerns in Europe, slowing GDP in China, and fears that Greek political parties would be unable to support the country's austerity measures all lead to negative returns across equity markets for the final quarter of the fiscal year.

The broad domestic equity market, as measured by the S&P 500 Index, produced a +5.5% return for fiscal year 2012. The domestic bond market, as measured by the Barclays Capital U.S. Aggregate Bond Index, returned +7.5% in fiscal year 2012, outperforming all equity indices. The global equity market, as measured by the MSCI All Country World Index (net of dividends), returned -5.0% in fiscal year 2012 relative to a positive +30.1% in fiscal year 2011.

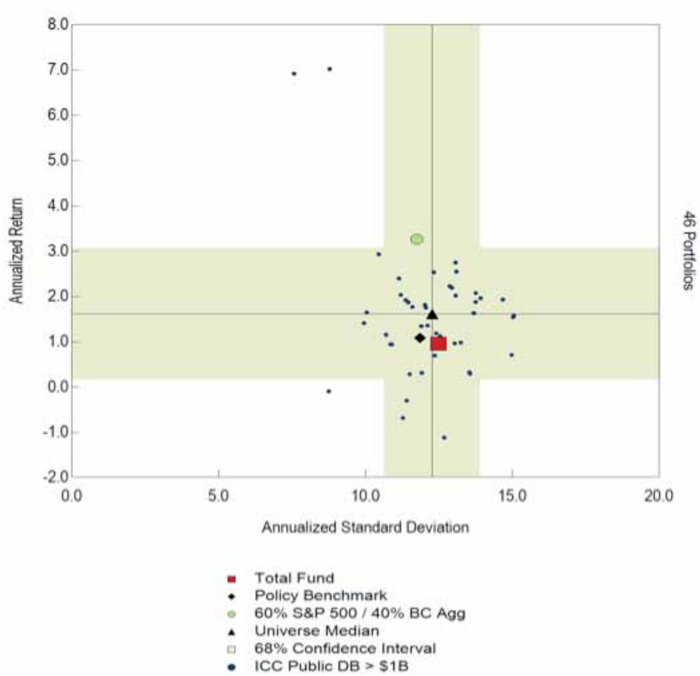
The investment performance reported in this letter is in conformance with the presentation standards of the CFA Institute's Global Investment Performance Standards (GIPS). The Plan returned -0.1% gross of fees for the fiscal year ending June 30, 2012, which ranked in the 86th percentile of the Independent Consultants Cooperative's (ICC) Public Funds Greater than $1 Billion Universe. By comparison, the median fund in the universe returned 0.8% for the period[1]. Contributing to the poor relative

[1] As of June 30, 2012, the ICC Public Funds Greater than $1 Billion Universe was comprised of 49 total funds with approximately $1.2 trillion in assets. Universe rankings are based on gross of fee performance.

performance for the fiscal year was the Plan's underweight position to real estate in a year when institutional real estate returned 12.0%. Additionally, the Plan's 10% target allocation to commodities is significantly higher than many of its peers, which negatively impacted the Plan's performance as commodity markets returned -14.3% for the period. Contributing positively to performance during the fiscal year was the Plan's allocation to fixed income, which exhibited strong performance in investment grade and non-investment grade sectors, returning 10.1% for the year vs. the Barclays Capital U.S. Aggregate return of 7.5%.

For the five-year period ending June 30, 2012, the Plan returned 1.0% gross of fees per annum, below the actuarial target of 7.50%. On a relative basis, the Plan ranks in the 72nd percentile of the ICC Public Funds Greater than $1 Billion peer group universe. The Plan's five-year volatility, as measured by standard deviation, ranked in the 58th percentile of its peers, while the risk-adjusted return of the portfolio as measured by the Sharpe Ratio, ranks in the 71st percentile of the universe.

ICC Public Funds Greater than $1 Billion Universe
Risk-Return Comparison (Gross of Fees)
5 Years Ending June 30, 2012



The Plan's net of fee performance was -0.5% and 0.4% for the one- and five-year annualized periods ending June 30, 2012, respectively.

In uncertain markets such as these, diversification can help protect portfolios from experiencing significant declines. Diversification aims to reduce volatility and better equalize the contribution to overall plan risk across a variety of asset classes with uncorrelated return patterns. Over the past several years, we have been working with the Department of Retirement Services to reduce the Plan's exposure to public equity markets, thereby reducing the overall volatility of the Plan, by diversifying into several new asset classes, including inflation-linked assets and opportunistic credit strategies. The Board of Administration recently adopted new long-term asset allocation targets, and we will be working with the Division of Retirement Services Staff to implement the new asset allocation in the coming months with the goal of further diversifying the portfolio, resulting in lower risk while maximizing the potential for capital appreciation.

Sincerely,

Allan Martin
Managing Partner

Statement of Investment Policy

General Environment

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

Investment Guidelines

General

The Board Shall:

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

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

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

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

Asset Allocation

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

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

Asset Class	Minimum	Target	Maximum
Equity	30%	40%	50%
Fixed Income	15%	25%	35%
Alternative Assets	10%	35%	60%

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

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

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

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

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

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

Diversification

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

Volatility

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

Liquidity

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

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

Commingled Funds

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

Fixed Income

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

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

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

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

(4) All bonds and notes in which the assets are invested, and which mature one year or more from the date of original issues, shall carry a rating of "BBB" or better by two of the following three rating services: Standard & Poors, Moody's Investor Services, or Fitch. In the event that ratings are provided by only two agencies and the third is non-rated, the most conservative (lowest) rating will be assigned. If only one agency assigns a rating, that rating will be used; or, if unrated, shall be of equivalent quality in the judgment of the investment manager to a similar domestic issue. Managers may, with prior written authorization, invest a maximum of 20% of their fixed income portfolio in bonds or notes that are rated B or BB.

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

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

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

Domestic Common Stock

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

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

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

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

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

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

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

International Common Stock

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

Developed Markets

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

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

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

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

Emerging Markets

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

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

in excess of 7%, except for pending transactions, require the manager to notify the Board of Administration in writing.

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

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

High Yield Bonds and Bank Loans

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

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

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

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

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

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

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

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

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

(b) Following are the benchmarks to be used:

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

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

(d) Diversification Requirements & Portfolio Construction:

The portfolio shall be managed within the following parameters:

- Maximum 5% of its assets in the securities of any single issuer;
- Maximum 15% of its assets in a single industry, with the exception of any one industry which may have up to 20% of the portfolio's assets;
- Maximum final legal maturity of any issue of 7 years;
- Maximum average life of 4 years;
- Bank loans should be purchased only from corporations that also issue high yield bonds.

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

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

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

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

Convertible Bonds

The Convertible Bonds portion of the plan assets shall be invested predominantly in convertible securities. The Manager may invest in investment or non-investment grade rated U.S. and non-U.S. convertible securities, including convertible bonds; convertible preferred stock; bonds or preferred stock with warrants; and zero- and low-coupon convertibles across the entire credit quality spectrum. In addition, the investment manager can utilize convertible structured notes issued by third parties, as well as synthetic convertible securities created by the investment manager. The investment manager(s) employed to manage the convertible instruments will have discretion in the day-to-day management of assets under their control. The convertible bond manager(s) shall have discretion to invest in all the instruments allowed for investment by the domestic bond managers, plus all 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. Treasury Securities, U.S. corporate bonds, including zero-coupon, step-up, toggle and pay-in-kind bonds and non-dollar corporate bonds (which may be hedged), private placement securities, bank loans, participations and assignments.

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

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

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

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

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

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

Real Estate

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

Investable Instruments

Investment Vehicles

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

- Open-end pooled funds
- Close-end pooled funds
- Separate accounts
- Fund of funds
- Real Estate Investment Trusts

Co-Investment and Direct Placements

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

Private Equity

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

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

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

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

Opportunistic Strategies

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

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

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

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

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

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

Absolute Return

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

The allowed Absolute Return Strategies are:

1. Any of the following single strategies:
   a. Equity long/short including Absolute Return Strategies specializing in Emerging Markets, Market Capitalization, Regional, Sectoral or Global Market subsets;
   b. Equity Market Timing;
   c. Short or Dedicated Short;
   d. Distressed Securities;
   e. Merger Arbitrage;
   f. Event Driven or Risk Arbitrage;
   g. Fixed Income Arbitrage;
   h. Convertible Bond Arbitrage;
   i. Equity Market Neutral;
   j. Statistical Arbitrage;
   k. Relative Value Arbitrage;
   l. Global Macro or Global Tactical Asset Allocation;
   m. Managed Futures and Commodity Trading Advisors (CTA's).
2. Multi-Strategy or Fund of Funds are also allowed and combine several single Absolute Return strategies into a single portfolio. The combination provides, in some circumstances, diversification of risk in a single investment.

Real Assets

The following strategies are allowed:

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

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

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

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

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

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

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

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

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

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

f. **Infrastructure**
Public and private investments in direct physical assets, or a company that operates assets that provide essential services to society. Ranges from

publicly held equities to very illiquid private partnerships. Exposure includes toll-oriented projects (e.g. roads, bridges, tunnels), transport-focused (e.g. railroads, airports, seaports); regulated utilities (e.g. gas pipelines; water/sewer treatment facilities); and social services (e.g. schools, hospitals). High toll-orientation offers inflation protection. Expected total return is due primarily to current income and to a lesser extent capital appreciation. Satellite strategies typically use more leverage than core.

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

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

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

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

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

Investable Instruments

Investment Vehicles

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

a. Open-end funds

b. Closed-end funds

c. Commingled funds

d. Fund of funds

e. Separate accounts

Derivatives

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

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

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

- Equity and Bond index futures contracts are permitted.
- An international manager may defensively hedge currency as a part of the investment management and risk reduction process and as described in the section pertaining to the international equity and fixed income managers. Currency forward or futures contracts may be used in this process.
- New York Stock Exchange listed American Depository Receipts (ADRs) may be used by the domestic equity managers for up to 10 % of the portfolio investments at cost. The international equity manager may use ADRs in place of the foreign securities when their research indicates the ADR issues are more attractively valued.
- The fixed income investment managers may hold derivative securities known as Collateralized Mortgage Obligations (CMOs) collateralized by GNMA, FNMA, FHLMC mortgage-backed instruments. The CMOs must possess price risk characteristics consistent with, or superior to, the risk characteristics of the underlying conventional mortgage pass-through securities. Fixed income managers may also purchase securities of other categories, including options and financial futures contracts traded over-the-counter or on organized securities exchanges. Offsetting cash positions must be maintained against all delayed settlement transactions.

- Derivative securities should not be utilized by portfolio managers to materially increase a portfolio's duration or leverage as characterized by its stated investment style. Managers must be granted specific written authorization from the Plan in order to implement applications of derivative instruments not listed above.

Mini-Tender Offers

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

Credit Unions

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

Manager Discretion

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

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

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

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

Performance Goals

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

Domestic Equity Managers

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

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

100 basis points for active large-cap equity managers,

0 basis points for passive large-cap equity managers,

150 basis points for mid-cap equity managers, and

200 basis points for small-cap equity mangers.

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

Domestic Fixed Income Managers

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

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

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

International Equity Managers

Developed Markets

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

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

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

Emerging Markets

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

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

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

International Fixed Income Managers

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

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

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

Real Estate Managers

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

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

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

Private Equity

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

High Yield and Bank Loan Investments

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

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

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

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

Convertible Bond Investments

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

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

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

Periodic Reviews of Manager Performance

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

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

Statement of Investment Policy *(Continued)*

Procedure:

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

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

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

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

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

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

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

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

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

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

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

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

Statement of Investment Policy *(Continued)*

Extraordinary Reviews of Managers

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

Such events would include but are not limited to:

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

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

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

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

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

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

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

Investment Professionals

As of June 30, 2012

Global Equity

Russell Investments
MSCI ACWI
MSCI ACWI Value
Seattle, WA

Calamos
Global Convertibles
Naperville, IL

Domestic Equity

Rhumbline Advisers
Russell 3000 Index
Boston, MA

RS Investments
Small Cap Value
San Francisco, CA

International Equity

Russell Investments
MSCI EAFE + CAD Small Cap
Seattle, WA

Emerging Markets Equity

Russell Investments
MSCI Emerging Markets
Seattle, WA

Fixed Income

Income Research & Management
Long Duration
Boston, MA

MacKay Shields LLC
High Yield
New York, NY

PIMCO
Opportunistic Credit II
Newport Beach, CA

Russell Investments
TIPS
Seattle, WA

Seix Investment Advisors LLC
Domestic Core
Credit Dislocation
Upper Saddle River, NJ

Private Equity

HarbourVest Partners
Boston, MA

Pantheon Ventures
San Francisco, CA

Portfolio Advisors, LLC
Darien, CT

Siguler Guff & Company, LP
New York, NY

TCW/Crescent Capital
Los Angeles, CA

Commodities

First Quadrant
Risk Parity Commodity Index
Pasadena, CA

Credit Suisse
Compound Risk Parity Commodity Index
San Francisco, CA

Real Estate

American Realty Advisors
Glendale, CA

Opportunistic

GSO Capital Partners
Direct Lending Account
New York, NY

Medley Capital LLC
Opportunity Fund II
San Francisco, CA

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

Consultants

Albourne America LLC – Absolute Return
San Francisco, CA

NEPC, LLC – General Consultant
Redwood City, CA

Custodian

State Street Bank & Trust Company
Boston, MA

Proxy Voting

Glass Lewis & Co. LLC
San Francisco, CA

Portfolio Overlay Services

Russell Investments
Seattle, WA

Gross Performance Summary by Asset Class

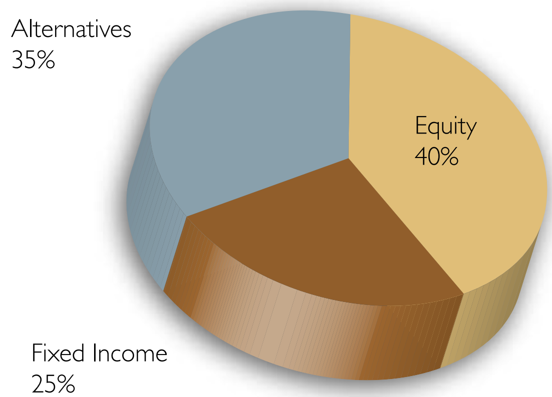
For Fiscal Year Ended June 30, 2012

	One Year	Three Years	Five Years	Ten Years
Total Fund (gross of fees)	**-0.1%**	**10.6%**	**1.0%**	**6.6%**
Total Fund (net of manager fees)	**-0.5%**	**10.2%**	**0.4%**	**6.3%**
Total Fund Ex Overlay (gross of fees)	**-0.3%**	**10.5%**	**1.0%**	**6.6%**
Total Fund Ex Overlay (net of manager fees)	**-0.6%**	**10.1%**	**0.3%**	**6.3%**
Policy Benchmark	1.3%	11.1%	1.1%	6.5%
ICC Public DB > $1B Median	0.8%	11.6%	1.6%	6.5%
Total Equity	**-5.5%**	**12.0%**	**N/A**	**N/A**
MSCI ACWI (Net)	-6.5%	10.8%	-2.7%	5.7%
eA All Global Equity Gross Median	-6.2%	12.0%	-1.6%	7.4%
Total U.S. Equity	**0.6%**	**15.5%**	**-0.4%**	**5.7%**
Russell 3000 Index	3.8%	16.7%	0.4%	5.8%
eA All US Equity Gross Median	0.4%	17.0%	1.2%	7.4%
Total International Equity	**-11.9%**	**8.5%**	**-3.6%**	**8.4%**
MSCI AC WORLD ex US (NET)	-14.6%	7.0%	-4.6%	6.7%
eA ACWI ex-US All Cap Equity Gross Median	-12.1%	10.3%	-3.6%	8.8%
Total Fixed Income	**10.1%**	**11.0%**	**N/A**	**N/A**
Barclays Aggregate	7.5%	6.9%	6.8%	5.6%
eA All US Fixed Inc Gross Median	6.9%	7.8%	6.9%	5.9%
Total Private Equity	**2.4%**	**12.0%**	**3.9%**	**N/A**
Cambridge PE 1 Qtr Lag	10.8%	18.2%	7.0%	13.3%
Venture Economics All Private Equity Lag	9.6%	17.1%	6.3%	10.5%
Total Real Estate	**9.1%**	**6.8%**	**1.3%**	**0.6%**
NCREIF Property Index	12.0%	8.8%	2.5%	8.3%
Total Inflation-Linked Assets	**-11.2%**	**N/A**	**N/A**	**N/A**
Custom Commodity Risk Parity Index	-9.4%	N/A	N/A	N/A
Dow Jones-UBS Commodity Index TR	-14.3%	3.5%	-3.7%	5.0%
Total Opportunistic Assets	**2.3%**	**N/A**	**N/A**	**N/A**
3-month LIBOR + 5%	5.5%	5.4%	6.5%	7.3%

Basis of Calculation: Time-Weighted Rate of Return
Source: NEPC LLC's Investment Performance Analysis Report dated June 30, 2012

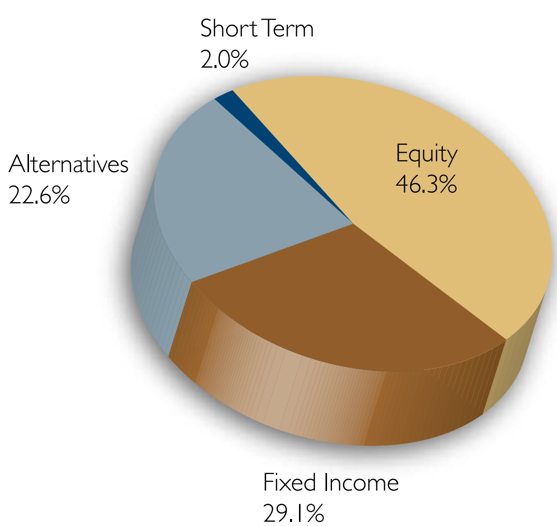
Investment Review

TARGET ASSET ALLOCATION *As of June 30, 2012*



Equity		40%
Fixed Income		25%
Alternatives		35%
TOTAL		**100%**

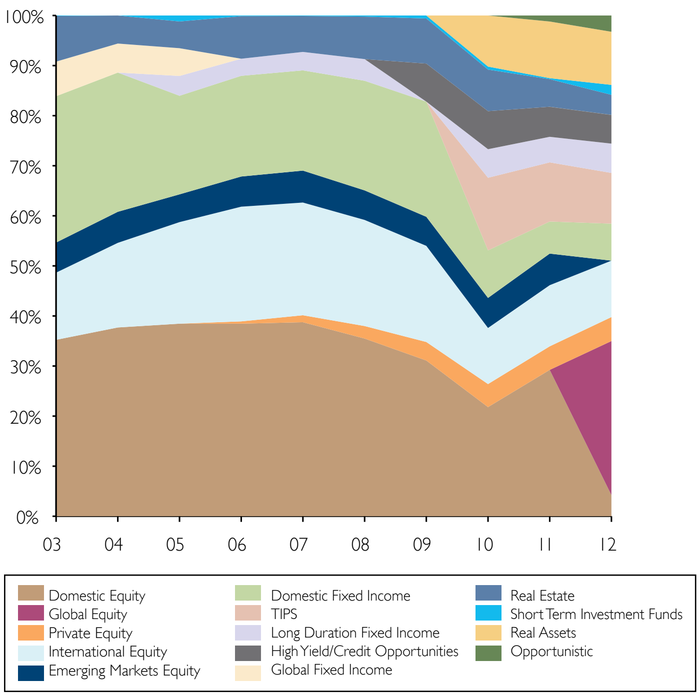
ACTUAL ASSET ALLOCATION *As of June 30, 2012*



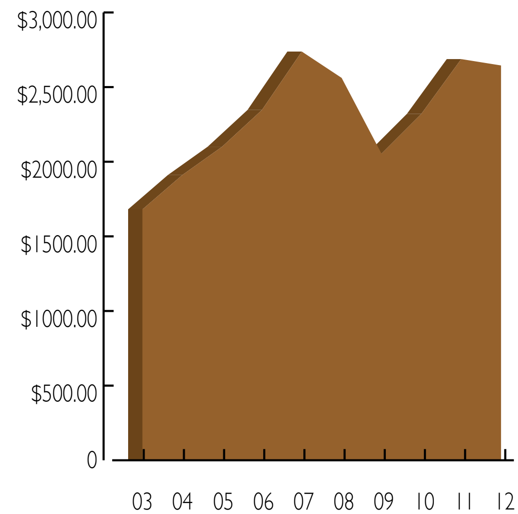
	$ in millions	
Equity	$ 1,223.34	46.3%
Fixed Income	$ 769.88	29.1%
Alternatives	$ 598.71	22.6%
Short Term Investment Funds	$ 53.01	2.0%
TOTAL	**$ 2,644.94**	**100%**

Non-GAAP Basis

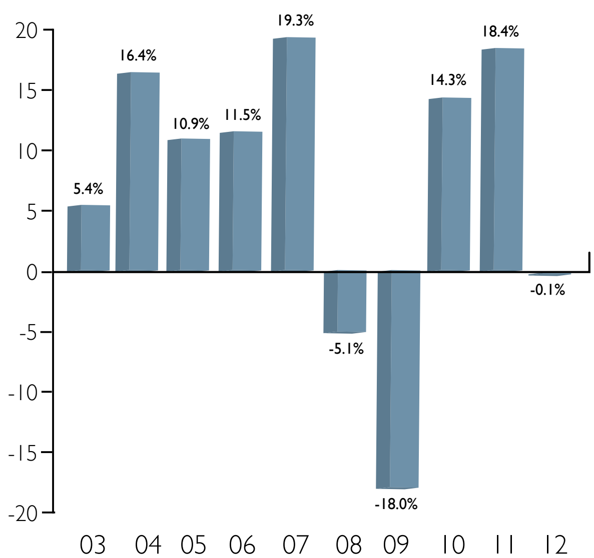
HISTORICAL ALLOCATION (Actual)
June 30, 2003 - June 30, 2012



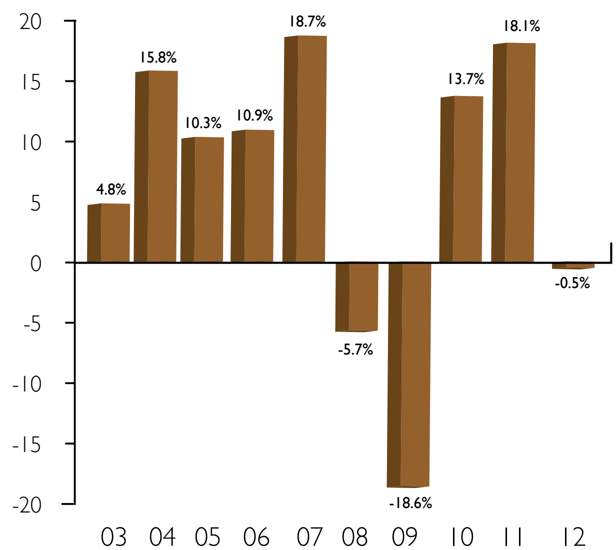
MARKET VALUE GROWTH OF PLAN ASSETS
For Ten Years Ended June 30, 2012 (Dollars in Millions)



HISTORY OF GROSS PERFORMANCE FOR FISCAL YEARS 2003 - 2012
(Based on Market Value)



HISTORY OF NET PERFORMANCE FOR FISCAL YEARS 2003 - 2012
(Based on Market Net Value)



List of Largest Assets Held

LARGEST STOCK HOLDINGS (By Market Value)
As of June 30, 2012

Description	Country	Shares	Market Value ($US)
EXXON MOBIL CORP	United States	194,339	$ 17,082,398
APPLE INC	United States	16,072	$ 10,826,581
WELLS FARGO & CO	United States	286,629	$ 9,765,450
PFIZER INC	United States	367,454	$ 8,804,198
GENERAL ELECTRIC CO	United States	414,639	$ 8,632,784
CHEVRON CORP	United States	73,444	$ 8,211,039
JPMORGAN CHASE & CO	United States	210,008	$ 7,833,298
JOHNSON & JOHNSON	United States	114,285	$ 7,699,380
BERKSHIRE HATHAWAY INC CL B	United States	87,563	$ 7,403,452
MICROSOFT CORP	United States	240,633	$ 7,375,401

A complete list of portfolio holdings is available upon request.

LARGEST BOND HOLDINGS (By Market Value)
As of June 30, 2012

Security Name	Country	Maturity Date	Interest Rate	Par Value	Market Value ($US)
TSY INFL IX N/B	United States	7/15/19	1.88	$ 114,987,700	$ 137,527,589
TSY INFL IX N/B	United States	4/15/14	1.25	$ 63,196,436	$ 65,245,264
TSY INFL IX N/B	United States	7/15/14	2.00	$ 61,239,170	$ 64,889,637
US TREASURY N/B	United States	10/15/14	0.50	$ 16,808,000	$ 16,867,164
US TREASURY N/B	United States	3/31/17	1.00	$ 14,807,000	$ 15,010,596
US TREASURY N/B	United States	2/15/42	3.13	$ 8,128,000	$ 8,729,960
US TREASURY N/B	United States	2/15/31	5.38	$ 5,393,000	$ 7,858,626
US TREASURY N/B	United States	2/15/42	3.13	$ 6,170,000	$ 6,626,950
US TREASURY N/B	United States	8/31/12	0.38	$ 5,797,000	$ 5,799,493
MICROSOFT CORP	United States	6/15/13	0.01	$ 3,650,000	$ 3,873,563

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

As of June 30, 2012

	Assets Under Management at Market Value*		Fees		Basis Points
Investment Managers' Fees					
Equity	$	1,223,342,184	$	2,049,915	17
Fixed Income		769,876,357		2,464,925	32
Private Equity		126,616,638		2,054,643	162
Opportunistic		85,915,935		845,000	98
Real Estate		105,786,553		867,565	82
Real Assets		280,386,136		1,012,624	36
Short Term Investment Funds		53,013,460		-	N/A
TOTAL INVESTMENT MANAGERS' FEES	**$**	**2,644,937,263**	**$**	**9,294,671**	**35**

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

	Fees	
Other Investment Service Fees		
Investment Consultant	$	767,504
Proxy Voting		35,486
Custodian		200,000
Real Estate Appraisals		3,382
Investment Legal Fees		63,983
TOTAL OTHER INVESTMENT SERVICE FEES	**$**	**1,070,355**

Schedule of Commissions

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
A			
ABG SECURITIES LIMITED	4,441,173.00	$ 211.68	$ 0.0000
ABN AMRO ASIA LIMITED	6,000.00	380.58	0.0634
ABN AMRO BANK N.V. HONG KONG	321,000.00	462.49	0.0014
ANCORA SECURITIES INC	2,547.00	101.88	0.0400
AQUA SECURITIES LP	26,900.00	538.00	0.0200
AUTONOMOUS LLP	179,400.00	425.59	0.0024
AUTREPAT-DIV RE	183,566.00	3,528.29	0.0192
AUTREPAT-STK DIV	99,664.66	18.46	0.0002
AVONDALE PARTNERS LLC	2,700.00	108.00	0.0400
B			
BANCO ITAU SA	36,519.00	1,164.50	0.0319
BANCO PACTUAL S.A.	89,200.00	2,746.34	0.0308
BANCO SANTANDER CENTRAL HISPANO	18,816.00	321.03	0.0171
BANK J.VONTOBEL UND CO AG	539.00	81.98	0.1521
BANK OF NEW YORK BRUSSELS	1,027.00	369.67	0.3600
BANQUE NATIONALE DU CANADA	50,537.00	2,003.45	0.0396
BARCLAYS CAPITAL	22,449,757.68	18,686.12	0.0008
BARCLAYS CAPITAL INC LE	2,233,423.00	5,503.60	0.0025
BMO CAPITAL MARKETS	57,592.00	2,303.68	0.0400
BNP PARIBAS SECURITIES (ASIA) LTD	211,982.00	1,852.71	0.0087
BRADESCO S.A CTVM	26,600.00	461.10	0.0173
BROADCORTCAPITAL (ML)	35,500.00	1,420.00	0.0400
BTIG, LLC	58,751.00	1,175.02	0.0200
C			
CALYON SECURITIES	11,300.00	175.49	0.0155
CANACCORDGENUITY CORP	46,958.00	1,852.20	0.0394
CANTOR FITZGERALD & CO	103,870.00	2,596.79	0.0250
CANTOR FITZGERALD EUROPE	1,101.00	18.80	0.0171
CARNEGIE A S	3,284.00	25.83	0.0079
CELFIN CAPITAL SA CORREDORES DE BOLSA	103,783.00	24.63	0.0002
CHARLES RIVER BROKERAGE	298.00	3.73	0.0125
CIBC WORLD MKTS INC	28,988.00	1,182.13	0.0408
CITATION GROUP	202,480.00	6,434.99	0.0318
CITIBANK N.A.	1,571,000.00	1,237.02	0.0008
CITIGROUPGLBL MARKTET KOERA SECS LTD	44,033.00	1,329.85	0.0302
CITIGROUPGLOBAL MARKETS INC	142,127,308.20	17,790.08	0.0035
CITIGROUPGLOBAL MARKETS INDIA	2,760.00	45.65	0.0165

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
C (continued)			
CITIGROUPGLOBAL MARKETS LIMITED	133,335.00	$ 3,203.07	$ 0.0240
CITIGROUPGLOBAL MARKETS UK EQUITY LTD	86,417.00	1,084.94	0.0126
CLSA SINGAPORE PTE LTD	24,100.00	450.74	0.0187
COLLINS STEWART LLC	9,189.00	367.56	0.0400
CONVERGEXEXECUTION SOLUTIONS LLC	871.00	31.48	0.0361
COWEN ANDCOMPANY, LLC	37,255.00	1,490.20	0.0400
CRAIG - HALLUM	600.00	24.00	0.0400
CREDIT AGRICOLE INDOSUEZ CHEUVREUX	29,727.00	1,641.64	0.0552
CREDIT LYONNAIS SECURITIES (USA) INC	516,528.56	4,909.71	0.0095
CREDIT SUISSE FIRST BOSTON (EUROPE)	33,904.00	1,617.21	0.0477
CREDIT SUISSE FIRST BOSTON SA CTVM	38,947.00	950.24	0.0244
CREDIT SUISSE SECS INDIA PRIVATE LTD	15,467.00	388.60	0.0251
CREDIT SUISSE SECURITIES (EUROPE) LTD	63,714,904.00	5,348.27	0.0001
CREDIT SUISSE SECURITIES (USA) LLC	226,979,136.47	7,913.99	0.0000
CUTTONE & CO INC	26,445.00	339.40	0.0128
D			
D CARNEGIE AG	41,856.00	2,118.09	0.0506
DAIWA SECURITIES (HK) LTD	85,500.00	356.82	0.0042
DAIWA SECURITIES AMERICA INC	1,033,667.01	2,041.91	0.0020
DANSKE BANK A.S.	3,239.00	61.21	0.0189
DAVIDSON D.A. & COMPANY INC	9,698.00	387.92	0.0400
DBS VICKERS SECURITIES (SINGAPORE)	82,000.00	192.66	0.0023
DEUTSCHE BANK AG LONDON	40,646.00	514.45	0.0127
DEUTSCHE BANK SECURITIES INC	26,585,238.60	14,741.12	0.0006
DEUTSCHE EQ IN PRVT LIM DB	52,777.00	1,351.30	0.0256
DEUTSCHE SECURITIES ASIA LIMITED	5,500.00	94.51	0.0172
DOWLING & PARTNERS	42,020.00	1,680.80	0.0400
E			
EVERCORE GROUP LLC	7,053.00	282.12	0.0400
EVOLUTIONBEESON GREGORY LIMITED	23,292.00	177.51	0.0076
EXANE S.A.	57,481.00	2,156.95	0.0375
F			
FIDELITY CLEARING CANADA	2,800.00	83.41	0.0298
FIRST ANALYSIS SECURITIES CORP	13,717.00	548.68	0.0400
FRIEDMAN BILLINGS & RAMSEY	53,410.00	2,136.40	0.0400

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
G			
GMP SECURITIES L.P.	14,249.00	$ 569.96	$ 0.0400
GMP SECURITIES LTD	10,035.00	409.07	0.0408
GOLDMAN SACHS (ASIA) LLC	13,880.00	231.41	0.0167
GOLDMAN SACHS & CO	74,128,412.76	15,652.97	0.0002
GOLDMAN SACHS DO BRASIL CORRETORA	39,100.00	1,026.65	0.0263
GOLDMAN SACHS INTERNATIONAL	760,940.00	8,295.43	0.0109
GOODBODY STOCKBROKERS	746.00	57.30	0.0768
GUGGENHEIM CAPITAL MARKETS LLC	26,872.00	1,074.88	0.0400
H			
HONGKONG AND SHANGHAI BANKING CORP	144,000.00	589.92	0.0041
HSBC BANKPLC	26,828.00	848.70	0.0316
I			
ING BANK N V	121,100.00	3,129.47	0.0258
ING FINANCIAL MARKETS LLC	1,015.00	19.33	0.0190
INSTINET	4,195,160.00	54,020.72	0.0129
INSTINET AUSTRALIA CLEARING SRVC PTY LTD	2,957.00	230.67	0.0780
INSTINET FRANCE S.A.	105,640.00	1,138.05	0.0108
INSTINET PACIFIC LIMITED	5,641,192.00	8,724.04	0.0015
INSTINET U.K. LTD	14,795,890.00	45,982.61	0.0031
INVESTEC BANK PLC	18,970.00	141.98	0.0075
INVESTMENT TECHNOLOGY GROUP INC	7,501,168.00	127,744.93	0.0170
INVESTMENT TECHNOLOGY GROUP LTD	47,867.00	292.27	0.0061
ISI GROUPINC	124,554.00	4,982.16	0.0400
ISLAND TRADER SECURITIES INC	20,237.00	809.48	0.0400
ITG CANADA	458,217.00	5,616.04	0.0123
ITG INC	234,431.00	1,522.88	0.0364
J			
J P MORGAN	11,500.00	114.28	0.0099
J P MORGAN INDIA PRIVATE LTD	12,373.00	231.49	0.0187
J.P. MORGAN CLEARING CORP	103,356,424.74	9,342.30	0.0133
J.P. MORGAN SECURITIES INC	8,284,439.00	6,990.07	0.0008
J.P.MORGAN SECURITIES (FAR EAST) LTD SEOUL	2,288.00	190.56	0.0833
JANNEY MONTGOMERY, SCOTT INC	424,317.00	2,652.68	0.0063
JEFFERIES & COMPANY INC	5,436,511.00	32,315.18	0.0059
JMP SECURITIES	40,694.00	1,627.76	0.0400
JOH BERENBERG GOSSLER AND CO	9,103.00	453.66	0.0498
JONESTRADING INSTITUTIONAL SERVICES LLC	28,702.00	781.41	0.0272
JP MORGANSECURITIES AUSTRALIA LTD	9,548.00	298.33	0.0312
JP MORGANSECURITIES PLC	4,155,645.00	5,666.46	0.0014
JP MORGNASECURITIES SINGAPORE	22,400.00	37.69	0.0017

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
J (continued)			
JPMORGAN CHASE BANK, N.A.	4,600.00	$ 184.62	$ 0.0401
JPMORGAN SECURITIES (ASIA PACIFIC) LTD	2,410,961.00	6,641.06	0.0028
K			
KEEFE BRUYETTE & WOODS INC	121,948.00	4,826.20	0.0396
KEEFE BRUYETTE AND WOOD LIMITED	72,604.00	916.43	0.0126
KEPLER EQUITIES PARIS	11,006.00	411.06	0.0373
KEYBANC CAPITAL MARKETS INC	4,167,862.00	1,234.48	0.0003
KING, CL & ASSOCIATES INC	1,900.00	76.00	0.0400
KNIGHT CLEARING SERVICES LLC	2,200.00	88.00	0.0400
KNIGHT DIRECT LLC	62,133.00	1,283.96	0.0207
KNIGHT EQUITY MARKETS L.P.	66,264.00	1,957.75	0.0295
KNIGHT EXECUTION AND CLEARING	102,000.00	50.46	0.0005
L			
LARRAIN VIAL	206,176.00	1,045.83	0.0051
LAZARD CAPITAL MARKETS LLC	735.00	29.40	0.0400
LEERINK SWANN AND COMPANY	30,192.00	1,207.68	0.0400
LIQUIDNETASIA LIMITED	343,000.00	432.61	0.0013
LIQUIDNETINC	98,573.00	2,402.78	0.0244
M			
MACQUARIEBANK LIMITED	8,157.00	553.02	0.0678
MACQUARIECAPITAL (EUROPE) LTD	49,928.00	1,175.96	0.0236
MACQUARIEEQUITIES LIMITED (SYDNEY)	505,139.00	986.07	0.0020
MACQUARIESEC NZ LTD	194,740.00	816.96	0.0042
MACQUARIESECURITIES (INDIA) PVT LTD	22,471.00	611.54	0.0272
MACQUARIESECURITIES (SINGAPORE)	50,400.00	217.73	0.0043
MACQUARIESECURITIES (USA) INC	28,060.00	1,122.40	0.0400
MACQUARIESECURITIES LIMITED	2,159,017.00	4,211.66	0.0020
MACQUARIESECURITIES LTD SEOUL	7,516.00	192.25	0.0256
MAINFIRSTBANK DE	40,254.00	604.25	0.0150
MERRILL LYNCH INTERNATIONAL	650,120.00	9,905.57	0.0152
MERRILL LYNCH PIERCE FENNER & SMITH INC	15,005,498.00	79,179.03	0.0053
MERRILL LYNCH PROFESSIONAL CLEARING CORP	46,667.00	1,474.53	0.0316
MERRIMAN CURHAN FORD & CO	411.00	16.44	0.0400
MITSUBISHI UFJ SECURITIES (USA)	720,112.00	237.94	0.0003
MIZUHO SECURITIES USA INC	13,558.00	495.15	0.0754
MORGAN KEEGAN & CO INC	1,406.00	56.24	0.0400
MORGAN STANLEY AND CO INTERNATIONAL	130.00	1.64	0.0126
MORGAN STANLEY CO INCORPORATED	34,913,827.99	15,670.35	0.0004

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
N			
NBC CLEARING SERVICES INCORPORATED	19,621.00	$ 797.34	$ 0.0406
NBCN CLEARING INC	9,010.00	360.40	0.0400
NEEDHAM & COMPANY	4,466.00	178.64	0.0400
NESBITT BURNS	69,785.00	2,766.30	0.0396
NOMURA FINANCIAL AND INVESTMEN	814.00	1,130.02	1.3882
NOMURA SECURITIES INTERNATIONAL INC	3,959,702.00	12,331.64	0.0031
NUMIS SECURITIES INC	155,895.00	808.06	0.0052
O			
OPPENHEIMER & CO INC	460,528.00	2,301.12	0.0050
P			
PENSON FINANCIAL SERVICES CANADA INC	54,430.00	2,170.16	0.0399
PERSHING LLC	71,446,721.03	47,633.13	0.0007
PERSHING SECURITIES LIMITED	163,600.00	363.53	0.0022
PICKERINGENERGY PARTNERS, INC	21,944.00	877.76	0.0400
PIPELINE TRADING SYSTEMS LLC	17,365.00	293.78	0.0169
PIPER JAFFRAY	1,016,585.00	10,390.70	0.0102
PULSE TRADING LLC	21,111.00	348.06	0.0165
R			
RAYMOND JAMES AND ASSOCIATES INC	13,726.00	549.04	0.0400
RBC CAPITAL MARKETS	9,412,949.95	4,204.15	0.0004
RBC DOMINION SECURITIES INC	29,067.00	1,155.55	0.0398
RBS SECURITIES INC	25,006.00	1,172.19	0.0469
REDBURN PARTNERS LLP	106,659.00	4,594.02	0.0431
ROBERT W.BAIRD CO INCORPORATE	63,649.00	2,545.96	0.0400
ROYAL BANK OF CANADA	51,400.00	2,067.11	0.0402
S			
SAMSUNG SECURITIES LIMITED-HOUSE A/C	124,000.00	170.16	0.0014
SANFORD C. BERNSTEIN LTD	58,345.00	1,557.58	0.0267
SANFORD CBERNSTEIN CO LLC	58,433.00	2,337.32	0.0400
SANTANDERINVESTMENT SECURITIES INC	71,000.00	2,130.00	0.0300
SCOTIA CAPITAL (USA) INC	767,365.00	1,202.92	0.0016
SCOTIA CAPITAL MKTS	16,919.00	660.41	0.0390
SCOTT & STRINGFELLOW, INC	710,892.32	195.64	0.0003
SIMMONS & COMPANY INTERNATIONAL	8,723.00	348.92	0.0400
SKANDINAVISKA ENSKILDA BANKEN LONDON	18,440.00	488.77	0.0265
SOCIETE GENERALE PARIS ZURICH BRA	23,941.00	830.37	0.0347
STANDARD CHARTERED BANK (HONG KONG) LIMI	70,200.00	$261.00	$0.0037
STATE STREET GLOBAL MARKETS, LLC	3,544.00	97.93	0.0276
STERNE AGEE & LEACH INC	12,870.00	514.80	0.0400
STIFEL NICOLAUS & CO INC	631,911.00	5,352.24	0.0085
SUNTRUST CAPITAL MARKETS, INC	30,439.00	1,217.56	0.0400

Schedule of Commissions *(Continued)*

Brokerage Firm	Number of Shares Traded	Total Commissions	Commission Per Share
S (continued)			
SVENSKA HANDELSBANKEN	8,396.00	$ 244.94	$ 0.0292
T			
TD WATERHOUSE CDA	114,424.00	4,650.41	0.0406
THINKPANMURE LLC	3,441.00	137.64	0.0400
U			
UBS AG	1,819,757.00	12,289.96	0.0068
UBS SECURITIES ASIA LTD	3,798,019.00	5,079.32	0.0013
UBS SECURITIES CANADA INC	790,500.00	9,935.91	0.0126
UBS SECURITIES LLC	30,065,758.00	1,687.43	0.0001
UBS WARBURG LLC	87,100.00	743.46	0.0085
W			
WEDBUSH MORGAN SECURITIES INC	34,187.00	1,367.48	0.0400
WEEDEN & CO	361,094.00	4,519.22	0.0125
WELLS FARGO SECURITIES, LLC	2,431,630.00	2,852.24	0.0012
WILLIAM BLAIR & COMPANY LLC	59,258.00	2,370.32	0.0400
WOORI INVESTMENT SECURITIES	7,221.00	509.31	0.0705
WUNDERLICH SECURITIES INC	55,383.00	2,215.32	0.0400
TOTAL	**916,281,274**	**$ 784,405.35**	**$ 0.0009**

Investment Summary

As of June 30, 2012

Type of Investment		Fair Value	% of Portfolio
Equities			
Global Equity	$	813,721,752	30.76%
Domestic Equity		111,705,856	4.22%
International Equity		297,914,576	11.26%
Total Equities	**$**	**1,223,342,184**	**46.24%**
Fixed Income			
Core	$	195,270,511	7.38%
TIPS		267,816,120	10.13%
Long Duration		154,930,010	5.86%
Credit		151,859,716	5.74%
Total Fixed Income	**$**	**769,876,357**	**29.11%**
Alternatives			
Private Equity	$	126,616,638	4.79%
Real Estate		105,786,553	4.00%
Inflation-Linked Assets		280,386,136	10.60%
Opportunistic		85,915,935	3.25%
Total Alternatives	**$**	**598,705,262**	**22.64%**
Short Term*	**$**	**52,523,014**	**1.99%**
International Currency Contracts	**$**	**490,446**	**0.02%**
Total Fair Value	**$**	**2,644,937,263**	**100.00%**

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

* Includes cash to support synthetic exposure.

Investment Properties

FIRST AMERICAN OFFICE PLAZA

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

PROGRESS POINT

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

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Actuarial Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012

Actuary's Certification Letter

CHEIRON Classic Values, Innovative Advice

April 20, 2012

Board of Retirement
City of San Jose Police and Fire Department Retirement Plan
1737 North 1st Street, Suite 580
San Jose, CA 95112

Dear Members of the Board:

At your request, we performed the June 30, 2011 actuarial valuation of the City of San Jose Police and Fire Department Retirement Plan ("Plan"). The detailed valuation results with respect to the Plan are contained in our actuarial valuation report issued February 20, 2012. The purpose of the actuarial valuation is to report on the financial condition, including historical and expected future trends, of the Plan as of the valuation date; to determine the City's and member contribution rates for the fiscal year ending June 30, 2013; and to provide other disclosure information required under Government Accounting Standards Board Statements No. 25 and 27. Historically, actuarial valuations were performed every two years. Beginning June 30, 2009, actuarial valuations have been performed annually.

The funding methods adopted by the Plan are designed to spread the cost of benefits over each employee's working career as a level percentage of pay. The funding ratio indicates the percentage of assets in the Plan compared to the amount targeted by the funding method as of the valuation date. Variations in the expected cost of the plan are amortized as a level percentage of expected payroll over closed 16-year periods (except assumption changes are amortized over a closed 20-year period).

At its December 2011 meeting, the Board adopted a number of assumption changes based on recommendations from our experience study report. In particular, the Board reduced its investment return assumption from the 7.75% that was used in the prior valuation to 7.50%. The wage growth assumption was also reduced from 4.25% in the prior valuation to a rate of 0% for two years and 3.5% thereafter. Administrative expenses and the Supplemental Retiree Benefit Reserve (SRBR), which both had been implicitly valued as part of the investment return assumption, are now explicitly valued as an addition to normal cost ($3.0 million for administrative expenses and 0.22% of the market value of assets for the SRBR).

During the year, there were also very significant changes due to the experience of the Plan, including a 14% reduction in the number of active members and a 24% reduction in the expected payroll. The investment return for the year was 17.2%, but due to asset smoothing, prior investment losses are still being phased in and as a result the return on the actuarial value of assets was only 4.0%. Other key results from the valuation are as follows:

- *Unfunded Actuarial Liability (UAL)/Surplus:* The UAL decreased $143.5 million from $653.8 million to $510.3 million. The Actuarial Liability decreased $34.5 million and assets increased $109.0 million.

- *Funding Ratio:* The ratio of the actuarial value of assets to the actuarial liability increased since the last valuation from 80% to 84%. The actuarial value of assets is smoothed in order to mitigate the impact of investment performance volatility on employer contribution rates. Without the asset smoothing, the ratio of the market value of assets to the actuarial liability increased from 70% to 82%.

- *Member Contribution Rate:* The member contribution rate is a proportion (3/11ths) of the service normal cost rate plus a rate to amortize a portion of some benefit improvements. In aggregate, the Member contribution rate increased from 10.6% to 11.2%.

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- *City Contribution Rate:* City contributions are a proportion ($8/11^{ths}$) of the service normal cost rate plus the reciprocity normal cost rate plus an amortization payment on the UAL. City contributions as a percent of payroll increased significantly from 50.4% of payroll to 57.7% of payroll. However, the decrease in payroll exaggerates the increased cost to the City. The beginning of year contribution amount actually decreased from $127.2 million to $106.1 million.

More details on the plan experience for the past year, including the changes listed above and their impact on the June 30, 2011 valuation results can be found in our full actuarial valuation report. In preparing our report, we relied without audit, on information (some oral and some written) supplied by the City of San Jose Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

We have prepared the following information for inclusion in the Actuarial Section of this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2011 actuarial valuation:

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Solvency Test
- Analysis of Financial Experience
- Summary of Plan Benefits

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

- Notes to Required Supplementary Information
- Schedule of Funding Progress

All historical information prior to the June 30, 2011 actuarial valuation shown in these exhibits is based on information reported by the prior actuary, the Segal Company.

This letter and these exhibits were prepared exclusively for the purpose of completing required disclosures for this CAFR.

We hereby certify that, to the best of our knowledge, this letter and the exhibits named above, which are based on the information and data supplied by the City of San Jose Department of Retirement Services, are work products of Cheiron, Inc. These work products are complete and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Sincerely,
Cheiron

Gene Kalwarski, FSA, FCA, EA, MAAA	William R. Hallmark, ASA, FCA, EA, MAAA
Consulting Actuary	*Consulting Actuary*

Actuarial Assumptions and Methods

Actuarial Assumptions

1. Investment Return Assumption

Assets are assumed to earn 7.5% net of investment.

2. Salary Increase Rate

Wage inflation component is assumed to be 0.00% for FYE 2013 and 2014, and 3.50% thereafter.

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

Table B-1	
Salary Merit Increases	
Years of Service	**Merit/ Longevity**
0	8.00%
1	7.25
2	6.50
3	5.75
4	5.00
5	4.50
6	4.00
7	3.50
8	3.00
9	2.50
10+	2.25

3. Family Composition

Percentage married is shown in the following Table B-2. Women are assumed to be three years younger than men.

Table B-2	
Percentage Married	
Gender	**Percentage**
Males	85%
Females	85%

4. Rates of Termination

Sample rates of termination are shown in the following Table B-3.

Table B-3	
Rates of Termination	
Service	**Termination**
0	6.00%
1	2.50
2	1.50
3-4	1.00
5-10	0.75
11+	0.40

** Termination rates do not apply once a member is eligible for retirement*

75% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.5% pay increases per year.

5. Rates of Disability

Sample disability rates of active participants are provided in Table B-4

Table B-4		
Rates of Disability at Selected Ages		
Age	Police	Fire
25	0.09%	0.09%
30	0.13	0.13
35	0.20	0.20
40	0.31	0.31
45	0.51	0.51
50	2.14	2.25
55	9.08	8.50
60	10.00	17.25
65	10.00	20.00

100% of disabilities are assumed to be duty related.

6. Rates of Mortality for Healthy Lives

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant mortality tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back three years for males and no setback for females.

Table B-5		
Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	**Male**	**Female**
25	0.0308%	0.0180%
30	0.0363	0.0239
35	0.0535	0.0425
40	0.0860	0.0607
45	0.1099	0.0957
50	0.1491	0.1412
55	0.2179	0.2507
60	0.3954	0.4808
65	0.7529	0.9231
70	1.4103	1.5923
75	2.3454	2.5937
80	4.1153	4.2767
85	7.4274	7.2923
90	12.8097	12.7784
95	21.0194	19.0654

It is assumed that 50% of active deaths are service related.

7. Rates of Mortality for Retired Disabled Lives

Mortality rates for disabled retirees are based on the male RP-2000 combined employee and annuitant mortality table. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years.

Table B-6	
Rates of Mortality for Disabled Lives at Selected Ages	
Age	**Mortality**
50	0.1583%
55	0.2383
60	0.4488
65	0.8695
70	1.5521
75	2.6125
80	4.6195
85	8.2794
90	14.3228
95	22.6746

8. Rates of Retirement

Rates of retirement are based on age and service according to the following Table B-7.

Table B-7				
Rates of Retirement by Age				
	Police		**Fire**	
Age	<30 Years	30+ Years	<30 Years	30+ Years
50 - 54	30.00%	50.00%	17.00%	17.00%
55 - 59	30.00	50.00	17.00	25.00
60 - 64	50.00	100.00	17.00	25.00
65 - 69	50.00	100.00	35.00	35.00
70 & over	100.00	100.00	100.00	100.00

These retirement rates apply only to those eligible for unreduced benefits.

9. Administrative Expenses

$3.0 million added to normal cost. The administrative expenses are assumed to increase with wage inflation. Historically, the administrative expenses were assumed to reduce the investment return assumption by 10 basis points which resulted in a higher Normal Cost. To maintain the same historic division of member and City contributions for administrative expenses for this valuation, members were allocated a portion of the administrative expenses equal to 3/11ths of the difference in Normal Cost that a 10 basis point reduction in the investment return assumption would cause.

10. SRBR

0.22% of the market value of assets is added to the normal cost as the assumed average annual transfer of excess earnings to the SRBR.

11. Changes Since Last Valuation

Actuarial assumptions have been changed, based upon recommendations from the 2011 actuarial experience study that were adopted by the Board in December 2011. The changes affected the investment return, wage inflation, salary merit increase, termination rates, disability rates, retirement rates, and healthy and disabled mortality assumptions. For a complete description of these changes, please refer to the experience study report dated October 28, 2011.

Actuarial Methods

1. Actuarial Funding Method

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

2. Asset Valuation Method

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

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.75% for 2010-11, 8.00% for prior years) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss.

Finally, the actuarial value of assets is restricted to a corridor between 80 percent and 120 percent of the market value of assets.

Prior to this valuation, the actuarial value of assets was reduced by the SRBR and no liability was reported for the SRBR. With this valuation, the SRBR remains a part of the actuarial value of assets and is also added to the actuarial liability.

3. Amortization Method

Actuarial gains and losses and plan changes are amortized as a level percentage of pay assuming 3.5% annual growth in payroll over a 16-year period beginning with the valuation date in which they first arise. Changes in methods and assumptions are amortized as a level percentage of pay assuming 3.5% annual growth in payroll over a 20-year period (16 years for changes prior to June 30, 2011) beginning with the valuation date on which they are effective.

Member Valuation Data

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Date	**Active count**	**Annual Payroll**	**Monthly Average Pay**	**Percentage Change in Average Pay***
2011	1,735	$ 190,726,258	$ 9,161	-11.51%
2010	2,021	$ 251,058,473	$ 10,352	1.38%
2009	2,083	$ 255,222,552	$ 10,211	14.92%
2007	2,136	$ 227,734,449	$ 8,885	1.68%
2005	2,003	$ 210,018,219	$ 8,738	9.10%
2003	2,104	$ 202,222,000	$ 8,009	17.88%

**Years prior to 2009 are increases over a two-year period, not an annual increase*

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
	Beginning of Period		**Added to Rolls**		**Removed from Rolls**		**End of Period**			
Period	**Count**	**Annual Allowances**	**Count**	**Annual Allowances**	**Count**	**Annual Allowances**	**Count**	**Annual Allowances**	**% Increase in Annual Allowances***	**Average Annual Allowances**
2010-2011	1,810	$ 131,014,000	133	$ 5,384,000	58	$ 2,259,000	1,885	$ 144,139,000	10.02%	$ 76,466
2009-2010	1,700	$ 115,573,000	152	$ 17,238,000	42	$ 1,797,000	1,810	$ 131,014,000	13.36%	$ 72,383
2007-2009	1,477	$ 90,061,000	276	$ 27,537,000	53	$ 2,025,000	1,700	$ 115,573,000	28.33%	$ 67,984
2005-2007	1,385	$ 76,071,000	143	$ 15,913,000	51	$ 1,923,000	1,477	$ 90,061,000	18.39%	$ 60,976
2003-2005	1,271	$ 62,314,000	161	$ 15,619,000	47	$ 1,862,000	1,385	$ 76,071,000	22.08%	$ 54,925
2001-2003	1,164	$ 49,993,000	159	$ 13,806,000	52	$ 1,485,000	1,271	$ 62,314,000	24.65%	$ 49,028

**Years prior to 2009-2010 are increases over a two-year period, not an annual increase*

GASB SOLVENCY TEST							
Valuation Date	Active Member Contributions	Retirees, Beneficiaries and Other Inactives	Remaining Active Members' Liabilities	Reported Assets*	Portion of Actuarial Liabilities Covered by Reported Assets		
		Actuarial Liabilities for:					
June 30, **	(A)	(B)	(C)		(A)	(B)	(C)
2011	$ 260,172	$ 2,174,044	$ 761,791	$ 2,685,721	100%	100%	33%
2010	$ 246,356	$ 1,907,931	$ 1,076,169	$ 2,576,705	100%	100%	39%
2009	$ 243,302	$ 1,630,914	$ 1,089,266	$ 2,569,569	100%	100%	64%
2007	$ 227,191	$ 1,240,126	$ 905,069	$ 2,365,790	100%	100%	99%
2005	$ 194,008	$ 1,062,247	$ 771,177	$ 1,983,090	100%	100%	94%
2003	$ 167,203	$ 881,064	$ 774,934	$ 1,826,287	100%	100%	100%

Amounts in thousands

** Actuarial Value of Assets*

*** Results prior to June 30, 2011 were calculated by the prior actuary*

ANALYSIS OF FINANCIAL EXPERIENCE

Gain (or Loss) in Actuarial Liability Resulting from Differences Between Assumed Experience and Actual Experience

	Gain (or Loss) for Year(s) Ending				
	June 30, 2011	June 30, 2010	June 30, 2009*	June 30, 2007*	June 30, 2005*
Investment Income	$ (96,473)	$ (149,621)	$ (138,383)	$ 97,135	$ (136,013)
Combined Liability Experience	278,051	43,880	(113,495)	47,735	101,668
Gain (or Loss) During Year from Financial Experience	$ 181,578	$ (105,741)	$ (251,878)	$ 144,870	$ (34,345)
Non-Recurring Gain (or Loss) Items	12,360	(104,240)	(145,351)	(93,343)	(12,960)
Composite Gain (or Loss) During Year	$ 193,938	$ (209,981)	$ (397,229)	$ 51,527	$ (47,305)

Amounts in thousands

** Two-year period*

Summary of Plan Provisions

1. Membership Requirement

Participation in the plan is immediate upon the first day of employment with the City of San Jose as a police officer or fire fighter except for the following:

- Independent contractors,
- Person in City service principally for training or educational purposes,
- Auxiliary or voluntary police officers or fire fighters,
- Part-time or non-salaried employees, and
- Employees receiving credit in any other retirement or pension system.

2. Final Compensation

The highest twelve consecutive months of compensation in covered employment. However, in determining Final Compensation, no compensation in the last 12 months of employment that exceeds 108% of compensation during the 12 months immediately proceeding the last 12 month shall be considered. Compensation excludes overtime pay and expense allowances.

3. Credited Service

Years of service in covered employment plus service purchased for military leave of absence, Federated service, and unpaid leaves of absence.

4. Contributions

a. Member:

The amount needed to fund 3/11 of normal cost calculated under the Entry Age actuarial cost method plus the amortization payment on the February 4, 1996 benefit improvement. For Police members, there is an additional amortization payment for member contributions not made for the last 6 months of 2006.

b. Employer:

The Employer contributes the remaining amounts necessary to fund the Plan in accordance with the Board's funding policy.

5.Service Retirement

Eligibility

Age 55 with 20 years of service, age 50 with 25 years of service, age 70 with no service requirement, or any age with 30 years of service. Reduced benefits are also available at age 50 with 20 years of service.

Benefit

Police: 2.5% of Final Compensation for each year of credited service up to 20 years plus 4.0% of Final Compensation for each year of credited service in excess of 20, subject to a maximum of 90% of Final Compensation.

Fire: For members with less than 20 years of service, 2.5% of Final Compensation for each year of credited service. For members with 20 or more years of service, 3.0% of Final Compensation for each year of service, subject to a maximum of 90% of Final compensation.

6. Service Connected Disability Retirement

Eligibility

No age or service requirement.

Benefit

Police: 50% of Final Compensation plus 4.0% of Final Compensation for each year of credited service in excess of 20, subject to a maximum of 90% of Final Compensation.

Fire: For members with less than 20 years of service, 50% of Final Compensation. For members with 20 or more years of service, 3.0% of Final Compensation for each year of service, subject to a maximum of 90% of Final Compensation.

7. Non-Service Connected Disability Retirement

Eligibility

Two years of service.

Benefit

For members with less than 20 years of service, 32% of Final Compensation plus 1% of Final Compensation for each year of service in excess of two. For members with 20 or more years of service, the benefit amount equals the amount that would be calculated under the service retirement formula.

8. Non-Service Connected Death

Less than 2 Years of Service:

Lump sum benefit equal to the greater of accumulated employee contributions with interest or $1,000.

Disabled retirees or members ineligible for service retirement:

Spouse receives 24% of Final Compensation plus 0.75% of Final Compensation for each year of service in excess of two, subject to a maximum of 37.5% of Final Compensation. If a member has eligible dependent children, an additional benefit is payable as follows:

1 Child: 25% of Final Compensation

2 Children: 37.5% of Final Compensation

3+ Children: 50% of Final Compensation

The total benefit payable to a family is limited to 75% of Final Compensation.

If a member does not have a spouse or eligible dependent children, a lump sum benefit equal to the greater of accumulated employee contributions with interest or $1,000.

Service retirees or members eligible for service retirement:

Spouse receives the greater of 37.5% of Final Compensation or 50% of the member's service retirement benefit, subject to a maximum of 42.5% of Final Compensation for Police and 45% of Final Compensation for Fire. Eligible dependent children will receive the same benefit as defined under the non-service connected death for disabled retirees or members ineligible for service retirement. The total benefit payable to a family is limited to 75% of Final Compensation.

9. Service Connected Death

Spouse receives the greater of 37.5% of Final Compensation or 50% of the member's service retirement benefit, subject to a maximum of 42.5% of Final Compensation for Police and 45% of Final Compensation for Fire. If a member has eligible dependent children, an additional benefit of 25% of Final Compensation is payable for each eligible dependent child. The total benefit payable to a family is limited to 75% of Final Compensation.

10. Termination Benefits

Less than 10 Years of Service:

Lump sum benefit equal to the accumulated employee contributions with interest at 2% per annum.

10 or more years of credited service:

The amount of the service retirement benefit, payable at the later of age 55 or 20 years from date of membership.

11. Post-retirement Cost-of-Living Benefit

Benefits are increased every February 1 by 3.0%.

12. Supplemental Retiree Benefit Reserve

Annual transfer:

10% of earnings in excess of the actuarially assumed rate on the actuarial value of assets are transferred to the SRBR and added to its principal.

Interest credit:

Interest on the SRBR balance equal to the actual rate of earnings on the actuarial value of assets, but not less than zero.

Benefit:

Board shall make annual distributions from the SRBR to provide supplemental benefits to retirees and beneficiaries except that no distributions can be made during calendar years 2010, 2011 and 2012, prior to June 30, 2012. In addition, distributions may not reduce the principal of the SRBR.

Charge to Principal:

If the City's contribution rate increases due to poor investment earnings, 10% of the increased contribution for a one-year period is deducted from the SRBR principal, subject to a maximum deduction of 5% of the SRBR principal.

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CHEIRON Classic Values, Innovative Advice

April 24, 2012

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

Dear Members of the Board:

At your request, we performed the June 30, 2011 actuarial valuation of the City of San Jose Police and Fire Department Retiree Medical and Dental Insurance Plan ("Plan"). The detailed valuation results with respect to the Plan are contained in our actuarial valuation report issued February 24, 2012. The purpose of the actuarial valuation is to report on the financial condition, including historical and expected future trends, of the Plan as of the valuation date; to determine the City's and member contribution rates for the fiscal year ending June 30, 2013; and to provide other disclosure information required under Government Accounting Standards Board Statements No. 43 and 45. Historically, actuarial valuations were performed every two years. Since June 30, 2009, actuarial valuations have been performed annually.

The funding methods adopted in collective bargaining and reflected by the Plan in this valuation are designed to spread the cost of benefits over each employee's working career as a level percentage of pay. The funding ratio indicates the percentage of assets in the Plan compared to the amount targeted by the funding method as of the valuation date. Because the effort to fully fund the Plan was started relatively recently, the current funded status is relatively low. For the Police Department, a five-year transition to contributions aimed at fully funding the explicit subsidies of the Plan began with the 2009-10 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2008. For the Fire Department, this transition began with the 2011-12 fiscal year and included a 30-year closed amortization of the unfunded actuarial liability as of June 30, 2010. During the phase-in period, annual increases to the City and member contribution rates are limited to 1.35% of payroll and 1.25% of payroll respectively. Furthermore, if the City or member rates exceed 11% and 10% of payroll respectively, the parties are to meet and confer on how to address any contributions above those two percentages.

At its December 2011 meeting, the Board adopted a number of assumption changes for the pension plan based on recommendations from our experience study that also apply to the valuation of this Plan. In particular, the Board reduced its investment return assumption from the 7.75% that was used in the prior valuation to 7.50%. At its February 2012 meeting, the Board adopted assumptions specific to the OPEB valuation, including changes in assumed claims costs, health care trend rates and a reduction in the expected return on employer assets to 4.0%. The changes in assumptions are summarized in the Actuarial Assumptions and Methods exhibits.

During the year, the Plan experienced very significant changes in its census, including a 14% reduction in the number of active members, a 5% increase in the number of retirees and spouses covered for retiree medical benefits, and a 24% reduction in expected payroll. Other key results from the valuation are as follows:

- *Unfunded Actuarial Liability (UAL)/Surplus:* On a financial reporting basis, the UAL increased $55.4 million from $887.7 million to $943.1 million. The Actuarial Liability increased $57.5 million and assets increased $2.1 million.
- *Funding Ratio: The ratio of the actuarial value of assets to actuarial liabilities decreased from 6.2% to 6.0% since the last valuation.*
- *Member Contribution Rate:* The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The agreements call for a five year transition to full actuarially determined

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Other Postemployment Benefits (OPEB)

contributions to fund the explicit subsidy with caps on annual increases and the ultimate cost. The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of three to one with the City contributing 3/4 of the total contribution. For the Police Department, the member contribution rate increased from 7.01% to 8.26% of payroll. For the Fire Department, the member contribution rate increased from 4.86% to 6.11%.

- *City Contribution Rate:* The City contribution rate for the Police Department increased from 7.61% to 8.96% of payroll. The City contribution rate for the Fire Department increased from 5.27% to 6.62% of payroll.

More details on the plan experience for the past year, including the changes listed above and their impact on these June 30, 2011 valuation results can be found in our full report. In preparing our report, we relied without audit, on information (some oral and some written) supplied by the City of San Jose Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standards of Practice #23.

We have prepared the following information for inclusion in the Actuarial Section of this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2011 actuarial valuation:

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

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

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

Valuations prior to 2011 were performed by The Segal Group, Inc., and all exhibits showing historical information are based on information reported by the prior actuary.

This letter and these exhibits were prepared exclusively for the purpose of completing required disclosures for this CAFR.

We hereby certify that, to the best of our knowledge, this letter and the exhibits named above, which are based on the information and data supplied by the City of San Jose Department of Retirement Services, are work products of Cheiron, Inc. These work products are complete and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter and the exhibits named above do not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010, related legislation, or regulations.

Sincerely,

William R. Hallmark

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

Margaret Tempkin

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

Actuarial Assumptions and Methods

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Economic Assumptions

1. Expected Return on Plan Assets: 7.50% per year
2. Expected Return on Employer Assets: 4.00% per year
3. Blended Discount Rate: 5.70% per year
4. Per Person Cost Trends:

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

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

Demographic Assumptions

1. Retirement Rates:

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

Rates of Retirement by Age				
	Police		Fire	
Age	<30 Years	30+ Years	<30 Years	30+ Years
50 - 54	30.00%	50.00%	17.00%	17.00%
55 - 59	30.00	50.00	17.00	25.00
60 - 64	50.00	100.00	17.00	25.00
65 - 69	50.00	100.00	35.00	35.00
70 & over	100.00	100.00	100.00	100.00

These retirement rates apply only to those eligible for unreduced benefits.

Eligible deferred vested members are assumed to retire at age 55.

2. Termination Rates

Sample rates of termination are shown in the following table.

Rates of Termination	
Service	Termination
0	6.00%
1	2.50
2	1.50
3-4	1.00
5-10	0.75
11+	0.40

** Termination rates do not apply once a member is eligible for retirement.*

3. Rate of Mortality:

Healthy Lives:

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant mortality tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back three years for males and no setback for females.

Rates of Mortality for Active and Retired Healthy Lives at Selected Ages		
Age	Male	Female
25	0.0308%	0.0180%
30	0.0363	0.0239
35	0.0535	0.0425
40	0.0860	0.0607
45	0.1099	0.0957
50	0.1491	0.1412
55	0.2179	0.2507
60	0.3954	0.4808
65	0.7529	0.9231
70	1.4103	1.5923
75	2.3454	2.5937
80	4.1153	4.2767
85	7.4274	7.2923
90	12.8097	12.7784
95	21.0194	19.0654

Actuarial Assumptions and Methods *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Demographic Assumptions (continued)

Disabled Lives:

Mortality rates for disabled retirees are based on the male RP-2000 combined employee and annuitant mortality table. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2010 using scale AA and set back two years.

Rates of Mortality for Disabled Lives at Selected Ages	
Age	**Mortality**
50	0.1583%
55	0.2383
60	0.4488
65	0.8695
70	1.5521
75	2.6125
80	4.6195
85	8.2794
90	14.3228
95	22.6746

4. Disability Rates:

Sample rates of disability are show in the following table.

Rates of Disability at Selected Ages		
Age	**Police**	**Fire**
25	0.09%	0.09%
30	0.13	0.13
35	0.20	0.20
40	0.31	0.31
45	0.51	0.51
50	2.14	2.25
55	9.08	8.50
60	10.00	17.25
65	10.00	20.00

100% of disabilities are assumed to be duty related.

5. Salary Increase Rate:

Wage inflation component is assumed to be 0.00% for FYE 2013 and 2014, and 3.50% thereafter

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

Salary Merit Increases	
Years of Service	**Merit/ Longevity**
0	8.00%
1	7.25
2	6.50
3	5.75
4	5.00
5	4.50
6	4.00
7	3.50
8	3.00
9	2.50
10+	2.25

6. Percent of Retirees Electing Coverage:

100% of employees are assumed to elect coverage at retirement. Future retirees' plan elections are assumed to mirror current retiree plan elections. Retirees who turn age 65 are assumed to be eligible for Medicare. The following rates are used to determine blended claims and contributions for future retirees.

Assumed Plan Elections for Future Retirees		
Plan	**Pre-Medicare**	**Medicare Eligible**
Medical		
• Kaiser	46%	45%
• Kaiser $25 Co-pay	19%	
• HMO	22%	7%
• HMO $25 Co-pay	6%	
• PPO / POS	6%	45%
• PPO / POS $25 Co-pay	1%	
• Secure Horizons	N/A	2%
• Pacificare	N/A	1%
Dental		
• Delta Dental PPO	97%	
• DeltaCare HMO	3%	

Actuarial Assumptions and Methods *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Demographic Assumptions (continued)

7. Family Composition:

95% of married males and 70% of married females will elect spouse coverage in a medical plan at retirement. 100% of employees with a spouse will elect spouse coverage in a dental plan at retirement.

8. Dependent Age:

For current retirees, actual spouse date of birth was used when available. For future retirees, husbands are assumed to be three years older than their wives.

9. Married Percentage:

Percentage Married	
Gender	Percentage
Males	85%
Females	85%

10. Administrative Expenses:

Included in the average monthly premiums.

Changes Since Last Valuation

Actuarial assumptions have been changed, based upon recommendations from the 2011 actuarial experience study for the City of San Jose Police and Fire Department Retirement System that were adopted by the Board in December 2011. The changes affected the investment return, wage inflation, salary merit increase, family composition, termination rate, disability rate, retirement rate, and healthy and disabled mortality. For a complete description of these changes, please refer to the experience study report dated October 28, 2011. In addition, the expected return on employer assets was reduced from 4.75% to 4.0%, and the blended discount rate was reduced from 6.30% to 5.70%.

Claim and Expense Assumptions:

1. Average Annual Claims and Expense Assumptions:

The following claim and expense assumptions are applicable to the 12-month period beginning July 1, 2011 and are based on the premiums in effect on the valuation date. Subsequent years' costs are based on the trended first year cost adjusted with trends listed above.

Active Employees:

	Medical	
Age	Male	Female
40	$ 3,289	$ 5,847
45	4,119	6,190
50	5,456	7,341
55	7,169	8,749
60	9,318	10,444
64	12,036	12,904
65	5,516	5,883
70	6,477	6,497
75	7,243	7,005
80	7,695	7,231
85	7,798	7,156

Actuarial Assumptions and Methods *(Continued)*

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Claim and Expense Assumptions (continued):

Current Retirees:

	Kaiser - Male			Kaiser - Female		
Age	**Blended Premium**	**Age-Based Cost**	**Implicit Subsidy**	**Blended Premium**	**Age-Based Cost**	**Implicit Subsidy**
45	$ 6,329	$ 3,992	$ (2,337)	$ 6,329	$ 5,999	$ (330)
50	6,329	5,287	(1,042)	6,329	7,115	786
55	6,329	6,948	619	6,329	8,479	2,150
64	6,329	11,665	5,336	6,329	12,506	6,177
65	5,570	4,845	(725)	5,570	5,167	(403)
70	5,570	5,689	119	5,570	5,706	136
75	5,570	6,361	791	5,570	6,152	582
80	5,570	6,758	1,188	5,570	6,350	780

	Kaiser $25 Co-pay Plan - Male			Kaiser $25 Co-pay Plan - Female		
Age	**Blended Premium**	**Age-Based Cost**	**Implicit Subsidy**	**Blended Premium**	**Age-Based Cost**	**Implicit Subsidy**
45	$ 5,952	$ 3,755	$ (2,197)	$ 5,952	$ 5,643	$ (309)
50	5,952	4,973	(979)	5,952	6,692	740
55	5,952	6,535	583	5,952	7,975	2,023
64	5,952	10,972	5,020	5,952	11,763	5,811
65	5,570	4,845	(725)	5,570	5,167	(403)
70	5,570	5,689	119	5,570	5,706	136
75	5,570	6,361	791	5,570	6,152	582
80	5,570	6,758	1,188	5,570	6,350	780

	HMO - Male			HMO - Female		
Age	**Blended Premium**	**Age-Based Cost**	**Implicit Subsidy**	**Blended Premium**	**Age-Based Cost**	**Implicit Subsidy**
45	$ 6,749	$ 4,451	$ (2,298)	$ 6,749	$ 6,689	$ (60)
50	6,749	5,896	(853)	6,749	7,933	1,184
55	6,749	7,747	998	6,749	9,454	2,705
64	6,749	13,006	6,257	6,749	13,944	7,195
65	5,153	5,241	88	5,153	5,590	437
70	5,153	6,154	1,001	5,153	6,172	1,019
75	5,153	6,881	1,728	5,153	6,656	1,503
80	5,153	7,311	2,158	5,153	6,870	1,717

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Claim and Expense Assumptions (continued):

Current Retirees (continued):

Age	HMO $25 Co-pay Plan - Male			HMO $25 Co-pay Plan - Female		
	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
45	$ 6,370	$ 4,201	$ (2,169)	$ 6,370	$ 6,313	$ (57)
50	6,370	5,564	(806)	6,370	7,488	1,118
55	6,370	7,312	942	6,370	8,923	2,553
64	6,370	12,276	5,906	6,370	13,161	6,791
65	5,153	5,241	88	5,153	5,590	437
70	5,153	6,154	1,001	5,153	6,172	1,019
75	5,153	6,881	1,728	5,153	6,656	1,503
80	5,153	7,311	2,158	5,153	6,870	1,717

Age	PPO / POS - Male			PPO / POS - Female		
	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
45	$ 9,370	$ 4,786	$ (4,584)	$ 9,370	$ 7,192	$ (2,178)
50	9,370	6,338	(3,032)	9,370	8,529	(841)
55	9,370	8,329	(1,041)	9,370	10,164	794
64	9,370	13,984	4,614	9,370	14,992	5,622
65	7,282	6,320	(962)	7,282	6,740	(542)
70	7,282	7,420	138	7,282	7,443	161
75	7,282	8,297	1,015	7,282	8,025	743
80	7,282	8,816	1,534	7,282	8,284	1,002

Age	PPO / POS $25 Co-pay Plan - Male			PPO / POS $25 Co-pay Plan - Female		
	Blended Premium	Age-Based Cost	Implicit Subsidy	Blended Premium	Age-Based Cost	Implicit Subsidy
45	$ 8,841	$ 4,516	$ (4,325)	$ 8,841	$ 6,786	$ (2,055)
50	8,841	5,981	(2,860)	8,841	8,048	(793)
55	8,841	7,859	(982)	8,841	9,591	750
64	8,841	13,195	4,354	8,841	14,146	5,305
65	7,282	6,320	(962)	7,282	6,740	(542)
70	7,282	7,420	138	7,282	7,443	161
75	7,282	8,297	1,015	7,282	8,025	743
80	7,282	8,816	1,534	7,282	8,284	1,002

Actuarial Assumptions and Methods *(Continued)*

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Claim and Expense Assumptions (continued):

Current Retirees (continued):

	Secure Horizons - Male			Secure Horizons - Female		
Age	**Blended Premium**	**Age-Based Cost**	**Implicit Subsidy**	**Blended Premium**	**Age-Based Cost**	**Implicit Subsidy**
65	$ 5,868	$ 4,427	$ (1,441)	$ 5,868	$ 4,722	$ (1,146)
70	5,868	5,199	(669)	5,868	5,214	(654)
75	5,868	5,813	(55)	5,868	5,622	(246)
80	5,868	6,176	308	5,868	5,803	(65)

	Pacificare - Male			Pacificare - Female		
Age	**Blended Premium**	**Age-Based Cost**	**Implicit Subsidy**	**Blended Premium**	**Age-Based Cost**	**Implicit Subsidy**
65	$ 5,189	$ 4,129	$ (1,060)	$ 5,189	$ 4,404	$ (785)
70	5,189	4,849	(340)	5,189	4,863	(326)
75	5,189	5,422	233	5,189	5,244	55
80	5,189	5,760	571	5,189	5,413	224

Dental	
Plan	**Annual Premium (every age)**
Delta Dental PPO	$ 1,303
DeltaCare HMO	561

2. Medicare Part D Subsidy:

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

3. Medicare Part B Premiums:

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

4. Medicare Eligibility:

Retirees who turn age 65 are assumed to be eligible for Medicare.

5. Annual Limits:

Assumed to increase at the same rate as trend.

6. Lifetime Maximums:

Are not assumed to have any financial impact.

7. Geography:

Implicitly assumed to remain the same as current retirees.

8. Retiree Contributions:

Current retirees pay the difference between the actual premium for the elected plan and the Kaiser $25 Co-pay Plan rate, if the retiree is eligible to receive the explicit subsidy.

Future retirees are assumed to pay the following annual rates (after reflection of the explicit subsidy).

	Retiree	Spouse
Pre-Medicare	$ 631	$ 1,144
Medicare Eligible	364	0

Contributions are assumed to increase with trend.

Actuarial Methods

1. Actuarial Cost Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the

Actuarial Assumptions and Methods *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Claim and Expense Assumptions (continued):

postemployment benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The funding valuation does not include the value of the implicit subsidy.

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

2. Asset Valuation Method

The actuarial value of assets is calculated by recognizing the deviation of actual investment returns compared to the expected return (7.75% for 2010-11, 8.00% for prior years) over a five-year period. The dollar amount of the expected return on the market value of assets is determined using the actual contributions and benefit payments during the year. Any difference between this amount and the actual net investment earnings is considered a gain or loss. Table 4 on the following page shows the gains and losses for the last four years and the portion of each gain or loss that is not recognized in the current actuarial value of assets. These deferred amounts will be recognized in future years.

3. Amortization Method

The UAL as of June 30, 2011 is amortized over an open 30-year period as a level percentage of payroll.

Data Schedules

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Date *as of June 30,*	Active Member Counts			Annual Payroll
	Under Age 65	Age 65+	Total	
2011	1,735	0	1,735	$ 190,726,258
2010	2,021	1	2,021	251,058,473
2009	N/A	N/A	2,083	255,222,552
2007	N/A	N/A	2,136	N/A
2006	N/A	N/A	1,967	N/A

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS					
Period	Beginning of Period	Added to Rolls	Removed from Rolls	End of Period	Net Change
Medical					
2010-11	1,676	119	59	1,736	60
2009-10	1,555	N/A	N/A	1,676	121
2007-09	1,362	N/A	N/A	1,555	193
Dental					
2010-11	1,524	104	24	1,604	80
2009-10	1,413	N/A	N/A	1,524	111
2007-09	1,220	N/A	N/A	1,413	193

Financial Schedules

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

SOLVENCY TEST					
	Actuarial Liabilities				
Valuation Date	Retirees, Beneficiaries and Other Inactives	Remaining Active Members	Reported Assets	Portion of Actuarial Liabilities Covered by Reported Assets	
June 30,	(A)	(B)		(A)	(B)
2011	$ 622,691	$ 381,104	$ 60,709	10%	0%
2010	568,611	377,697	58,586	10%	0%
2009	436,249	325,355	55,618	13%	0%
2007	336,899	329,328	45,393	13%	0%
2006	422,457	428,761	38,381	9%	0%

Amounts in thousands

ANALYSIS OF FINANCIAL EXPERIENCE				
	Gain (or Loss) for Year Ending June 30th			
Type of Activity	2011	2010	2009*	2007
Investment Income	$ (2,661)	$ (3,067)	$ N/A	$ N/A
Liability Experience	5,967	(8,175)	N/A	N/A
Gain (or Loss) During Year from Financial Experience	$ 3,305	$ (11,242)	$ (18,789)	$ (15,710)
Non-Recurring Gain (or Loss) Items	1,146	(122,599)	24,434	261,441
Composite Gain (or Loss) During Year	**$ 4,452**	**$ (133,841)**	**$ 5,645**	**$ 245,731**

Amounts in thousands

Summary of Plan Provisions

Eligibility:

Employees who retire at age 55 with 15 years of service, or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical and/or dental coverage upon retirement.

Employees who become disabled with at least 15 years of service or have a monthly pension equal to at least 37.5% of final compensation are eligible to elect medical and/or dental coverage upon retirement.

Employees who separate from service after July 5, 1992 with 20 years of service, leaving contributions in the retirement plan, are eligible to elect medical and/or dental coverage upon retirement.

Spouses or domestic partners of retired members are allowed to participate if they were enrolled in the City's medical and/or dental plan at the time of the member's retirement. Dependent children are eligible to receive coverage until the age of 19 (24 if a full-time student).

Surviving spouses / domestic partners / children of deceased members are eligible for coverage if the following conditions are met:

1. The employee has 15 years of service at time of death or is entitled to a monthly pension of at least 37.5% of final compensation; and
2. Both the member and the survivors were enrolled in the active medical and/or dental plans immediately before death; and
3. The survivor will receive a monthly pension benefit.

Summary of Plan Provisions *(Continued)*

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Benefits for Retirees:

Medical:

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

Effective January 1, 2011, the lowest cost health plan is the Kaiser $25 Co-pay plan. The single coverage amount is $496.04 per month, and the family coverage amount is $1,235.16 per month. These amounts are not adjusted once a retiree is eligible for Medicare.

Dental:

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

Premiums:

Monthly premiums before adjustments for 2011 are as follows:

MONTHLY PREMIUMS FOR 2011				
	Single	% Increase	Family	% Increase
Medical				
Non-Medicare Monthly Rates				
Kaiser – Traditional (CA)	$ 527.38	8.9%	$ 1,313.18	9.0%
Kaiser $25 Co-pay Plan	496.04	N/A	1,235.16	N/A
Blue Shield HMO	562.40	4.1%	1,444.76	4.1%
Blue Shield HMO $25 Co-pay	530.82	N/A	1,363.58	N/A
Blue Shield PPO or POS	780.84	4.1%	2,006.70	4.1%
Blue Shield PPO or POS $25 Co-pay	736.78	N/A	1,893.48	N/A
Medicare Monthly Rates				
Kaiser – Senior Advantage	$ 464.16	8.0%	$ 928.32	8.0%
Secure Horizons	489.02	10.0%	978.04	10.0%
Blue Shield Medicare PPO	606.82	4.1%	1,213.64	4.1%
Blue Shield Medicare HMO	429.41	4.1%	858.82	4.1%
Pacificare Senior Supplement	432.40	9.3%	864.80	9.3%
Dental				
Delta Dental PPO	$ 108.62	(2.6)%	$ 108.62	(2.6)%
DeltaCare HMO	46.78	(6.4)%	46.78	(6.4)%

Cost Sharing Provisions:

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

Summary of Plan Provisions *(Continued)*

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Active Plan Funding:

Police:

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

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on:
  1) 7.50% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability. As of the June 30, 2011 valuation, there are 27 years left on the amortization period.

For the 2012-2013 fiscal year, the contribution rate is based on 80% of the full prefunding rate and 20% of the 10-year cash flow requirement rate. However, the limit on the annual increase in rate of 1.25% of payroll overrides the weighted average rate.

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

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on:
  1) 7.50% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability. As of the June 30, 2011 valuation, there are 27 years left on the amortization period.

For the 2011-2012 fiscal year, the contribution rate is based on 80% of the full prefunding rate and 20% of the 10-year cash flow requirement rate. However, the limit on the annual increase in rate of 1.35% of payroll overrides the weighted average rate.

Fire:

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

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on:
  1) 7.50% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability. As of the June 30, 2011 valuation, there are 29 years left on the amortization period.

For the 2011-2012 fiscal year, the contribution rate is based on 40% of the full prefunding rate and 60% of the 10-year cash flow requirement rate. However, the limit on the annual increase in rate of 1.25% of payroll overrides the weighted average rate.

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

- The cash flow requirement for the next ten years, and
- The full prefunding requirement based on:
  1) 7.50% discount rate, 2) Entry Age Normal Funding Method, 3) 30-year closed amortization of the unfunded actuarial accrued liability. As of the June 30, 2011 valuation, there are 29 years left on the amortization period.

For the 2011-2012 fiscal year, the contribution rate is based on 40% of the full prefunding rate and 60% of the 10-year cash flow requirement rate. However, the limit on the annual increase in rate of 1.35% of payroll overrides the weighted average rate.

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

Statistical Section

City of San José
Police and Fire Department Retirement Plan
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012

Statistical Review

CHANGES IN NET ASSETS FOR FISCAL YEARS 2003-2012 *(In Thousands)*
DEFINED BENEFIT PENSION PLAN (Schedule 1a)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions										
Employee contributions	$ 16,416	$ 17,233	$ 16,240	$ 16,432	$ 16,050	$ 19,210	$ 20,323	$ 20,097	$ 29,629	$ 19,345
Employer contributions	23,511	24,412	41,835	43,473	46,625	56,372	53,103	52,315	77,918	121,009
Investment Income / (loss)*	80,225	252,431	202,320	230,225	440,999	(153,711)	(469,235)	314,453	396,377	(34,341)
Total additions to plan net assets	**120,152**	**294,076**	**260,395**	**290,130**	**503,674**	**(78,129)**	**(395,809)**	**386,865**	**503,924**	**106,013**
Deductions (See Schedule 2a)										
Benefit payments	55,342	61,449	69,102	75,189	81,953	89,704	102,363	114,604	129,472	142,314
Death benefits	3,732	3,976	4,226	4,803	5,042	5,467	5,982	6,519	7,213	7,480
Refunds	276	132	426	144	210	168	363	196	435	1,926
Administrative expenses and other	1,583	2,053	1,617	2,171	2,206	2,670	2,669	2,955	3,127	3,556
Total deductions from plan net assets	**60,933**	**67,610**	**75,371**	**82,307**	**89,411**	**98,009**	**111,377**	**124,274**	**140,247**	**155,276**
Change in Net Assets	**$ 59,219**	**$ 226,466**	**$ 185,024**	**$ 207,823**	**$ 414,263**	**$ (176,138)**	**$ (507,186)**	**$ 262,591**	**$ 363,677**	**$ (49,263)**

**Net of Expenses*

POSTEMPLOYMENT HEALTHCARE PLAN (Schedule 1b)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions										
Employee contributions	$ 3,521	$ 3,696	$ 5,673	$ 5,742	$ 7,989	$ 9,151	$ 9,218	$ 10,650	$ 11,229	$ 11,474
Employer contributions	4,251	4,492	6,418	6,529	9,082	10,618	9,888	11,284	17,001	21,205
Investment Income / (loss)*	1,415	4,414	3,554	4,089	8,115	(3,029)	(9,800)	6,870	8,966	(805)
Total additions to plan net assets	**9,187**	**12,602**	**15,645**	**16,360**	**25,186**	**16,740**	**9,306**	**28,804**	**37,196**	**31,874**
Deductions (See Schedule 2b)										
Healthcare insurance premiums	7,772	9,528	11,093	12,880	14,794	15,974	18,039	20,701	28,273	28,479
Administrative expenses and other	32	36	33	42	45	56	60	66	73	87
Total deductions from plan net assets	**7,804**	**9,564**	**11,126**	**12,922**	**14,839**	**16,030**	**18,099**	**20,767**	**28,346**	**28,566**
Change in Net Assets	**$ 1,383**	**$ 3,038**	**$ 4,519**	**$ 3,438**	**$ 10,347**	**$ 710**	**$ (8,793)**	**$ 8,037**	**$ 8,850**	**$ 3,308**

**Net of Expenses*

Statistical Review *(Continued)*

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

Type of Benefit	2012	2011	2010	2009	2008	2007	2006
Age and Service Benefits							
Retirees – Service	$ 77,239	$ 68,780	$ 59,455	$ 49,004	$ 39,354	$ 34,772	$ 30,828
Retirees – Deferred Vested	2,184	1,948	1,481	1,337	1,030	946	892
Survivors – Service	1,402	1,301	986	826	713	606	741
Survivors – Deferred Vested	59	51	32	33	30	23	22
Death in Service Benefits	1,366	1,246	1,155	1,193	1,121	1,093	1,031
Disability Benefits							
Retirees – Duty	59,108	55,998	51,218	49,100	46,654	43,713	41,134
Retirees – Non-Duty	770	674	680	698	697	646	610
Survivors – Duty	4,328	3,888	3,634	3,784	3,459	3,184	2,876
Survivors – Non-Duty	266	124	136	146	144	135	133
Ex-Spouse Benefits	3,072	2,675	2,346	2,224	1,969	1,877	1,725
Total Benefits	**$149,794**	**$ 136,685**	**$ 121,123**	**$ 108,345**	**$ 95,171**	**$ 86,995**	**$ 79,992**
Type of Refund							
Separation	$ 1,926	$ 435	$ 196	$ 363	$ 168	$ 210	$ 144
Total Refunds	**$ 1,926**	**$ 435**	**$ 196**	**$ 363**	**$ 168**	**$ 210**	**$ 144**

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

Source: Pension Administration System

Statistical Review *(Continued)*

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

Type of Benefit	2012	2011	2010	2009	2008	2007	2006
Age and Service Benefits							
Retirees – Service							
Medical	$ 10,361	$ 9,468	$ 8,274	$ 6,843	$ 5,366	$ 4,750	$ 3,871
Dental	1,031	968	855	684	589	550	492
Retirees – Deferred Vested*							
Medical	250	236	180	146	137	131	119
Dental	27	26	21	17	17	16	15
Survivors – Service							
Medical	214	229	165	110	89	76	78
Dental	42	41	31	19	21	20	23
Survivors – Deferred Vested*							
Medical	10	11	-	-	1	3	4
Dental	3	3	1	1	-	1	1
Death in Service Benefits							
Medical	(38)*	252	213	208	190	186	165
Dental	59	42	37	33	34	36	35
Disability Benefits							
Retirees – Duty							
Medical	9,604	9,852	8,897	8,177	7,757	7,324	6,503
Dental	1,043	1,068	977	856	885	881	854
Retirees – Non-Duty							
Medical	221	201	199	172	173	162	147
Dental	25	25	26	21	22	21	21
Survivors – Duty							
Medical	667	715	643	603	527	483	408
Dental	159	169	154	119	137	127	118
Survivors – Non-Duty							
Medical	40	21	24	24	22	20	19
Dental	11	7	7	6	7	7	7
Ex-Spouse Benefits							
Implict Subsidy	4,750	4,939					
Total Benefits	**$ 28,479**	**$ 28,273**	**$ 20,701**	**$ 18,039**	**$ 15,974**	**$ 14,794**	**$ 12,880**

** Amount includes credits from the State of California for medical benefits to the surviving spouse and family of sworn officers that died in the line of duty.*
Fiscal Year 2004-05 data not available due to system limitations.

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2003-2012 (Schedule 3)

	Police Department Rate		Fire Department Rate	
Fiscal Year	Employee Rate (%)	Employer Rate (%)	Employee Rate (%)	Employer Rate (%)
2002-03	10.25	14.22	10.25	14.22
2003-04	10.25	14.22	10.25	14.22
2004-05	11.16	24.59	11.16	24.59
2005-06	11.16	25.04	11.16	25.04
2006-07	11.67	28.51	11.26	25.22
2007-08*	11.67	28.90	11.26	25.61
2008-09	11.96	25.80	12.40	28.31
2009-10	12.96	26.89	12.40	28.31
2010-11	15.57	44.58	13.70	44.16
2011-12	17.47	56.90	15.62	56.32

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

Retired Member by Type of Benefit

PENSION BENEFITS

As of June 30, 2012

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement*								Option Selected**				
		1	2	3	4	5	6	7	8	Unmodified	Option 1	Option 2	Option 3	Total
$1 - 500	3	0	0	0	0	0	0	0	3	2	0	1	0	3
$501 - 1000	25	0	0	0	0	1	4	4	16	17	2	3	3	25
$1001 - 1500	46	0	0	0	0	8	4	6	28	25	1	15	5	46
$1501 - 2000	72	5	0	6	1	3	27	5	25	49	0	20	3	72
$2001 - 2500	100	24	0	1	1	8	34	10	22	70	1	28	1	100
$2501 - 3000	98	22	0	1	6	10	42	5	12	73	0	23	2	98
$3001 - 3500	83	36	0	0	2	7	24	5	9	70	2	10	1	83
$3501 - 4000	100	67	3	3	4	3	15	2	3	83	5	8	4	100
$4001 - 4500	76	48	1	4	7	1	9	3	3	62	1	6	7	76
$4501 - 5000	107	70	2	2	24	0	5	1	3	69	5	17	16	107
$5001 - 5500	134	83	2	1	44	1	2	1	0	96	6	15	17	134
$5501 - 6000	98	51	0	0	38	1	5	1	2	71	5	9	13	98
$6001 - 6500	125	61	1	0	59	1	3	0	0	99	5	9	12	125
$6501 - 7000	136	67	1	0	67	0	0	0	1	101	12	7	16	136
$7001 - 7500	118	45	3	1	69	0	0	0	0	95	4	9	10	118
$7501 - 8000	115	40	0	0	73	0	1	1	0	80	2	16	17	115
$8001 - 8500	100	40	0	0	58	0	0	2	0	61	8	13	18	100
$8501 - 9000	98	24	0	0	74	0	0	0	0	58	6	15	19	98
Over $9000	403	127	3	0	267	0	1	5	0	262	26	50	65	403
TOTAL	**2,037**	**810**	**16**	**19**	**794**	**44**	**176**	**51**	**127**	**1,443**	**91**	**274**	**229**	**2,037**

***Retirement Codes**

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

****Option Descriptions**

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

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2012

Amount Monthly Benefit	Type of Subsidy: Health	Dental
Ineligible/Deferred	248	185
$1 - 60	0	27
$61 - 250	89	1,825
$251 - 500	152	0
$501 - 1,000	385	0
$1,001 - 1,250	1,163	0
TOTAL	**2,037**	**2,037**

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

As of June 30, 2012

Retirement Effective Dates	Years of Service Credit 0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2012							
Average Monthly Benefit (Incl. COLA)	$2,304	$ 3,101	$3,395	$4,465	$6,248	$ 8,101	$8,676
Average Final Average Salary**	$ 1,540	$3,368	$4,931	$6,555	$ 7,431	$ 7,398	$6,940
Number of Retired Members***	6	44	81	115	341	749	154
Average Monthly Benefit (Incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,769	$1,282	$3,023	$4,075	$6,302	$ 7,020
Number of Retired Members***	-	3	5	12	32	120	28
Period 7/1/2010 to 6/30/2011							
Average Monthly Benefit (Incl. COLA)	$ 2,199	$ 3,028	$ 3,310	$ 4,509	$ 5,872	$ 8,035	$ 8,573
Average Final Average Salary**	$ 1,540	$ 3,402	$ 4,695	$ 6,818	$ 7,309	$ 8,344	$ 8,094
Number of Retired Members***	6	44	74	102	278	714	157
Average Monthly Benefit (Incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,688	$ 1,455	$ 2,989	$ 3,956	$ 6,051	$ 6,766
Number of Retired Members***	0	3	5	12	33	124	30
Period 7/1/2009 to 6/30/2010							
Average Monthly Benefit (Incl. COLA)	$ 2,152	$ 2,915	$ 3,184	$ 4,223	$ 5,372	$ 7,622	$ 8,242
Average Final Average Salary**	$ 1,585	$ 3,248	$ 4,532	$ 6,515	$ 6,599	$ 7,942	$ 7,938
Number of Retired Members***	6	46	70	96	242	653	157
Average Monthly Benefit (Incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,639	$ 1,419	$ 2,854	$ 3,779	$ 5,886	$ 6,570
Number of Retired Members***	0	3	5	12	36	129	30
Period 7/1/2008 to 6/30/2009							
Average Monthly Benefit (Incl. COLA)	$ 2,170	$ 2,779	$ 3,101	$ 3,937	$ 4,904	$ 7,158	$ 7,811
Average Final Average Salary**	$ 1,778	$ 3,087	$ 4,498	$ 6,066	$ 6,072	$ 7,492	$ 7,600
Number of Retired Members***	7	46	68	86	220	575	153
Average Monthly Benefit (Incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,591	$ 1,381	$ 2,712	$ 3,675	$ 5,710	$ 6,327
Number of Retired Members***	0	3	5	13	36	132	32
Period 7/1/2007 to 6/30/2008							
Average Monthly Benefit (Incl. COLA)	$ 2,120	$ 2,717	$ 3,068	$ 3,743	$ 4,563	$ 6,776	$ 7,319
Average Final Average Salary**	$ 1,778	$ 3,060	$ 4,097	$ 5,713	$ 5,644	$ 7,129	$ 7,147
Number of Retired Members***	7	47	64	79	204	521	140
Average Monthly Benefit (Incl. COLA) (for those whose FAS was unavailable)	$ -	$ 1,549	$ 1,319	$ 2,642	$ 3,639	$ 5,560	$ 6,123
Number of Retired Members***	0	3	5	13	36	134	32
Period 7/1/2006 to 6/30/2007							
Average Monthly Benefit*	$ 2,063	$ 2,618	$ 2,853	$ 3,576	$ 4,339	$ 6,461	$ 6,962
Average Final Average Salary**	$ 1,799	$ 3,023	$ 3,846	$ 5,567	$ 5,419	$ 6,924	$ 6,898
Number of Retired Members***	7	47	62	79	195	492	134
Average Monthly Benefit (for those whose FAS was unavailable)	$ -	$ 1,500	$ 1,239	$ 2,561	$ 3,526	$ 5,397	$ 5,938
Number of Retired Members***	0	3	6	13	36	137	32
Period 7/1/2005 to 6/30/2006							
Average Monthly Benefit*	$ 889	$ 1,424	$ 1,822	$ 2,633	$ 3,073	$ 5,092	$ 5,411
Average Final Average Salary**	$ 1,778	$ 2,934	$ 3,716	$ 5,290	$ 5,164	$ 6,674	$ 6,725
Number of Retired Members***	7	47	61	76	189	462	129
Average Monthly Benefit (for those whose FAS was unavailable)	$ -	$ 414	$ 735	$ 1,741	$ 2,405	$ 3,835	$ 4,103
Number of Retired Members***	0	3	6	14	36	137	32

* *Includes Cost of Living Increases*

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

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

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

Source: Pension Administration System

Average Benefit Payment Amounts

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2012

	Years of Service Credit						
Retirement Effective Dates	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2012							
Average Health Subsidy	$ 776	$ 850	$ 839	$ 865	$ 1,018	$ 1,055	$ 928
Number of Health Participants*	6	42	66	110	357	850	177
Average Dental Subsidy	$ 109	$ 106	$ 88	$ 97	$ 107	$ 108	$ 108
Number of Dental Participants*	6	46	70	114	372	869	182
Period 7/1/2010 to 6/30/2011							
Average Health Subsidy	$ 730	$ 918	$ 1,050	$ 1,019	$ 1,052	$ 1,086	$ 1,029
Number of Health Participants*	6	40	59	96	273	709	29
Average Dental Subsidy	$ 110	$ 110	$ 110	$ 110	$ 109	$ 109	$ 110
Number of Dental Participants*	6	43	63	98	278	714	30
Period 7/1/2009 to 6/30/2010							
Average Health Subsidy	$ 702	$ 853	$ 991	$ 951	$ 978	$ 1,023	$ 985
Number of Health Participants*	6	42	56	91	236	649	157
Average Dental Subsidy	$ 104	$ 104	$ 105	$ 104	$ 104	$ 104	$ 104
Number of Dental Participants*	6	45	60	93	239	652	157
Period 7/1/2008 to 6/30/2009							
Average Health Subsidy	$ 711	$ 807	$ 939	$ 898	$ 910	$ 963	$ 927
Number of Health Participants*	7	42	56	82	216	572	153
Average Dental Subsidy	$ 94	$ 94	$ 94	$ 94	$ 91	$ 94	$ 94
Number of Dental Participants*	7	45	60	83	220	575	153
Period 7/1/2007 to 6/30/2008							
Average Health Subsidy	$ 676	$ 778	$ 888	$ 866	$ 870	$ 916	$ 885
Number of Health Participants*	7	45	58	82	234	516	139
Average Dental Subsidy	$ 99	$ 99	$ 99	$ 98	$ 98	$ 98	$ 99
Number of Dental Participants*	7	49	61	83	239	520	139
Period 7/1/2006 to 6/30/2007							
Average Health Subsidy	$ 632	$ 736	$ 805	$ 813	$ 815	$ 861	$ 828
Number of Health Participants*	7	45	57	82	225	487	134
Average Dental Subsidy	$ 98	$ 98	$ 98	$ 96	$ 97	$ 97	$ 98
Number of Dental Participants*	7	49	60	83	230	491	134
Period 7/1/2005 to 6/30/2006							
Average Health Subsidy	$ 571	$ 662	$ 722	$ 735	$ 731	$ 772	$ 742
Number of Health Participants*	7	45	56	79	216	453	129
Average Dental Subsidy	$ 95	$ 96	$ 95	$ 94	$ 94	$ 95	$ 95
Number of Dental Participants*	7	49	59	80	222	461	129

** Does not include Survivors and Ex-Spouses*

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

Source: Pension Administration System

Retirements During Fiscal Year 2011-2012

SERVICE RETIREMENTS

Police Department

AVILES, FRANCISCO
BARRERAS, MOSES
BROOKS, RICHARD
CASTRUITA, SCOTT
CAVALLARO, DAVID
CAVALLO, ALAN
CROWTHER, KEITH
DOTZLER, JENNIFER
ELLSWORTH, LAWRENCE
FLOSI, EDWARD
HARPER, GLENN
LAGERGREN, FRED
LEM, NOLAND
LINDH, GREGORY
MC ELVY, JOHN
MUNSON, KENNETH
PAULEY, RANDALL
RAMIREZ, MANUEL
RAYMOND, GREGORY
REINHARDT, ROBERT
RODRIGUEZ, JOSE
SERLES, DENNIS
SHIELDS, RAYMOND
STORTON, DAVID
VALENCIA, CARLOS
VANEK, JOHN

Fire Department

ADDIEGO, DANIEL
BAUTISTA, JUAN
BENNETT, ROBERT
BRUNSON, HENRY
CHAYREZ, GONZALO
GALL, JAN
GARRETT, FLANOY
JACKSON, HARRY
JONES, RICHARD
LOPEZ, CARLOS
LOPEZ, ERIC
MATTEUCCI, GEORGE
SCHMIDT, STEVEN
SIPPEL, CAROL
VILLA, RODNEY
WISINSKI, MITCHELL

EARLY RETIREMENTS

Police Department

ENOS, MIKE
MARTIN, CHRISTOPHER
MORALES, OCTAVIO
SANZERI, RALPH

Fire Department

COLLINS, KEVIN
DELOACH REED, TERESA

DEFERRED VESTED RETIREMENTS

Police Department

COLLA, MARK
WILLIAMS, KENNETH

Fire Department

NONE

Source: Pension Administration System

Retirements During Fiscal Year 2011-2012 *(Continued)*

SERVICE CONNECTED DISABILITY RETIREMENTS

Police Department

BONETTI, JON
CHEWEY, ROBERT
DEKOCK, GABRIELLE
DUDOLSKI, DAVID
FREITAS, MARK
GREENLEE, STEPHEN
GRIMES, ERIC
JOHNSON, KYLE
KEFFER, FRANCIS
KURZ, ERIC
NAVARRO, ERIC
RIVERA, STEVEN
SPRANKLE, DONALD
TALLEY, EDWARD
WILLIAMS, VINCENT

Fire Department

DICKINSON, BRENT
VAVASOUR, MATTHEW

NON-SERVICE CONNECTED DISABILITY RETIREMENTS

Police Department

THORNLEY, JEFF

Fire Department

NONE

Deaths During Fiscal Year 2011-2012

DEATHS AFTER RETIREMENT

Police Department

GIVIN, WILBUR
SHUMAN, PAUL
VAN DYCK, JON
NAGENGAST, THOMAS
CUNNINGHAM, ELIZABETH
CASTLIO, GLEN
WEISER, RICHARD
MARTIN, W J TILMON
STEFANINI, MARIO
COLON, ANTHONY
NEWBURN, REX

Fire Department

MILLER, DAVID
OSWALD, IVAN
VUJEVICH, MATTHEW
GONZALES, CARMELO
RIOLO, JOHN
MARTINELLI, WALTER

DEATHS BEFORE RETIREMENT

Police Department

SHIMEK, CHRISTOPHER

Fire Department

NONE

Source: Pension Administration System

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CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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