

CITY AND COUNTY OF SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM

MISSION STATEMENT

San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits

**ANNUAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2006**

TABLE OF CONTENTS

President’s Message	3
The Retirement System	4
Members of the 2005-2006 SFERS Retirement Board	5
SFERS Senior Administrative Staff	6
2005 – 2006 Highlights	7
SFERS Administration	10
Investment Division	16
Retirement Services Division	21
Fiscal Division	31
Actuarial Summary	38

PRESIDENT'S MESSAGE

INVESTING ASSETS ● PROVIDING BENEFITS ● SERVING MEMBERS

On behalf of the San Francisco Employees' Retirement System (SFERS) Board and staff, I am pleased to present the Annual Report for Fiscal Year 2005-06.

The Retirement Board and staff at SFERS work steadily to provide excellent services to our 50,000 members and their survivors without additional resources.

Below are some of the highlights affecting our members and the management of the system that occurred during the year:

- SFERS management information system (MIS) continues to improve. This enables the retirement counselors to give more timely and up-to-date information to members applying for retirement or seeking to update their personal records. The SFERS web site was enhanced to include an Early Retirement Program Scheduler, Buyback Appointment Scheduler, and a Retirement Appointment Scheduler. Members may also request a retirement estimate in writing.
- Our investment returns were 13.46%, which was an exceptional year and moved us to the level of \$14.4 billion. This helps keep our funded ratio at 109% (one of the highest public funds in the United States). More importantly, it will lead to paying the voter approved supplemental COLA for the Fiscal Year 2005-06 to retirees at the rate of 3% rather than 2%.
- SFERS was nominated for and received an award as Public Plan of the Year finalist from Institutional Investor in October, 2005.
- Retirement seminars to educate active employees about their benefits increased. We continue to survey members for suggestions on how to improve these seminars and services in general. All this is part of our Communications Plan.
- The Retirement Board continues to improve our own rules of governance so the decision-making will improve. This helps set the policies for retirement counseling and investing that will benefit all the members.
- We continue to improve the Deferred Compensation savings plan that covers half of the active employees, including finding better investment choices and lowering fees for members.

The Retirement Board would like to thank our staff for their continued hard work and the members for the confidence you place in us.

With best wishes,

Brenda Wright, President
Retirement Board, City and County of San Francisco

THE RETIREMENT SYSTEM

The San Francisco Employees' Retirement System (SFERS) was created under the direction of the San Francisco Board of Administration in 1922. The current Retirement System structure was established in the 1932 San Francisco City Charter. The Retirement System and its staff are responsible for administering two employee benefit programs for the City and County of San Francisco:

- San Francisco Employees' Retirement System Pension Plan, a defined benefit plan, and
- San Francisco Deferred Compensation Plan, an IRS §457(b) Plan.

Specific San Francisco City Charter sections and/or Administrative Code provisions mandate each of these benefit plans.

The San Francisco Employees' Retirement System Pension Plan provides retirement, disability and death benefits to its miscellaneous and safety members.

The San Francisco Deferred Compensation Plan, a voluntary IRS §457(b) Plan, provides participants a method of deferring from current taxation part of their salary during employment for distribution after retirement.

THE RETIREMENT BOARD

The Retirement Board of the San Francisco Employees' Retirement System is responsible for managing the investment of the Retirement System's assets, establishing policies governing the administration, management, and operation of the retirement plans, and reviewing and approving benefit determinations. The Retirement Board generally meets once each month and reviews and approves important elements of Retirement System business, including:

PENSION FUND INVESTMENT

The Retirement Board monitors investment performance, establishes investment strategies, selects and monitors outside investment managers, monitors investment alternatives, and establishes and reviews the Retirement System's social investment policies.

ACTUARIAL FUNDING

The Retirement Board reviews plan funding annually and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan.

ACTIVE AND RETIRED MEMBERS

The Retirement Board reviews and approves member retirement benefits, including service and disability retirements, and other active or retired member claims related to special circumstances or litigation. Each year, the Retirement Board reviews and approves cost of living adjustments (COLAs) for retired members as determined by the San Francisco City Charter.

ADMINISTRATION AND MANAGEMENT

The Retirement Board reviews and approves the SFERS Pension Plan's administrative, investment, and operations budget in accordance with the San Francisco City Charter and the California Constitution and the San Francisco Deferred Compensation Plan budget in accordance with the San Francisco Administrative Code.

MEMBERS OF THE 2005-2006 SFERS RETIREMENT BOARD

The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and the President of the Board of Supervisors or his or her designee from among the other members of the Board of Supervisors.

Current members of the Retirement Board and their term expiration dates are:

Al Casciato Captain, Police Department	Elected Member February 2010
Joseph D. Driscoll, C.F.A. Captain, Fire Department	Elected Member February 2011
E. David Ellington Entrepreneur/Attorney	Appointed Member February 2009
Sean Elsbernd Member, Board of Supervisors	Ex-Officio Member January 2007
Michael Kim Partner Rustic Canyon Partners	Appointed Member February 2009
Herb Meiberger, C.F.A. Retiree	Elected Member February 2007
Gerardo Sandoval Member, Board of Supervisors	Former Ex-Officio Member January 2006
Brenda Wright Senior Vice President Regional Manager Community Development	Appointed Member February 2008

SFERS SENIOR ADMINISTRATIVE STAFF

ADMINISTRATION:

Clare M. Murphy	Executive Director
Jay Huish	Deputy Director
Carol Cypert, CRA, CRC	Deferred Compensation Manager
Norm Nickens	Executive Assistant

INVESTMENT DIVISION:

David Kushner, C.F.A.	Deputy Director for Investments
William Coaker, MBA, CFP, CIMA, CFA Equities	Senior Investment Officer
Donald Holcher Real Estate	Senior Investment Officer
Richard Picket Fixed Income	Senior Investment Officer
Glen Schwartz Alternative Investments	Senior Investment Officer

RETIREMENT SERVICES DIVISION:

Maria Newport	Retirement Administrator
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FISCAL DIVISION:

Jim Burruel	Finance Manager
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ACTUARY DIVISION:

Clare M. Murphy	Acting Actuary
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2005 - 2006 San Francisco Employees' Retirement System and Board Highlights:

Governance:

In accordance with the Retirement Board's policies the Board received scheduled reports, engaged in budget and planning activities, and adopted a variety of governance policy amendments including:

Scheduled Reports:

- Semi-Annual Business Plan Implementation Report;
- Annual Governance Report for 2004;

Budget and Planning Activities:

- Business Plan for 2006-2007, Including Communications Plan;
- 2006-2007 SFERS Budget;

Policy Amendments:

- Securities Litigation Policy;
- Board Operations Policy, including Elimination of the former Retirement Board Rules;
- Disability Hearing Policy and Elimination of former Retirement Board Rule 5; and,
- Public Service Purchase Policy.

The Retirement Board elected Officers for 2006 – 2007 (President Casciato and Vice-President Kim).

The Retirement Board Declared a Vacancy on Retirement Board Occurring February 20, 2007 upon the expiration of Commissioner Meiberger's term.

SFERS was nominated for and received an award as Public Plan of the Year finalist from Institutional Investor in October, 2005.

Actuarial:

The Retirement Board engaged in discussion of a number of actuarial matters during 2005-2006, most importantly receiving and implementing recommendations resulting from the actuarial audit which had been commissioned during the prior fiscal year. The Board adopted an Actuarial Methods policy detailing the asset smoothing method and transition method also as a result of the actuarial audit. An additional actuarial study reviewed by the Retirement Board was the Cost Analysis of proposed transfer of District Attorneys/Public Defender Attorneys/Public Defender Investigators to CalPERS.

Among the regularly occurring actuarial activities were:

- Supplemental COLA Report;
- Economic Experience Analysis and Adoption of Economic Assumptions;
- Determination and Approval of Credited Interest Rate for July 1, 2006;
- Adoption of Actuarial Valuation as of June 30, 2005;
- Adoption of Employer Contribution Rates Effective July 1, 2006; and,
- Approval of Cost of Living Adjustment (COLA) for Retirees Subject to Charter Section A8.526.

Finally the Retirement Board reviewed the position description of the position of Actuary and determined that it be revised to the Actuarial Services Coordinator position which has been forwarded to the Department of Human Resources for finalization of classification and recruitment.

Litigation/Legislation:

The Board received regular reports from staff and the Office of the City Attorney regarding on-going or anticipated litigation, and proposed legislative changes that might impact the System.

These included:

- The Retirement Board was provided with a report on the Superior Court decision in VPOA v. SFERS which upheld SFERS; case is on appeal;
- The Retirement Board received reports on a number of cases upholding previous action taken by the Board;
- The Retirement Board received an Update on a proposed Constitutional Amendment introduced by Assemblyman Richman which would have required a defined contribution or hybrid pension system for State employees in California. The Amendment was not voted out of committee in the legislature.
- Staff and the City Attorney reported on the Securities Litigation Tracking System and provided updates regarding the Enron and WorldCom cases, which are still pending. The Board adopted a pre-approved Securities Litigation Counsel List.

Deferred Compensation Plan:

The Board received regular reports from staff regarding the performance and administration of the 457(b) Deferred Compensation Plan, and adopted a variety of policy and Plan amendments including:

- Scheduled Reports;
- Semi-Annual Investment Performance Analysis, provided by Angeles Investment Advisors;
- 2005 Annual Plan Review; provided by ING Life Insurance and Annuity Company;

Policy and Plan Amendments:

- Reinstatement of the option to “Defer a Portion of Accumulated Lump-Sum Payments” to the City and County of San Francisco 457(b) Deferred Compensation Plan;
- Modifications to the San Francisco 457(b) Deferred Compensation Plan Investment Policy Statement;
- Asset Allocations for the San Francisco 457(b) Deferred Compensation Plan Lifestyle Portfolios;
- Addition of Morgan Stanley Institutional Real Estate A, Real Estate Investment Trust (REIT) to the Core investment Fund Line-up within the 457(b) Deferred Compensation Plan;
- Amendments to the 457(b) Deferred Compensation Plan Document; and,
- Delegation of Authority to staff to Approve Unforeseeable Emergency Withdrawal from the 457(b) Deferred Compensation Plan.

In addition, the City and County of San Francisco was honored at the annual meeting of the National Association of Government Defined Contribution Administrators (NAGDCA) with a 2005 Leadership Recognition Award for 457 Plan Design and Communication

Investment:

Policy

Consistent with the Retirement Board's Investment Policy, the Retirement board adopted the following investment policies:

- Revised Asset Allocation;
- Amended Sub Asset Class Targets and Ranges;
- Amended Investment Policy Statement;
- Strategic Investment Plan for Alternative Investment Program;
- Annual Investment Plan for Alternative Investment Program;
- Public Disclosure of Information in the Real Estate and Alternative Investment Asset Classes;
- Proxy Voting Guidelines for 2006;
- Real Estate Strategic Investment Plan; and,
- Fiscal Year 2006-2007 Annual Investment Plan for Real Estate

The Board also received a report on the results of the Mapping Asset-Knowledge Principles (Map) survey conducted by Cortex Applied Research with the members of the Retirement Board.

The Board reviewed and adopted a complete Asset/Liability and Asset Allocation Study.

The Board adopted Procedures Related to Investments in Corporations Conducting Business in Sudan under Level II of its Social Investment Policy.

Alternative Investment Commitments

The Retirement Board authorized the following commitments to various alternative investment partnerships in accordance with the annual investment plan:

Buy Out:

- July 12, 2005, Vestar Partners, \$25 million
- September 13, 2005, Apollo Investment Fund VI, L.P., \$20 million
- January 10, 2006, Blackstone Capital Partners V, L.P., \$30 Million
- February 14, 2006, Charterhouse Capital Partners, VIII, L.P., €20 Million
- March 14, 2006, Madison Dearborn Capital Partners V, L.P., \$30 Million
- March 14, 2006, TPG Partners V, L.P., \$30 Million
- May 9, 2006, Fox Paine Fund III, L.P., \$25 Million
- June 13, 2006, First Reserve Fund XI, L.P., \$30 Million
- June 13, 2006, Lightyear Fund II, L.P., \$20 Million

Venture:

- January 10, 2006, Polaris Venture Partners V, L.P., \$30 Million
- March 14, 2006, TA Associates X, L.P., \$30 Million

Special Situations:

- October 11, 2005, OCM Opportunities Fund VI, L.P., \$15 million
- March 14, 2006, TA Associates Subordinated Debt Fund II, L.P., \$20 Million
- April 11, 2006, Strategic Asset Restructuring (STAR) Fund II, L.P., €20 Million
- May 9, 2006, Windjammer Senior Equity Fund III, L.P., \$20 Million

In addition, on August 9, 2005 the Retirement Board rescinded a commitment to Bunker Hill Partners I, L.P.

Real Estate Commitments

The 2005-2006 fiscal year was characterized by expansion of the Retirement Board's initiative authorizing non U.S. real estate investments and commitments to urban infill strategies as shown below:

Non U.S.:

- September 13, 2005, GMAC Asia Co-investment Program, \$50 million
- October 11, 2005, Blackstone International Real Estate (Europe) Fund, \$25 million

Urban Infill:

- February 14, 2006, CIM Urban REIT, LLC, \$25 Million
- February 14, 2006, Urban America LP Fund II, \$25 Million

Finally the Board approved retention of the Townsend Group as the Non-Discretionary Real Estate Investment Consultant.

Equities/Public Markets

October 11, 2005 Approval of Recommendation for Manager of Emerging Managers: Approval of Bivium as a manager of US Domestic Small Cap Managers for Emerging Manager Program

November 8, 2005 Approval of Investment Guidelines for Bivium Capital partners, Manager of Emerging Small Cap Managers

December 13, 2005 Approval of Recommendation to Appoint Emerging Markets Equity Manager(s)

SFERS ADMINISTRATION

Administering mandated benefit programs and providing promised benefits

ADMINISTRATION DIVISION

The Administration Division manages the daily activities of the SFERS and oversees all other Divisions in the Department – Investments, Operations, Member Services, Human Resources and Fiscal Divisions. The Administration Division provides administrative support to the Retirement Board in the preparation of agendas, minutes and public notice requirements for the Board's meetings and committee meetings. Administrative staff interfaces with Board members in travel requests, orientation of new Board members, and facilitates on-going educational opportunities for Board members.

Public Records Requests are managed and administered by the Administration Division in accordance with the City's Sunshine Act. The Disability applications and subsequent hearings before an Administrative Law Judge are processed by the Administration Division in consultation with the Workers Compensation Division of the Department of Human Resources.

ACTUARIAL SERVICES

The SFERS Retirement Board appoints an Actuary and a Consulting Actuary to provide actuarial expertise to the Retirement Board and Retirement System staff in the development and implementation of new benefit provisions or programs and in reporting actuarial information related to the benefit structure and funding of the Retirement System. The Retirement Board has appointed Executive Director Clare Murphy as Acting Actuary until the position of Actuarial Services Coordinator is filled.

San Francisco 457(b) Deferred Compensation Plan

The 457(b) Deferred Compensation Plan, adopted in 1979, allows City employees to voluntarily defer receipt and taxation of a portion of their regular earnings until after they retire or separate from service. This method of tax deferral has become an increasingly popular vehicle utilized by City employees as they save for their future.

The SFERS Deferred Compensation Division oversees and monitors the City's 457(b) Deferred Compensation Plan through a third-party plan administrator, currently ING Life Insurance and Annuity Company. The Deferred Compensation Division administers the hardship withdrawal program, qualified domestic relations orders, payroll deferrals, request for proposals, SFDCP News, and review of investment fund assessments.

During the past year the 457(b) Deferred Compensation Plan grew in assets and in number of participants. The Plan offers a diverse selection of 19 core investment funds including access to a self-directed brokerage option.

The following table provides detailed information related to the City's 457(b) Deferred Compensation Plan for Fiscal Year 2005-2006.

CITY AND COUNTY OF SAN FRANCISCO
457(b) DEFERRED COMPENSATION PLAN
PLAN VALUES 06/30/06

FUND NAME	TOTAL ASSETS	PERCENT OF TOTAL ASSETS
Ameritrade - Self Directed Brokerage Account	\$8,166,452.72	0.60%
ING Ultimate Account	\$23,000.00	0.00%
SFDCP Core Bond Portfolio	\$32,985,534.76	2.41%
SFDCP International Equity Portfolio	\$105,561,529.14	7.73%
SFDCP Large Cap Core Equity - Active Portfolio	\$18,063,601.04	1.32%
SFDCP Large Cap Core Equity - S&P 500 Index	\$81,021,478.70	5.93%
SFDCP Large Cap Growth Equity Portfolio	\$246,469,847.54	18.04%
SFDCP Large Cap Social Equity Portfolio	\$4,903,459.15	0.36%
SFDCP Large Cap Value Equity Portfolio	\$22,227,481.28	1.63%
SFDCP Long Term Portfolio	\$40,589,093.75	2.97%
SFDCP Mid Cap Core Equity Portfolio	\$46,184,734.02	3.38%
SFDCP Mid Cap Growth Equity Portfolio	\$1,792,588.74	0.13%
SFDCP Mid Cap Value Equity Portfolio	\$9,128,990.87	0.67%
SFDCP Mid Term Portfolio	\$168,159,700.23	12.31%
SFDCP Near Term Portfolio	\$9,160,803.58	0.67%
SFDCP Real Estate Portfolio	\$8,520,447.62	0.62%
SFDCP Small Cap Core Equity Portfolio	\$4,393,047.64	0.32%
SFDCP Small Cap Growth Equity Portfolio	\$23,398,680.87	1.71%
SFDCP Small Cap Value Equity Portfolio	\$39,182,406.14	2.87%
SFDCP Stable Value Portfolio	\$495,978,336.97	36.31%
Total Investment Funds at ING	\$1,365,911,214.76	100.00%
Total Annuity Assets at ING	\$1,834,213.96	
Total Annuity Assets at The Hartford	\$24,237,055.77	
TOTAL PLAN ASSETS	\$1,391,982,484.49	

Number of Plan Participants:	22,280
Number of Active Plan Participants:	14,253
Number of Retirees Not Receiving Benefits	2,719
Retirees Receiving Benefits from Hartford:	500
Retirees Receiving Benefits from ING:	1,119
Total Retiree Assets:	\$307,849,192.45

The Retirement Board reviewed the Investment Performance Analysis provided by Angeles Investment Advisors and appointed the Deferred Compensation Investment Review Committee to evaluate the core investment fund lineup. As a result of the review, the Deferred Compensation Investment Review Committee recommended to the full Retirement Board the addition of the SFDCP U.S. Real Estate Portfolio. The Board approved the recommendation and the SFDCP U.S. Real Estate Portfolio was added to the core investment fund lineup in February 2006. The Committee also reviewed structural changes for the SFDCP Stable Value Fund, and options for the underlying investments in the SFDCP Small Cap Value Equity Portfolio, SFDCP Mid Cap Value Equity Portfolio, and SFDCP Mid Cap Growth Equity Portfolio.

The provider for the Self-Direct Brokerage Account (SDBA), *Harrisdirect*, was purchased by E*Trade Financial. Subsequently E*Trade Financial announced that governmental retirement plans could not be added to their platform. Consequently, all SDBAs in the Deferred Compensation Plan were transferred to Ameritrade Corporate Services in March of 2006.

Changes To The Core Investment Lineup During The 2005-2006 Fiscal Year:

ADDITION OF CORE INVESTMENT FUND	
FUND NAME	UNDERLYING INVESTMENT
SFDCP U.S. Real Estate Portfolio	Morgan Stanley Institutional U.S. Real Estate Trust

Changes To The Self-Directed Brokerage Option During The 2005-2006 Fiscal Year:

SELF DIRECTED BROKERAGE ACCOUNT TRANSFER	
TRANSFER FROM	TRANSFER TO
<i>Harrisdirect (E*Trade)</i>	Ameritrade Corporate Services

The Retirement Board continues to monitor the 457(b) Deferred Compensation Plan to ensure participants are provided with on-going education, plan enhancements, well performing investment funds, and a competitive fee structure.

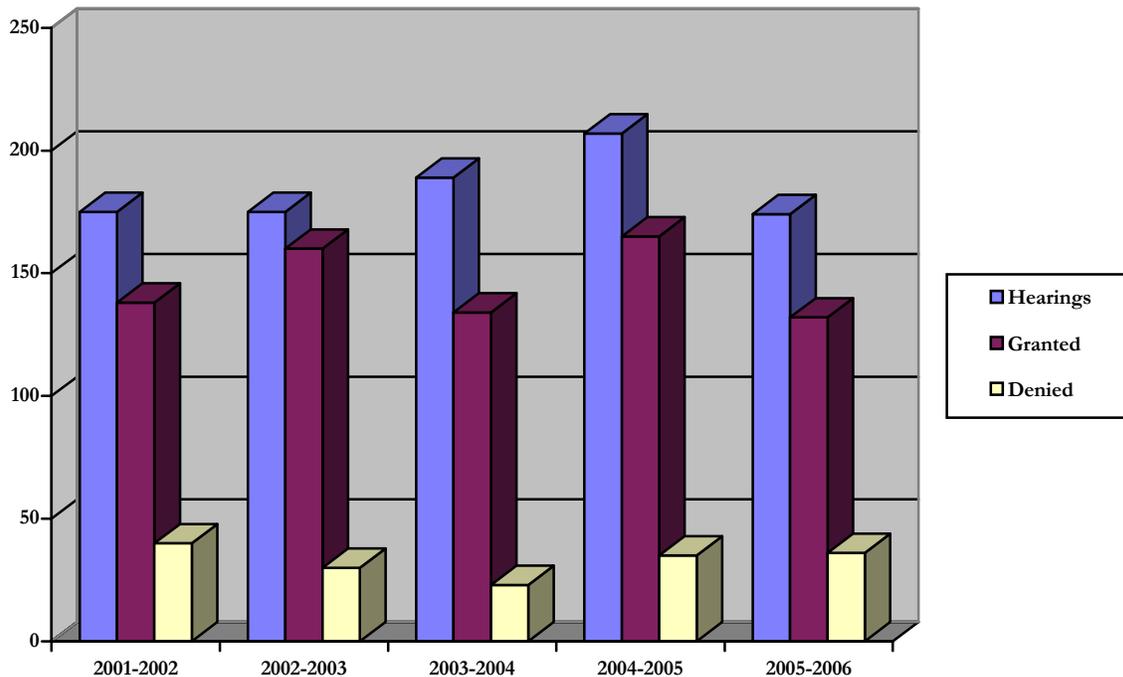
DISABILITY RETIREMENT

Ordinary and Industrial Disability applications and subsequent hearings before an Administrative Law Judge are processed by the Administration Division in consultation with the Workers Compensation Division of the Department of Human Resources. The table below provides a summary of disability retirement hearings in the fiscal year ending June 30, 2006.

**HEARING OFFICER REPORT
FISCAL YEAR ENDED JUNE 30, 2006**

CASES	TOTAL NO. OF HEARINGS	TOTAL NO. GRANTED	TOTAL NO. DENIED
INDUSTRIAL DISABILITY RETIREMENTS	82	51	16
ORDINARY DISABILITY RETIREMENTS	78	67	8
DEATH BENEFITS	1	2	1
PETITIONS FOR REHEARING		2	9
PERS	13	10	2
REINSTATEMENTS	0	0	0
TOTAL	174	132	36

**HEARING OFFICER REPORT
FOUR-YEAR COMPARISON**



INVESTMENT DIVISION

Dedicated to securing, protecting and prudently investing the pension trust assets

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the years since its inception. The Retirement System's goal, however, has essentially remained the same: to maximize long-term rates of return on investments within prudent guidelines.

The Investment Division's professional staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. The Investment Division professional staff analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

As of June 30, 2006, approximately 19% of SFERS trust assets were managed internally, including \$852 million in domestic bonds and \$1.9 billion in domestic equities. The balance of the portfolio was managed externally by investment firms specializing in asset classes including global and domestic fixed income, international and domestic equities, real estate and alternative investments.

Investment Performance Highlights for Fiscal Year Ended June 30, 2006

For the Fiscal year ended June 30, 2006, the Investment portfolio of the Retirement System was a beneficiary of a rebound in economic and capital market growth, ending the fiscal year with a return of 13.46%. Equities (Domestic and International combined) continued double-digit growth, returning 15.62%. On a broad asset class basis, the stellar performers for the year were Alternative Investments, returning 39.6%, and Real Estate, returning 23.8%. Fixed Income returns were under pressure due to a rising interest rate environment, returning 2.11% for the year.

◆ **Equity**

Returns for the combined equity portfolio were 15.62%. The US equity portfolio return was 8.79%, underperforming the Russell 3000 benchmark return of 9.56% by 77 basis points. The International equity portfolio offset the modest returns of the domestic markets, returning 26.86%, underperforming the benchmark return of 27.90% by 1.04%.

◆ **Fixed Income**

Despite rising short-term interest rates the Fixed Income portfolio turned in a strong performance for the Fiscal Year. The Fixed Income asset class provided a 2.11% rate of return for the fiscal year ended June 30 (versus the benchmark Lehman Universal/Aggregate return of -0.23%). Domestic Fixed Income returns of 1.49% for the Fiscal Year were sound and exposure to Global Fixed Income securities enhanced the return significantly, providing a 3.59% rate of return for the Fiscal Year. Staff concentrated on investment manager guidelines and the more effective management of the Internal Fixed Income Portfolio.

◆ **Alternative Investments**

The one-year performance of SFERS' alternative investment portfolio was 39.6% at fiscal year-end 2006. Over a ten-year investment period, the alternative investment portfolio posted an 18.9% annualized return, exceeding the performance benchmark for the program (the S&P 500 plus 500 basis points over rolling ten-year periods) by 460 basis points.

During the Fiscal Year, Staff recommended, and the Retirement Board approved, investments with fifteen different management groups. Of these, five were new relationships, and 10 were investments with managers with whom SFERS has invested in the past.

◆ **Real Estate**

The real estate portfolio's return of 23.8% outperformed the benchmark target (PREA National Property Index (NPI) return plus 150 basis points) of 20.5% by 3.3% for the fiscal year ended June 30, 2006. For the three-year period, the portfolio return of 17.6% exceeded the benchmark return of 17.5%, while for the five-year period the portfolio return of 13.4% underperformed the NPI return of 13.7%.

During the Fiscal Year, the Retirement Board approved a target allocation of up to 12% of Real Estate investments in international assets. While the Retirement System has invested in European Funds historically, this allocation was extremely small relative to the total Real Estate portfolio. As of the fiscal year ended 2006, SFERS had approximately 8% of Real Estate assets invested and committed to international real estate investments.

INVESTMENT PORTFOLIO PERFORMANCE ANNUALIZED RETURNS FOR THE PERIODS ENDING 6/30/2006

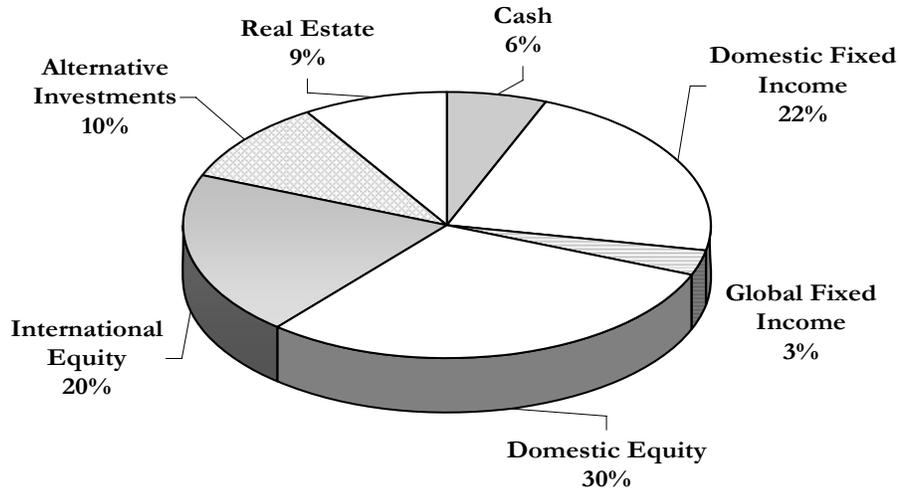
	One Year	3 Years	5 Years
Domestic Equity (benchmark: Russell 3000)	8.79 9.56	12.55 12.56	3.95 3.53
International Equity (benchmark: MSCI ACWI Free ex US)	26.86 27.90	26.10 25.29	11.60 11.43
Domestic Fixed Income (benchmark: Lehman Universal/Aggregate)	1.49% -0.26%	4.51% 2.67%	7.37% 5.39%
Global Fixed Income (benchmark: Lehman Global Aggregate/CG WGBI)	3.59% -0.07%	7.36% 2.71%	9.36% 4.69%
Real Estate (benchmark: NPI+2%)	23.80% 20.50%	17.60% 17.50%	13.40% 13.70%
Alternative Assets (benchmark: S&P + 5%)	39.59% 13.63%	28.11% 16.22%	10.32% 8.49%
TOTAL Fund (weighted policy benchmark)	13.46 11.41	14.13 12.38	7.86 6.74

*Source: Returns as calculated by The Northern Trust Company.
Real Estate portfolio and benchmark returns are calculated by The Townsend Group,
SFERS Real Estate Consultant*

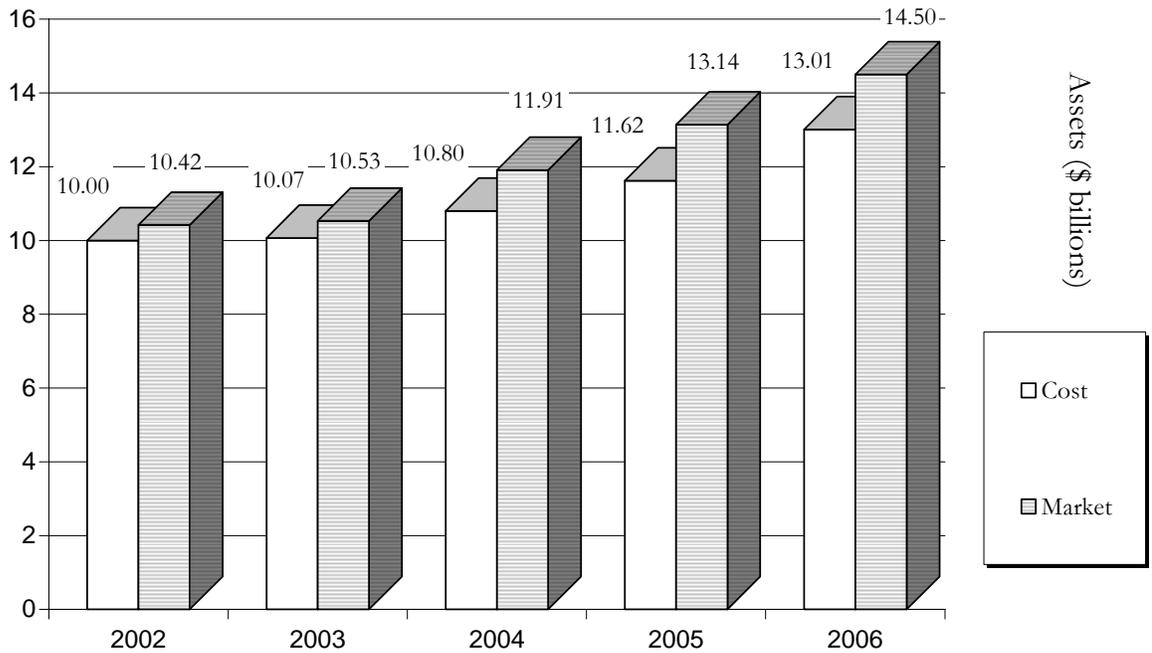
The following pages contain charts illustrating:

- ◆ Asset Allocation as of June 30, 2006
- ◆ SFERS Trust Fund Assets
- ◆ Investment Portfolio Performance
- ◆ Investment Earnings and Assets
- ◆ Portfolio Investment as of June 30, 2006

Asset Allocation as of June 30, 2006 - Market Value



PENSION FUND NET ASSETS



Portfolio Investment as of June 30, 2006

Category	Cost	% of Total	Market	% of Total
CASH & CASH EQUIVALENTS	\$ 909,526,579.38	6.99%	\$ 819,941,471.00	5.66%
EQUITIES				
Consumer Discretionary	\$ 396,132,350.76	3.05%	\$ 443,764,438.18	3.06%
Consumer Staples	149,774,945.89	1.15%	221,758,396.73	1.53%
Energy	173,670,686.44	1.34%	293,624,611.05	2.03%
Financials	625,510,595.67	4.81%	842,462,835.73	5.81%
Health Care	457,711,390.73	3.52%	524,740,124.84	3.62%
Industrials	294,682,048.08	2.27%	406,040,010.88	2.80%
Information Technology	616,025,751.35	4.74%	638,662,510.44	4.41%
Materials	65,644,258.86	0.50%	89,206,505.75	0.62%
Miscellaneous	215,122,974.42	1.65%	418,284,620.48	2.89%
Telecommunication Services	110,520,162.64	0.85%	108,962,000.96	0.75%
Utilities	84,474,668.83	0.65%	113,893,455.49	0.79%
Foreign Stock	2,616,038,666.13	20.11%	3,096,175,198.47	21.36%
Equities Total	\$ 5,805,308,499.80	44.63%	\$ 7,197,574,709.00	49.65%
FIXED INCOME				
Consumer Discretionary	\$ 56,274,294.80	0.43%	\$ 53,979,576.90	0.37%
Consumer Staples	12,515,809.15	0.10%	12,134,110.47	0.08%
Energy	40,947,133.17	0.31%	40,146,738.83	0.28%
Financials	797,100,441.76	6.13%	809,773,466.43	5.59%
Health Care	22,436,627.95	0.17%	21,993,795.22	0.15%
Industrials	9,429,748.37	0.07%	9,705,690.59	0.07%
Information Technology	6,992,863.17	0.05%	6,890,439.39	0.05%
Materials	10,445,623.74	0.08%	10,266,955.86	0.07%
Miscellaneous	908,849,374.72	6.99%	1,053,210,257.02	7.27%
Mortgages	125,585,802.23	0.97%	121,428,139.31	0.84%
Telecommunication Services	19,085,064.54	0.15%	12,436,315.38	0.09%
US Government	764,179,748.66	5.87%	792,091,054.71	5.46%
Utilities	26,291,905.85	0.20%	26,108,576.55	0.18%
Foreign government and corporate	606,972,717.30	4.67%	699,736,024.34	4.83%
Fixed Income Total	\$ 3,407,107,155.41	26.19%	\$ 3,669,901,141.00	25.31%
OTHER INVESTMENTS				
Real Estate	\$ 1,231,128,260.76	9.46%	\$ 1,316,852,291.00	9.08%
Venture Capital & Partnerships	1,655,436,365.63	12.73%	1,492,752,429.00	10.30%
Other Total	\$ 2,886,564,626.39	22.19%	\$ 2,809,604,720.00	19.38%
GRAND TOTAL	\$ 13,008,506,860.98	100.00%	\$ 14,497,022,041.00	100.00%

INVESTMENT EARNINGS AND ASSETS THREE YEAR HISTORY

Fiscal Year Ended June 30:	2006	2005	2004
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INVESTMENT EARNINGS

Equity Dividend Income	\$ 144,493,457	\$ 121,030,110	\$ 95,691,417
Real Estate Income	43,634,714	50,043,062	58,276,612
Alternative Investment Income	131,252,248	82,763,365	40,142,042
Realized Gains/(Loss)	1,138,492,694	561,435,485	649,859,830
Unrealized Gains/(Loss)	24,037,082	551,073,327	721,511,931
Interest	227,637,389	188,211,091	161,531,000
Other Income: Securities Lending, Dollar Roll and Recaptured Commissions	9,955,052	8,053,200	8,576,106
<u>Total Investment Earnings</u>	\$ 1,719,502,636	\$ 1,562,609,640	\$ 1,735,588,938

Fiscal Year Ended June 30:	2006	2005	2004
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PORTFOLIO ASSETS - FAIR VALUE

Fixed Income	\$ 3,669,901,141	\$ 3,629,226,794	\$ 3,381,353,573
Equities	7,197,574,709	6,425,337,310	5,947,900,326
Real Estate	1,316,852,291	1,084,785,351	958,368,355
Alternative Investments	1,492,752,429	1,436,795,576	1,311,960,487
Money Market Assets	819,941,471	559,117,965	307,606,100
<u>Total Fair Value of Portfolio</u>	\$ 14,497,022,041	\$ 13,135,262,996	\$ 11,907,188,841

RETIREMENT SERVICES DIVISION

Administering mandated benefit programs and providing promised benefits

The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries. Services provided include active and retired member counseling, member payroll accounting, calculation of benefits, establishment of pension payment, active and retired member recordkeeping, member communications and pre-retirement education.

SFERS PLAN MEMBERSHIP

The Retirement System administers three separate benefit plans for the City and County of San Francisco: the Firefighter Plan, the Police Plan and the Miscellaneous Plan. Each of these plans consists of multiple tiers. Generally, firefighter, police and miscellaneous employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Firefighter, Police or Miscellaneous Plans respectively. Firefighters, police and miscellaneous employees who became SFERS members after the November 1976 Charter amendments are covered by the New Police, Firefighter and Miscellaneous Plans respectively. Current Firefighter Plan and Police Plan benefits are established by Charter amendment passed in November 2002 and current New Plan Miscellaneous benefits are established by Charter amendment passed in November 2000.

Miscellaneous Plan members are members of the Social Security System since September 1959 (San Francisco Charter Section A8.514). In the past, members covered under Social Security were able to elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members accrued account shortages and will have reduced pensions upon retirement if the shortages are not paid prior to retirement.

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, Trial Courts, as well as the City and County of San Francisco.

Employees in certain job classifications of the City and County of San Francisco may also be eligible for membership in other retirement systems (e.g., deputized personnel of the Sheriff's Department, institutional police officers, district attorney investigators, and probation officers are members of CalPERS; school teachers are members of the State Teachers Retirement System).

On September 1, 1995, Retirement System membership rules were changed: employees who earn 1040 hours of compensation or more during any 12-month period became eligible for retirement membership on the first day of the pay period following the pay period in which the member earns 1040 hours of compensation.

On January 1, 2003, Old Plan Firefighter and Old Plan Police members were eligible to become members of SFERS under San Francisco Charter Sections A8.597 and A8.595 respectively, while New Plan Firefighter and New Plan Police members automatically became members of SFERS under San Francisco Charter Sections A8.598 and A8.596 under provisions of Proposition H passed by the voters in November 2002.

SFERS Plan Membership Charter References:

<u>Charter Section</u>	<u>Employee Group</u>
S.F. Charter Section A8.509	Miscellaneous employees who became members before November 2, 1976
S.F. Charter Section A8-587	Miscellaneous employee who became members on or after November 2, 1976
S.F. Charter Section A8-559	Police officers who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
S.F. Charter Sections A8-559-14 and A8.586	Police officers who elected 1981 Proposition F (Buyout) benefits
S.F. Charter Section A8-595	Police officers who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-597	Police officers who became members on or after November 2, 1976 and were eligible for Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-585	Firefighters who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-585-14 and A8.588	Firefighters who elected 1981 Proposition F (Buyout) benefits
S.F. Charter Section A8-596	Firefighters who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-598	Firefighters who became members on or after November 2, 1976 and were eligible for 2002 Proposition H benefits effective January 1, 2003

SFERS MEMBERSHIP

SFERS active membership falls within three categories:

- **Active Members** who are currently on City and County Payroll
- **Vested Members** who have left City and County employment with five or more years of SFERS service, but have left their contributions on account with SFERS and elected to receive a vested retirement allowance at a later date
- **Reciprocal Members** who, after leaving City and County employment, have accepted employment with a reciprocal employer and elected to leave their contributions on account with SFERS regardless of SFERS service to be eligible to receive a reciprocal benefit when they retire concurrently from both employers

As of June 30, 2006, there were 29,209 members of the Miscellaneous Plans, 2,214 members of the Police Plans and 1,638 members of the Firefighter Plans.

SFERS ACTIVE MEMBERSHIP AS OF JUNE 30, 2006

PLAN MEMBERSHIP GROUP	NUMBER OF ACTIVE MEMBERS			
	ACTIVE	VESTED	RECIPROCAL	TOTAL
OLD MISCELLANEOUS PLAN MEMBERS BEFORE NOVEMBER 2, 1976	893	19	8	920
NEW MISCELLANEOUS PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	24,812	2,769	708	28,289
OLD POLICE PLAN MEMBERS BEFORE NOVEMBER 2, 1976	73	0	0	73
NEW POLICE PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	2,046	87	8	2,141
OLD FIREFIGHTER PLAN MEMBERS BEFORE NOVEMBER 2, 1976	46	0	0	46
NEW FIREFIGHTER PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	1,556	26	10	1,592
TOTALS:	29,426	2,901	734	33,061

Miscellaneous Plan members comprise approximately 88.3% of the total SFERS Plan membership, with approximately 3% of the total Miscellaneous Plan members being employees who were hired before November 2, 1976.

Police officers and firefighters comprise approximately 6.7% and 5.0% of the total membership, respectively.

**EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES
AS A PERCENTAGE OF COVERED PAYROLL**

COVERED PLAN YEAR	POLICE	FIREFIGHTER	MISCELLANEOUS
1995-1996 (1 ST HALF)	14.79%	12.44%	4.98%
1995-1996 (2 ND HALF)	12.69%	10.58%	4.29%
1996-1997 (1 ST HALF)	0%	0%	1.83%
1996-1997 (2 ND HALF)	0%	0%	0%
1998-2004	0%	0%	0%
2004-2005	4.48%	4.48%	4.48%
2005-2006	6.58%	6.58%	6.58%

Note: Rates of contribution are composite rates for Old and New groups.

**EMPLOYEE CONTRIBUTION RATES
AS A PERCENTAGE OF COVERED PAYROLL***

PLAN MEMBERSHIP GROUP	RATE OF CONTRIBUTION
MISCELLANEOUS (OLD)*	8.00%
MISCELLANEOUS (NEW)	7.50%
POLICE (OLD)	7.00%
POLICE (NEW)	7.50%
FIREFIGHTER (OLD)	7.00%
FIREFIGHTER (NEW)	7.50%

*Covered Payroll for Old Plan Miscellaneous Employees (S.F. Charter Section A8.509) is gross income. Covered Payroll for all other groups is gross income minus overtime compensation.

SFERS RETIREMENT SERVICES

The following table summarizes the major activities of the SFERS Retirement Services Division during Plan Years 2004-2005 and 2005-2006:

ACTIVITY	2004-2005	2005-2006
RETIREMENT APPOINTMENTS	1349	1691
RETIREMENT APPLICATIONS PROCESSED	1272	1150
BUYBACK APPOINTMENTS	1518	2006
PERSONNEL TRANSACTIONS:	1444	2166
NEW MEMBERS (NEW HIRES)	717	936
NEW MEMBERS (1040 HOURS MEMBERSHIP)	410	790
REHIRES	145	194
FIRE RECRUITS	78	96
POLICE RECRUITS	90	150
SHERIFF RECRUITS	4	0
VISITORS	11,074	10,701
INCOMING CORRESPONDENCE	12,714	10,879
HOME VISITS	16	14
GROUP PRESENTATIONS	37	7
BENEFICIARY CHANGES	1330	1328
REFUND PACKETS	1425	1348
VERIFICATION OF PENSION OR BENEFIT DATA	884	967
ELECTRONIC FUND TRANSFER (NEW AND CHANGES)	2810	2534
OTHER ACTIVITIES (ADDRESS CHANGES, NAME CHANGES, ETC.)	2108	2216
PRE-RETIREMENT SEMINARS	6	6
REGISTERED ATTENDEES AT PRE-RETIREMENT SEMINARS	640	544
MID-CAREER RETIREMENT PLANNING SEMINARS	2	2
REGISTERED ATTENDEES AT MID-CAREER SEMINARS	210	242
NEW MEMBER RETIREMENT PLANNING SEMINARS	1	1
REGISTERED ATTENDEES AT NEW MEMBER SEMINARS	62	32

Retirement appointments increased 25.4% and retirement applications processed decreased 9.6% in Plan Year 2005-2006 over the prior Plan Year.

SFERS Retirement Services Division staff sponsored and conducted six pre-retirement seminars during Plan Year 2005-2006 that provided individualized benefit counseling for 544 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted two mid-career retirement planning seminars and one new member retirement planning seminar for Miscellaneous Plan members. Retirement staff also participated in retirement seminars sponsored by the Police Officers Association, the Unified School District and the Community College District.

SFERS RETIREMENT STATISTICS FOR PLAN YEAR ENDED JUNE 30, 2006

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2005-2006, as well as benefits payment summaries and comparisons:

NEW RETIREMENTS EFFECTIVE DURING PLAN YEAR ENDED JUNE 30, 2006

MEMBER GROUP	SERVICE	VESTING	INDUSTRIAL DISABILITY	ORDINARY DISABILITY	TOTAL
MISCELLANEOUS	664	235	N/A	29	928
FIREFIGHTER	69	1	8	0	78
POLICE	52	2	10	0	64
TOTALS:	* 785	238	18	29	1,070

*Total service retirements in Plan Year 2005-2006 includes 80 Early Retirement Program elections as well as applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

The total number of new retirements effective during Plan Year 2005-2006 was 18.7% higher than retirements in Plan Year 2004-2005 despite of the decrease in Early Retirement Program elections during the year. Service retirements represent 73.4% of the total of new retirements processed.

Miscellaneous retirements represented 86.7% of the total retirements processed in Plan Year 2005-2006, an increase from 89.5% in Plan Year 2004-2005.

Firefighter retirements represented 7.3% of the total retirements processed in Plan Year 2005-2006, an increase from 4.9% in Plan Year 2004-2005.

Police retirements represented 6.0% of the total retirements processed in Plan Year 2005-2006, an increase from 5.5% in Plan Year 2004-2005.

MISCELLANEOUS PLAN RETIREMENTS

SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENT	VESTING RETIREMENT	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
0-4	5	1	0	6	0.6%
5-9	14	125	0	139	15.0%
10-14	74	55	15	144	15.5%
15-19	79	50	10	139	15.0%
20-24	162	3	3	168	18.1%
25-29	136	1	1	138	14.9%
30-34	125	0	0	125	13.5%
35-39	65	0	0	65	7.0%
40 and above	4	0	0	4	0.4%
TOTAL	664	235	29	928	100.0%
PERCENT	71.6%	25.3%	3.1%	100.0%	

Approximately 64.2% of the total Miscellaneous Plan retirements had less than 25 years of service. The average number of years of service credited to Miscellaneous Plan retirees who retired in Plan Year 2005-2006 was 20.8 years.

Miscellaneous Plan service retirees were credited with an average of 24.7 years of service while those who retired for ordinary disability were credited with an average of 15.3 years of service.

AGE AT RETIREMENT

AGE	SERVICE	VESTING	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
UNDER 55	50	137	24	211	22.7%
55-59	179	56	5	240	25.9%
60-64	290	27	0	317	34.2%
65 AND OVER	145	15	0	160	17.2%
TOTAL	664	235	29	928	100.0%

The average age of all Miscellaneous Plan members who retired in Plan Year 2005-2006 was 59.3 years; the average age of Miscellaneous Plan members who retired for Service was 61.2 years; and the average age of Miscellaneous Plan members who retired for Ordinary Disability was 50.9 years.

POLICE AND FIREFIGHTER PLAN MEMBERS

SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENTS	VESTING RETIREMENTS	INDUSTRIAL DISABILITY*	TOTAL	PERCENT OF TOTAL
0-4	0	0	2	2	1.4%
5-9	5	0	3	8	5.6%
10-14	2	1	3	6	4.2%
15-19	1	1	4	6	4.2%
20-24	9	1	1	11	7.8%
25-29	34	0	1	35	24.7%
30-34	66	0	3	69	48.6%
35 AND OVER	4	0	1	5	3.5%
TOTAL	121	3	18	142	100%
PERCENT	85.2%	2.1%	12.7%	100%	

* There were no Ordinary Disability retirements processed for Police and Firefighter Plan members in Plan Year 2005-2006

Approximately 23.2% of the total Police and Firefighter Plan retirements had less than 25 years of service. The average number of years of service credited to Police and Firefighter Plan retirees who retired in Plan Year 2005-2006 was 26.4 years.

Police and Firefighter Plan service retirees were credited with an average of 26.9 years of service while those who retired for industrial disability were credited with an average of 17.6 years of service.

AGE AT RETIREMENT

AGE	SERVICE	VESTING	INDUSTRIAL DISABILITY	TOTAL	PERCENT OF TOTAL
UNDER 55	49	3	13	65	45.8%
55-59	57	0	5	62	43.7%
60-64	13	0	0	13	9.1%
65 AND OVER	2	0	0	2	1.4%
TOTAL	121	3	18	142	100.0%

The average age of all Police and Firefighter Plan members who retired in Plan Year 2005-2006 was 55.3 years.

TOTAL RETIREMENT ALLOWANCES AS OF JUNE 30, 2006
RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS*	DEATH IN LINE OF DUTY	TOTAL
NUMBER OF RETIREMENT ALLOWANCES AS OF 6/30/2006:				
MISCELLANEOUS	14,291	1,899	N/A	16,190
MEMBER	11,912	1,361	N/A	13,273
CONTINUATION	2,379	538	N/A	2,917
FIREFIGHTER	928	938	41	1,907
MEMBER	659	684	-	1,343
CONTINUATION	269	254	41	564
POLICE	1,269	770	49	2,088
MEMBER	950	493	-	1,443
CONTINUATION	319	277	49	645
TOTAL	16,488	3,607	90	20,185

*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

As of June 30, 2006, the total number of retirement allowances paid to retired members represented 79.6% of the total allowances paid; continuation allowances represented 20.4% of the total allowances paid.

MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2006
RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS*	DEATH IN LINE OF DUTY	TOTAL
MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2005:				
MISCELLANEOUS	\$ 28,070,120	\$ 2,763,659	N/A	\$ 30,833,779
FIREFIGHTER	4,956,048	4,488,807	\$ 129,318	9,574,173
POLICE	5,982,224	2,879,100	182,645	9,043,969
TOTAL	\$ 39,008,392	\$ 10,131,567	\$ 311,963	\$ 49,451,921

*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

Monthly retirement allowances paid to Miscellaneous Plan members and continuants represent 62.4% of the total monthly retirement allowances paid during Plan Year 2005-2006.

Monthly retirement allowances paid to service retirees represented 78.9% of the total monthly retirement allowances and monthly disability benefits represented 20.5% of the total monthly retirement allowances paid during Plan Year 2005-2006.

DEATH BENEFITS PAID – 3 YEAR COMPARISON

PLAN YEAR	2005-2006	2004-2005	2003-2004
NUMBER OF DEATHS:			
ACTIVE MEMBERS	39	54	55
RETIRED MEMBERS	563	504	530
CONTINUANTS	212	205	191
TOTAL	814	763	776

The number of death notices received during Plan Year 2005-2006 increased by 6.7% from Plan Year 2004-2005.

WITHDRAWAL OF CONTRIBUTIONS – 3 YEAR COMPARISON

	MEMBER ACCOUNTS	PERCENT VARIANCE PRIOR YEAR	AMOUNT WITHDRAWN	PERCENT VARIANCE PRIOR YEAR
AS OF 6/30/2006				
MISCELLANEOUS	627		\$ 8,833,467	
FIREFIGHTER	0		0	
POLICE	7		70,432	
TOTAL	634	(6.6%)	\$ 8,903,899	4.5%
AS OF 6/30/2005				
MISCELLANEOUS	664		\$ 8,355,336	
FIREFIGHTER	0		0	
POLICE	15		167,039	
TOTAL	679	(4.1%)	\$ 8,522,375	11.3%
AS OF 6/30/2004				
MISCELLANEOUS	681		\$ 7,179,989	
FIREFIGHTER	2		42,737	
POLICE	25		435,118	
TOTAL	708	(15.4%)	\$ 7,657,844	(6.8%)

FISCAL DIVISION

Administering mandated benefit programs and providing promised benefits

The Fiscal Division is responsible for providing financial information to management for planning, control, and decision-making purposes. In addition, the Fiscal Division provides statistical and financial data for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the Employees' Retirement System is adequately funded at all times. Financial reporting includes the preparation of the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system.

The Accounting and financial reporting functions are divided into several major activities, which include:

- Investments accounting
- Accounting for member and employer contributions
- Benefits payment accounting
- Accounting for employees' deferred compensation
- Budget and appropriations control
- General ledger and all financial reporting

The following two pages present the **Statements of Net Plan Assets** and **Statements of Changes in Plan Net Assets** for Fiscal Years ended June 30, 2006 and 2005 as reported in SFERS' most recent audited financial statements. These financial statements provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2006. We encourage readers who may have questions regarding any of the financial information provided to request from SFERS the full set of audited *Financial Statements and Supplemental Schedules* as prepared by the City's independent auditors.

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2006 AND 2005
Information derived from audited Financial Statements

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
	(in thousands)	
Deposits	\$ 24,728	\$ 17,986
Contributions receivable – members	5,688	4,922
Contributions receivable – City and County	4,720	2,736
Investment income receivable:		
Interest	30,864	26,616
Dividends	8,662	8,096
Securities lending	1,048	1,579
Dollar Roll	424	201
Receivables from brokers, general partners, others	133,278	54,247
Investments at fair value		
Short-term bills and notes	943,168	622,621
Debt securities:		
U. S. government securities	1,151,023	1,372,895
Other debt securities	2,518,879	2,256,332
Equity securities	7,197,575	6,425,337
Real Estate	1,316,852	1,084,786
Venture capital	1,492,752	1,436,796
Forward currency contracts, net	0	13,254
Investments in lending agents' short term investment pool	<u>2,040,873</u>	<u>1,600,111</u>
TOTAL INVESTMENTS:	<u>\$ 16,661,122</u>	<u>\$ 14,812,132</u>
TOTAL ASSETS:	<u>\$ 16,870,534</u>	<u>\$ 14,928,515</u>
 <u>LIABILITIES</u> 		
Payable to brokers	\$ 209,424	\$ 98,585
Obligations under fixed coupon dollar repurchase agreements	99,141	85,000
Foreign Currency Contracts, net	12,825	-
Other liabilities	11,250	9,556
Payable to borrowers of securities	<u>2,040,873</u>	<u>1,600,111</u>
TOTAL LIABILITIES:	<u>2,373,512</u>	<u>1,793,252</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	<u>\$ 14,497,022</u>	<u>\$ 13,135,263</u>

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005
Information derived from audited Financial Statements

	<u>2006</u>	<u>2005</u>
	(in thousands)	
ADDITIONS		
Member contributions:		
Miscellaneous	\$ 136,665	\$ 139,442
Firefighter	14,715	14,233
Police	11,313	10,690
Total Member Contributions	162,693	164,365
City and County contributions:		
Miscellaneous	104,064	69,123
Firefighter	12,773	8,356
Police	9,696	6,185
Total City Contributions	126,533	83,664
Investment income (expenses)		
Interest	227,637	188,854
Dividends	144,493	121,030
Net (depreciation) appreciation in fair value of investments	1,337,830	1,245,926
Securities lending income	77,358	34,183
Fixed coupon dollar repurchase agreement income	5,467	4,923
Investment expenses	(40,785)	(28,228)
Securities lending borrower rebates and expenses	(67,909)	(27,135)
Fixed coupon dollar repurchase agreement finance charges and expenses	(5,372)	(4,556)
Investment gain/(loss), net	1,678,719	1,534,997
Total additions/(deductions)	\$ 1,967,945	\$ 1,783,026
DEDUCTIONS		
Benefits	586,245	535,963
Refunds of contributions	8,719	8,565
Administrative expenses	11,222	10,593
Total Deductions	\$ 606,186	\$ 555,121
Net increase/(decrease)	\$ 1,361,759	\$ 1,227,905
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>\$ 13,135,263</u>	<u>\$ 11,907,358</u>
End of year	<u>\$ 14,497,022</u>	<u>\$ 13,135,263</u>

The following pages contain comparative fiscal year reports related to SFERS income and disbursements for the 3-year from July 1, 2003 through June 30, 2006, including:

- Employer and Employee Contributions
- Investment Income
- Benefit Disbursements
- Administrative Expenses

SFERS CONTRIBUTIONS – 3 YEAR COMPARISON

Employer (City and County) Contributions

Up until Plan Year 2004-2005, the City and County of San Francisco had not been required to make employer contributions since 1996 due to the funding status of the Plan.

MEMBER PLAN	PLAN YEAR 2005-2006	PLAN YEAR 2004-2005	PLAN YEAR 2003-2004
MISCELLANEOUS PLAN	\$ 104,064,428	\$ 69,122,769	\$ -
FIREFIGHTER PLAN	9,696,305	6,184,668	-
POLICE PLAN	12,772,942	8,355,929	-
TOTAL	\$ 126,533,675	\$ 83,663,366	\$ -

Employee Contributions

MEMBER PLAN	PLAN YEAR 2005-2006	PLAN YEAR 2004-2005	PLAN YEAR 2003-2004
MISCELLANEOUS PLAN	\$ 136,664,886	\$ 139,442,651	\$ 144,973,403
FIREFIGHTER PLAN	11,313,204	10,689,574	11,778,242
POLICE PLAN	14,715,115	14,232,985	13,798,516
TOTAL	\$ 162,693,205	\$ 164,365,210	\$ 170,550,161

**SFERS PENSION FUND INVESTMENT INCOME
PLAN YEAR 2005-2006**

	REALIZED GAIN/LOSS	UNREALIZED GAIN/LOSS	TOTAL
INCOME			
CITY AND COUNTY CONTRIBUTIONS			\$ 126,533,675
EMPLOYEE CONTRIBUTIONS			162,693,205
INTEREST EARNED			227,637,389
DIVIDENDS EARNED			144,493,457
SECURITIES LENDING INCOME-NET			9,448,736
DOLLAR ROLL INCOME – NET			93,876
RECAPTURED COMMISSION INCOME – NET			19,529
REAL ESTATE INCOME			43,634,714
ALTERNATIVE INVESTMENT INCOME			131,252,247
INVESTMENT EXPENSES			(40,391,764)
TOTAL INCOME:			\$ 805,415,064
NET APPRECIATION IN FAIR VALUES			
SHORT-TERM SECURITIES	\$ 1,910,856	\$ (25,949,176)	\$ (24,038,320)
EQUITIES	904,748,928	(39,193,688)	865,555,240
DEBT SECURITIES	(504,551)	(123,010,974)	(123,515,525)
REAL ESTATE	52,790,106	122,936,974	175,727,080
VENTURE CAPITAL	180,324,199	90,618,084	270,942,283
OTHER ASSETS	(776,844)	(1,363,196)	(2,140,040)
TOTAL NET APPRECIATION:	\$ 1,138,492,694	\$ 24,038,024	\$ 1,162,530,718
TOTAL INCOME AND NET APPRECIATION:			
			\$ 1,967,945,782
INCREASE/(DECREASE) FROM FY 2004–2005:			\$ 184,874,005

**SFERS PENSION FUND DISBURSEMENTS
PLAN YEAR 2005-2006**

PAYMENTS/EXPENSES	AMOUNT
SERVICE RETIREMENT PAYMENTS	\$ 431,915,446
DISABILITY RETIREMENT PAYMENTS	114,348,171
PROPOSITION C – COST OF LIVING ADJUSTMENT	29,405,182
DEATH ALLOWANCE PAYMENTS	4,057,525
DEATH BENEFITS	2,253,084
NORMAL CONTRIBUTIONS PAID AS DEATH BENEFIT	2,972,345
RETIRED ANNUITANT ROLLS (OPTION 1 DEATH BENEFIT)	1,293,665
REFUNDS OF CONTRIBUTIONS	8,719,016
ADMINISTRATIVE EXPENSES: RETIREMENT SERVICES/ADMINISTRATION	11,221,361
TOTAL PAYMENTS & EXPENSES:	\$ 606,185,795
INCREASE/(DECREASE) FROM FY 2004-2005:	\$ 51,065,425

**SFERS ADMINISTRATIVE EXPENDITURES
3 YEAR COMPARISON
RETIREMENT SERVICES/ADMINISTRATION DIVISIONS**

DESCRIPTION OF EXPENDITURES	RETIREMENT SERVICES/ADMINISTRATION		
	2005-2006	2004-2005	2003-2004
PERSONNEL SERVICES	\$ 5,149,655	\$ 4,790,890	\$ 4,386,050
EQUIPMENT PURCHASE	29,023	49,742	77,999
MATERIALS AND SUPPLIES	146,280	153,149	132,526
SERVICES OF OTHER DEPARTMENTS	3,956,423	4,092,215	4,795,078
OTHER SERVICES	1,939,980	1,507,484	1,318,664
TOTAL	\$ 11,221,361	\$ 10,593,480	\$ 10,710,317

**SFERS ADMINISTRATIVE EXPENDITURES
3 YEAR COMPARISON
INVESTMENT DIVISION**

DESCRIPTION OF EXPENDITURES	INVESTMENT DIVISION		
	2005-2006	2004-2005	2003-2004
PERSONNEL SERVICES	\$ 1,533,095	\$ 1,659,436	\$ 1,429,766
EQUIPMENT PURCHASE	6,622	33,227	0
MATERIALS AND SUPPLIES	6,032	6,125	12,314
SERVICES OF OTHER DEPARTMENTS	408,353	401,532	287,425
OTHER SERVICES	35,499,830	25,074,914	22,581,091
TOTAL	\$ 37,453,932	\$ 27,175,234	\$ 24,310,596

**SFERS ADMINISTRATIVE EXPENDITURES
3 YEAR COMPARISON
ALL DIVISIONS**

ALL DIVISIONS	2005-2006	2004-2005	2003-2004
GRAND TOTAL	\$ 48,675,293	\$ 37,768,714	\$ 35,020,913

ACTUARIAL SUMMARY

The Retirement System pays an array of benefits to members and their survivors -- service retirement, disability retirement, and survivor benefits, in addition to contribution plus interest refunds to members who withdraw from the System. These benefits are funded from a combination of employee contributions, City contributions and investment returns earned on those contributions.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of City contributions to the Fund for the next Fiscal Year. The Plan valuation at the beginning of the Fiscal Year was carried out by the actuarial consulting firm of Towers Perrin based on June 30, 2005 data. The results were first published in February 2006.

ASSUMPTIONS AND METHOD

The main assumptions used to measure the System's liabilities for future benefits payments were:

Investment Returns	8.00% per year
Base Wage Increases	4.50% per year
Merit and Promotion	Wage Increases 1.3%, approximately (varies by group and years of service)
Retiree Mortality	1994 Group Annuity Mortality Table

The actuarial funding method used was as follows:

- ◆ entry age normal cost method
- ◆ unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- ◆ unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years

The assets were valued using a 5-year phase-in of realized and unrealized capital gains and losses.

KEY RESULTS

Using the method and assumptions detailed above, the key findings of the latest valuation were:

Funded Status

Actuarial Liability	11,765,737,000
Actuarial Value of Assets	<u>12,659,698,000</u>
Unfunded Liability <Surplus>	\$ <893,961,000>
Funded Status (assets / liabilities)	108%

Employer (City and County) Contribution Rates

The retirement contribution rates to be paid by the City in Fiscal Year 2006-2007 were derived from the following actuarial valuation results:

NORMAL COST	16.56%
UNFUNDED LIABILITY & OTHER COSTS	(2.80)%
EMPLOYEE CONTRIBUTIONS	7.52%
CITY CONTRIBUTION RATE	6.24%
BOARD APPROVED CITY CONTRIBUTION RATE	6.24%