SFERS

San Francisco Employees' Retirement System

Providing Opportunities for Retirement Since 1922

San Francisco Employees' Retirement System Annual Report

For Fiscal Year Ended June 30, 2009

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

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Introduction

Administering Mandated benefit programs and providing promised benefits

SFERS at a Glance

as of June 30, 2009

Plan Net Assets:	**$11.9 Billion**
Funded Ratio:	**104%** *(as of 7/1/08)*
Total Benefits Paid:	**$732 Million**
Member Contribution Rate: *(post 1976 Plans)*	7.5%
Employer Contribution Rate:	4.9%

Membership *(during fiscal year 2008-09)*

Total Membership:	**52,119**		
Active:	**29,910**	**Retired:**	**22,209**
Miscellaneous:	26,205	Miscellaneous	18,006
Police:	2,246	Police:	2,175
Fire:	1,459	Fire:	2,028

Retirements *(during fiscal year 2008-09)*

Total Retirements:	**1,122**
Miscellaneous:	992
Police:	62
Fire:	68

Average Service Credit at Service Retirement:	**26.1 Years**	**Average Age at Service Retirement:**	**62.0 Years**
Miscellaneous:	25.8 Years	Miscellaneous:	62.8 Years
Police:	27.7 Years	Police:	56.4 Years
Fire:	29.2 Years	Fire:	56.5 Years

The Retirement System

History

The San Francisco Employees' Retirement System (SFERS) was created by the voters as a part of the San Francisco City Charter established in 1889. 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.
- 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 (see "SFERS Plan Structure" on page 32).

The Pension Plan

The SFERS Pension Plan is a qualified defined benefit plan that provides for the following benefits upon separation: service and disability retirement, refund or vesting allowance, and pre- and post-retirement death benefits to beneficiaries. Defined benefit plans are funded through employee and employer contributions and investment earnings.

The SFERS has reciprocity with CalPERS, the county retirement systems subject to the 1937 Act Retirement Law, and certain other local, independent retirement systems that have a reciprocity contract with CalPERS (listed in the CalPERS Annual Financial Report).

The San Francisco Deferred Compensation Plan (SFDCP)

The San Francisco Deferred Compensation Plan, a voluntary IRS §457(b) 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. The SFDCP offers members an opportunity to supplement pension income during retirement.

Our Members

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.

Our Mission

The 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 to the active and retired members of the City and County of San Francisco.

Administration

The Executive Director and the senior staff team comprise the Administration Division which oversees all other Divisions in the Department – Investments, Finance, Retirement Services, Information Systems, and Human Resources, as well as manages the day-to-day activities of the System including a network of professional consultants. The Administration Division also provides administrative support to the Retirement Board in the preparation of meeting materials such as agendas and supporting documents, minutes and

public notice requirements for the Board's and committee meetings. Additionally, Administrative staff interfaces with Board members in processing travel requests, orientation of new Board members, and facilitation of on-going educational opportunities for Board members.

Besides overseeing Retirement System activities and supporting the Retirement Board, the Administration Division manages and administers Public Records Requests in accordance with the City's Sunshine Act, State of California Public Records Act, and Federal Freedom of Information Act.

Applications for disability retirement, and subsequent hearings before an Administrative Law Judge, are processed by the Administration Division as well, in consultation with the Workers Compensation Division of the Department of Human Resources. See the Appendix for the 2008-09 Disability Hearing Report.

Investments

The Retirement System's investment objective is 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.

Finance

The Finance Division is responsible for trust accounting as well as providing financial information to senior management to help facilitate planning, control, and decision-making. 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. Financial statements and required supplemental information presented in this report include disclosures as required by Governmental Accounting Standards Board (GASB).

Actuarial Services

The SFERS funding objective is to provide all promised benefits by adhering to a legally mandated and actuarially prudent funding plan, achieving superior investment returns within prudent risk controls, and minimizing employer contributions to the retirement fund.

The SFERS Retirement Board appoints an Actuary and contracts with a Consulting Actuary firm 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 Actuarial Services Coordinator oversees the SFERS actuarial activities.

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. This report reflects Plan valuation for the Fiscal Year carried out by the actuarial consulting firm Cheiron, based on data through June 30, 2008.

Retirement Services

The SFERS dedicates extensive resources to serving our members. The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries including active and retired member counseling, member communications, active and retired member recordkeeping, pre-retirement education, member payroll accounting, retiree payroll and tax reporting, calculation of benefits, termination benefits and death payments.

In fiscal year 2008-09, we enrolled 1,722 new members and added 1,122 new retirees. Our annual benefit payments totaled $732 million and paid 22,209 retirees, their beneficiaries and exiting members. To help educate our members about their benefits under SFERS, Retirement Services conducted six Pre-Retirement Seminars, one Mid-Career Seminar and one New-Member Seminar for the City's miscellaneous members.

The Retirement Board

The Retirement Board of the San Francisco Employees' Retirement System oversees Plan administration, pension fund investment, member benefits, and actuarial funding. Within the scope of their duties, the Board establishes policies governing the administration, management, and operation of the retirement plans; manages the investment of the Retirement System's assets; reviews and approves benefit determinations; and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan. A full description of Board duties is available in the Board Policy Manual. The Retirement Board generally meets once each month to review and to approve important elements of Retirement System business.

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.

The Retirement Board

President
Joseph D. Driscoll, CFA
Lieutenant, Fire Department
Elected Member
Term Expires: 02/20/2011

Vice President
Brenda Wright
Senior Vice President
Regional Manager Community Development
Wells Fargo & Company
Appointed Member
Term Expires: 02/19/2013

Al Casciato
Captain, Police Department
Elected Member
Term Expires: 02/21/2010

Sean Elsbernd
Member, Board of Supervisors
Ex-Officio Member
Term Expires: 01/07/2010

Michael Kim
Partner
Rustic Canyon Partners
Appointed Member
Term Expires: 02/20/2009

Herb Meiberger, CFA
Retiree
Elected Member
Term Expires: 02/20/2012

Richard H. Peterson, Jr.
Real Estate Investor
Appointed Member
Term Expires: 02/20/2014

A Message From The President

Fiscal year 2008-09 was filled with challenges fueled by chaotic capital markets and statewide budget woes. The information that follows in this report reflects a relatively resilient Retirement System operating in one of history's more volatile financial markets.

Measured against our mission statement, we have managed our responsibilities and tasks well, yet we know there is still much to do. We are constantly developing systems, processes and new relationships to accomplish our mission now and for generations to come.

Our experienced staff and team of consultants have performed at near record levels to meet our challenges "head-on" and help ensure our members receive the level of service they have come to expect. It is our leadership's diligence and dedication that generates our successes and improvements. It is the people working here at SFERS, serving our members and their beneficiaries who deserve our gratitude. Below is a list of selected actions during the 2008-09 fiscal year.

- A thorough and thoughtful review of our long-term demographic assumptions and global market conditions as part of our regular Economic Experience Analysis, led us to adopt more prudent economic assumptions for the Plan including lowering the assumed rate of return from 8.00% to 7.75%, to better reflect a new market environment operating within tighter risk parameters, as well as increasing the employer contribution rate to 9.49%, to pay for a voter approved benefit enhancement for our retirees.
- Taking advantage of opportunities created from the volatile capital market environment, the Board approved more than $430 million in new investments, mostly in private market ventures.
- Like most Funds, we suffered losses during this last year; however, we took this as an opportunity to reevaluate the portfolio and acted to rebalance, reallocate and even remove investment relationships in order to revamp our investment policies and bolster the overall investment program. In addition, the Board and staff continue to develop a risk management tool that is intended to position the investment portfolio to optimize real returns within a responsible risk strategy.
- Our Retirement Services team continues to engage our members in educational and informational activities including pre-retirement seminars and member counseling. Detailed statistics about these activities are available on page 35 in this report.
- We expanded our team of information systems professionals to accommodate our increasing need to keep pace with industry technologies.
- The Board approved and transitioned to a new Third Party Administrator and Stable Value Fund Portfolio Manager, Great-West Retirement Services (GWRS) for participants in the SFDCP, offering members an opportunity to invest pre-tax dollars at lower fees so that more of their hard earned dollars are actually invested toward supplementing pension income in retirement.

We will continue to strive to achieve our vision for this great System. As always, meeting the demand for service from our members remains our number one priority.

Sincerely,

Joseph D. Driscoll

Joseph D. Driscoll, President
Retirement Board, City and County of San Francisco

Board Actions During Fiscal Year 2008-09

In fulfilling its duty as fiduciary of the retirement trust assets, and to ensure the health of the investment portfolio with the goal of providing benefits to members into perpetuity, the Retirement Board reviewed, approved, adopted and/or participated in the following actions during the fiscal year ended June 30, 2009:

Investments

In accordance with the annual investment plan, the investment team brings before the Board new investment opportunities with the objectives of enhancing the structure and diversity of the investment portfolio and sustaining long-term performance.

In fiscal year 2008-09, under the authorization of the Board, the investment team committed $350 million to the Alternative Investments portfolio and $50 million to the Equities portfolio, as well as approved an additional $50 million allocation to the Real Estate portfolio, (see pages 16 – 18 for a detailed schedule of these investments).

Additionally, in response to this year's financial crisis and in anticipation of market challenges going forward, the Board approved several revised policies, plans and/or guidelines essential to the overall governance of the retirement trust. The Board adopted a revised Investment Policy Statement that clarifies language regarding investment manager fiduciary capacity, and modified asset/sub-asset class definitions and allocations.

Similarly, the Board adopted a revised strategic investment plan for alternative investments that stipulates an increased allocation to alternative investments. The Board also approved an index fund option for the internally managed fixed income portfolio to balance with the more aggressive-leaning externally managed portfolio in order to move the overall fixed income portfolio to a more moderate posture.

Actuarial

Actuarial valuation is a critical tool that drives Board decisions impacting the ability of the plan to provide benefits to our members now and into the future. The Trust has a funded ratio of 104% as of our last valuation on July 1, 2008.

During the fiscal year, the Board addressed a number of actuarial matters affecting the future of plan assets. The consulting actuary recommended in the Economic Experience Analysis, and the Board adopted a reduced rate of return assumption of 7.75%, down from the current 8.00%. As a result of the 0.25% reduction in the rate of return assumption, along with increased benefits cost due to a benefit enhancement approved by the voters in June 2008, the employer contribution rate for fiscal year 2009-10 increased from 4.99% to 9.49%.

In line with the 0.25% reduction in the rate of return assumption, the Board reduced the credited interest rate (the rate of interest members earn on their account balances) by an equal amount from 5.00% to 4.75%.

Benefit Policies

The Board oversees routine as well as complex matters, in accordance with Board policies which impact the overall administration and operations of the Retirement System. In fiscal year 2008-09, the Board reviewed and approved four new policies, and amended one policy impacting purchase of service, work after retirement, and recovery of workers' compensation benefits.

The Normal Retirement Age and Bona-Fide Separation policies work hand-in-hand to ensure the Retirement System is in compliance with Internal Revenue Service (IRS) regulations on distributions from retirement plans. According to IRS regulations, and as specified in the Bona-Fide Separation policy, a member who retires from SFERS and who is under the normal retirement age—age 50 for safety members and age 62 for miscellaneous members (as determined in the Normal Retirement Age policy)—is prohibited from entering into an agreement with his/her employer to return to work as a retiree, and must have a "bona fide" break in service of at least 60 days between the member's effective retirement date, and the member's (as a retiree) new employment with the City or other SFERS employer.

The Purchase of Unpaid Parental Leave and Purchase of Public Service Policies establish regulations for the purchase of retirement service credit for periods eligible members were on unpaid parental

leave prior to July 1, 2003, and for time worked and were enrolled in a defined benefit plan under the federal government, State of California, or other public agency in the State of California, prior to becoming a member of SFERS, respectively.

The Recovery of Workers' Compensation Benefits Policy, details the manner in which the Retirement System will recover benefits paid by the City because of injuries or illnesses resulting in a safety member's death or retirement, as a way of preventing double recovery by a City employee or survivor for a duty-incurred disability through receipt of both a disability retirement allowance under the Charter and workers' compensation benefits

Education

The Retirement Board strives to improve competency and enhance understanding of pension investments and overall Board governance through education. During fiscal year 2008-09, members of the Board attended conferences, roundtables, symposiums and other like forums offering diverse topics such as investing in real estate and alternatives , benefits and pension administration, investment manager selection, risk management, as well as institutional investing and fiduciary oversight, to name a few.

Litigation/Legislation

The Retirement System Senior Administration Staff and the Office of the City Attorney continuously review and report to the Board, on-going or anticipated litigation, and proposed legislative changes that could impact the SFERS. In fiscal year 2008-09, the Board of Supervisors approved amendments to the Public Service ordinance and voters approved a charter amendment allowing members to purchase time from unpaid leaves of absence related to pregnancy, both affecting SFERS' business (see "Benefit Policies" on page 9 for details).

Requests for Proposals (RFP)

Running a complex business such as the Retirement System requires collaboration between SFERS staff and a network of expert professionals. The Retirement System gains access to these experts by issuing RFPs. During fiscal year 2008-09, the Board issued, reviewed and approved the following RFPs:

- Executive Search Firm for Executive Director Position
- Investment Management Services for Active Currency Overlay
- Fiduciary Governance Consulting Services

457(b) SFDCP

The Retirement System offers active members an opportunity to acquire additional retirement savings intended to supplement pension benefits with voluntary contributions to a 457(b) Deferred Compensation Plan. The San Francisco 457(b) Deferred Compensation Plan (SFDCP) is administered by a third party administrator (Great-West Retirement Services), and is managed by the SFERS Deferred Compensation Manager who continuously monitors the Plan for enhancement opportunities that will benefit our members as they save for retirement.

Accordingly, the staff submits to the Board scheduled reports provided by Angeles Investment Advisors, and an Annual Plan Review provided by Great-West Retirement Services, regarding performance and administration of the SFDCP.

In fiscal year 2008-09, the Board approved a new Third Party Administrator (TPA) vendor for the SFDCP, Great-West Retirement Services (GWRS). GWRS offers SFDCP participants improved plan features including lower participant fees, an enhanced core lineup of investment options, a customized web site and communications, enhanced online transactions, and a local service center in San Francisco.

The transition to Great-West, effective January 29, 2009, impacted a number of the core investment options as well as the underlying investments in the asset allocation of the SFDCP Near Term Portfolio, SFDCP Mid Term Portfolio, and SFDCP Long Term Portfolio. These changes are detailed on page 41.

From the Executive Director

As the Executive Director of the San Francisco Employees' Retirement System, It is my privilege to share with you an overview of the Retirement System's accomplishments over this last fiscal year.

Proposition B

In June 2008, the voters approved a benefit enhancement for miscellaneous members which went into effect on January 11, 2009. The enhancement changed the age factor for members 60 years and older who retired on or after January 11, 2009, and changed the way in which COLAs are calculated.

The retirement system staff successfully implemented new systems and processes to accommodate the expanded age factor and COLA calculations, and between January 11, and June 30, 2009, our Retirement Services group processed over 520 retirements for members receiving enhanced benefits under Proposition B.

Deferred Retirement Option Program (DROP)

The Deferred Retirement Option Program (DROP) for eligible members of the San Francisco Police Department was established by the voters on the February 5, 2008 ballot, and went into effect on July 1, 2008.

Much like the modifications that were required for the Proposition B enhancement, the Retirement System's staff successfully implemented new systems and processes to support the DROP implementation including establishing a team of Member Services professionals dedicated to educating and enrolling all interested and eligible members. SFERS processed 60 DROP elections during the fiscal year.

Staff

During the fiscal year, we began recruitment and selection for the first significant staff enhancement in our investment team in over a decade. The newly created Managing Director positions in the Investments Division will better position our staff to manage our growing pool of assets within a complex asset allocation structure.

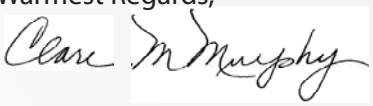
Our knowledgeable and experienced staff continues to provide ongoing recommendations to the Board to address the recent capital market conditions that have challenged SFERS, along with all institutional investors. Staff also continues to support the Board in its succession planning efforts.

Beyond Fiscal Year 2008-09

We continue to look for ways to streamline processes and implement more efficient systems for conducting our business. Our Administration staff is poised to implement a new disability retirement case management system—intended to make tracking these types of retirements more efficient and timely. We have a Disaster Recovery/Business Resumption Steering Committee working on an emergency preparedness plan to ensure staff's and members' safety and to minimize impact on our business in the event of a disaster.

The Retirement System is fully committed to fulfilling our mission as we work to identify and implement new measures of providing our members with the exceptional service they have come to expect.

Warmest Regards,



Clare M. Murphy

SFERS Senior Staff

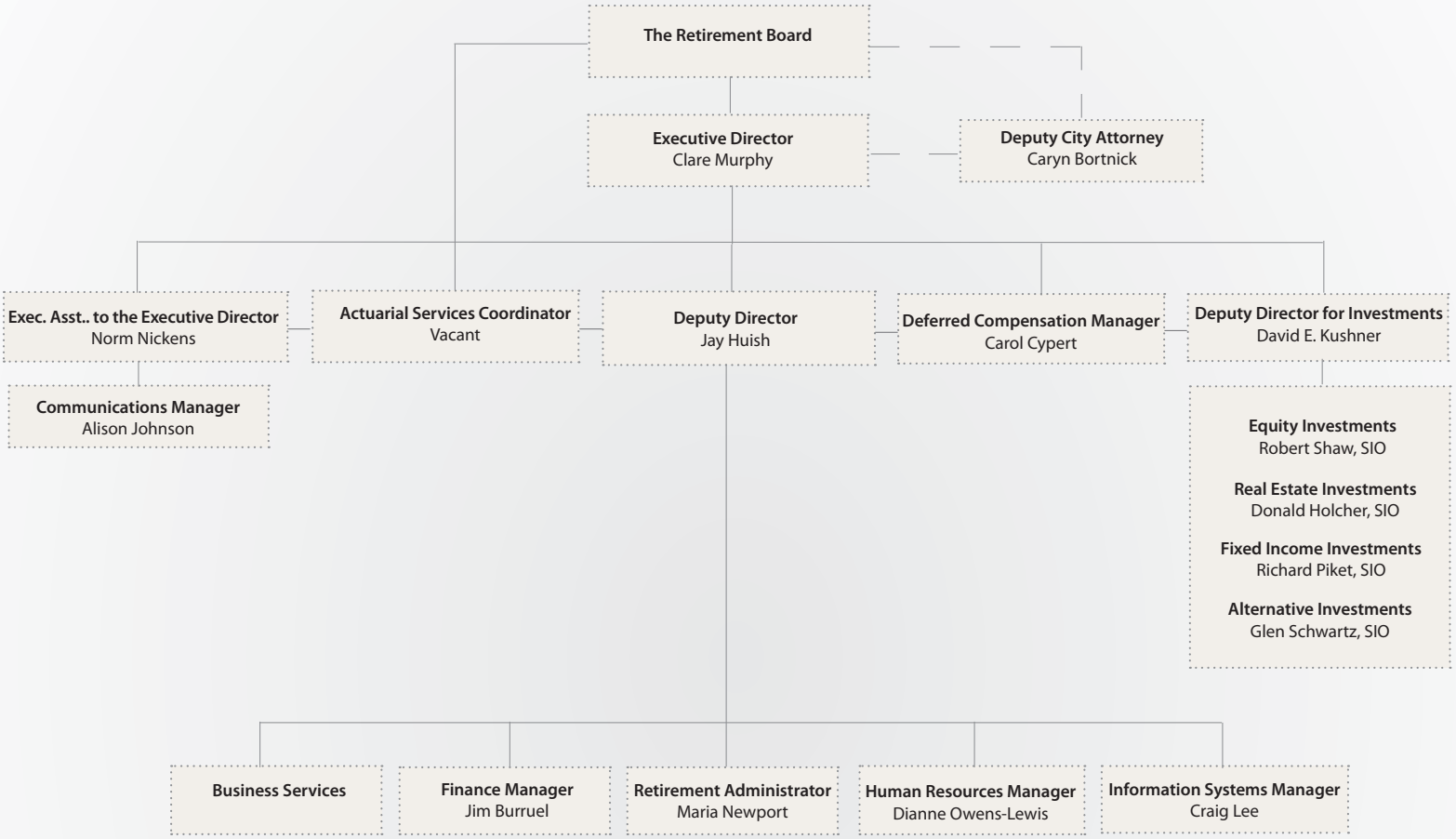
Administration

Front Row: *Alison Johnson, Communications Manager; Craig Lee, Information Systems Manager; Clare Murphy, Executive Director; Norm Nickens, Executive Assistant to the Executive Director; and Dianne Owens-Lewis, Human Resources Manager* ***Back Row:*** *Jim Burruel, Finance Manager; Jay Huish, Deputy Director; Maria Newport, Retirement Administrator; and Carol Cypert, Deferred Compensation Manager*

Investments

Left to right: *Glen Schwartz, SIO Alternative Investments; Robert Shaw, SIO Equities; David Kushner, Deputy Director for Investments; Richard Piket, SIO Fixed Income ; and Don Holcher, SIO Real Estate*

SFERS Organizational Chart



Investments

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

Overview

The global economy encountered significant challenges during the Fiscal Year, and the economic outlook for the year ahead is uncertain. The headwinds of the housing and financial market crisis, combined with the credit crunch and elevated food and energy prices, translate into expected sluggish economic growth and a worrisome inflationary situation.

The Federal Government, through various bailout programs (TARP, TALF, PPIP, General Motors, Chrysler, Banks, etc.) has now generated a deficit as a percentage of GDP not seen since World War II. In addition to the liquidity flooding markets from these programs, ongoing loose monetary policy on the part of the Federal Reserve System (near zero interest rates) continues to support a sluggish economy. While recent economic reports tend to show the economy is nearing a bottom (if we have not already seen it) the outlook for employment remains weak. The unemployment rate continues to climb, new job creation is essentially non-existent, and many of the longer term unemployed have given up hope of finding a new job in the near term.

Combined with attempts by Congress to overhaul significant portions of the U.S. Economy (i.e., Health Care, Financial Services) the outlook is as opaque as it has been in the past thirty years. SFERS continues to adhere to investment policies and disciplines designed to take a longer term view, and manage through both difficult and ebullient times with a steady approach to investment of the System's assets.

During the Fiscal Year, staff, in conjunction with consultants, continued to make progress on enhancing the System's Risk Management capabilities, focused currently on the Equity Asset Class. Staff and external consultants also reviewed the Fund's sub-asset class allocation in the Public Market (Equities and Fixed Income) segments of the Fund, deciding to make only modest changes at this time.

For the Fiscal Year 2009, the System posted a -21.98% return versus -16.17% from the Policy Benchmark. All asset classes trailed their respective indices, with the greatest relative underperformance coming from the Real Estate portfolio.

SFERS' portfolio ranks well against category peers (Public Funds with assets in excess of $1 billion). The System remains a top quartile performer for the five year period.

At the Fiscal Year End, the International Equity Asset Class was slightly underweight its allowed range (19.8% vs. 20% minimum), while the Fixed Income Asset Class was slightly overweight allowed targets (30.3% vs. 28% maximum). The remainder of SFERS' assets was within allowable asset allocation ranges at the close of the fiscal year. Due to the volatility and market disruption in certain subsectors of Fixed Income, staff is working closely with external managers and consultants to bring the asset allocation back into compliance.

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

In order to achieve the investment objective, the Retirement Board approved the following asset allocation policy in October 2008:

Asset Class	Policy Target	Policy Range	Actual
U.S. Equity	26%	22-30%	24.8%
International Equity	23%	20-26%	19.8%
Global Fixed Income	25%	22-28%	30.3%
Alternative Assets	14%	10-18%	12.2%
Real Estate	12%	9-15%	12.3%
Cash	0%	0-1%	0.6%

Investment Performance Highlights for Fiscal Year Ended June 30, 2009

The Retirement System investment portfolio returned -21.98% for the fiscal year ended June 30, 2009, underperforming the policy benchmark return of -16.17%. All asset classes posted negative returns for the Fiscal Year.

Equity

Returns for the combined equity portfolio were -29.31% for the fiscal year, underperforming the total equity policy benchmark return of -27.50% by 181 basis points. The U.S. equity portfolio return was -26.25%, besting the Russell 3000 benchmark return of -26.56% by 31 basis points. The International equity portfolio was down for the year, returning -32.98% underperforming the benchmark return of -30.18% by 270 basis points.

2008-09 Equity Commitments:

- Ashmore Global Special Situations Fund V (Opportunistic International Equities), $25 million

Fixed Income

The Fixed Income Portfolio had a disappointing performance for the Fiscal Year ending June 30, 2009 posting a -6.7% return. An aggressive investment strategy (including exposure to high yield bonds and emerging markets debt) contributed a positive return in the last quarter of the year but was not sufficient to recover losses suffered in the first half of the Fiscal Year.

During the Fiscal Year, approximately $577 million was raised from various Fixed Income Portfolios, largely to help pay retirement benefit payments but also to adjust to a Board approved reduction in the Plan's asset allocation to Fixed Income from 30% to 25%.

During the course of the Fiscal Year the Retirement Board approved Fixed Income manager guidelines to reduce risk in the high yield commercial mortgage backed securities portfolios and to prohibit investments in the credit default swap market. There were no new commitments to Fixed Income managers.

Alternative Investments

The Retirement Board approved an annual investment plan for the Alternative Investment Program recommending an investment pace of $275 million for calendar year 2009. The new commitments were invested in a diversified set of private equity limited partnerships sponsored by investment management firms currently managing money for SFERS, or newly selected investment management firms with strategies aimed at enhancing the portfolio. At fiscal year-end, the market value for alternative investments was $1.5 billion, or 12.7% of the total fund assets.

The alternative investment portfolio returned -23.9% for the fiscal year. Over a ten-year period, the portfolio earned an 8.5% annualized return, exceeding the performance benchmark (the S&P 500 + 5% over a rolling ten-year period) by 527 basis points.

2008-09 Alternative Investments Commitments:

Buy Out:

- Clessidra Capital Partners II, LP, $30 million
- Towerbrook Investors III, LP, $30 million
- Odyssey Investment Partners IV, LP, $30 million
- Charterhouse Capital Partners IX, LP, $35 million
- Hellman Friedman Capital Partners VII, LP, $30 million

Venture:

- Interwest Ventures X, LP, $10 million
- Knightsbridge Venture Capital VII, LP, $30 million
- New Enterprise Associates XIII, LP, $15 million
- TA Associates XI, LP, $25 million
- Trinity Ventures X, $10 million
- Draper, Fisher & Jurvenson Fund X, LP, $10 million
- Doll Capital Management VI, LP, $10 million

Special Situations:

- Apollo European Principal Finance, LP, $30 million
- Portfolio Advisors Secondary Fund, L.P, $40 million
- TA Associates Sub-Debt Fund III, LP, $15 million

Real Estate

As with other SFERS investments, the Real Estate portfolio is a reflection of the changes in the global credit markets. For the long-term, SFERS continues to find real estate an attractive asset class which continues to provide diversification from other asset classes such as equities, fixed income and alternative investments. In addition, this asset class offers stable and attractive risk-adjusted performance. Historically, during higher inflationary periods, investors turn to and benefit from "hard assets" such as real estate.

Under current conditions in the economy, tighter credit and a slow down in real estate transactions, SFERS will delay investing new capital except for exceptional and opportunistic situations where SFERS capitalizes on taking good assets from financially distressed sellers.

Furthermore, in light of the global credit crisis and with the slow down in real estate transaction volume, SFERS will look for its third party managers to focus on asset management issues such as leasing and maintaining the competitive position of the properties to ensure that when economic conditions improve, the real estate portfolio will be well positioned for the future benefits, objectives and goals of SFERS' real estate investment program.

During the fiscal year, the recession and scarce financing caused SFERS' real estate investments to experience declining occupancies, rents, and market values. Commercial real estate is expected to recover once the current unemployment trends stabilize and reverse. Northern Trust, SFERS' Performance Measurement provider, reports that the real estate portfolio provided a -25.64% net return for the trailing one-year period ending June 30, 2009. For the five year period, the net returns for the portfolio's investment in private real estate were 6.64%, underperforming the benchmark return of 10.93%. SFERS uses the National Property Index (NPI) plus 1.5% as reported by Pension Real Estate Association (the industry's association of institutional investors) for benchmarking real estate returns.

The distress in the commercial real estate market is expected to create compelling investment opportunities in the future. Real estate continues to play a diversification and inflation-hedging role in the Retirement System investment portfolio.

2008-09 Real Estate Commitments:

- Approved additional $50 million allocation to global real estate securities.
- Given the expectation of further decreases in net operating income and pricing in the near term, SFERS did not make any significant property acquisitions.

As of June 30, 2009, approximately 13% of SFERS trust assets were managed internally, including $536 million in domestic bonds and $1.05 billion in domestic equities. The balance of the portfolio was managed externally by investment firms that specialize in specific asset classes including international and domestic equities, global fixed income, alternative investments and real estate.

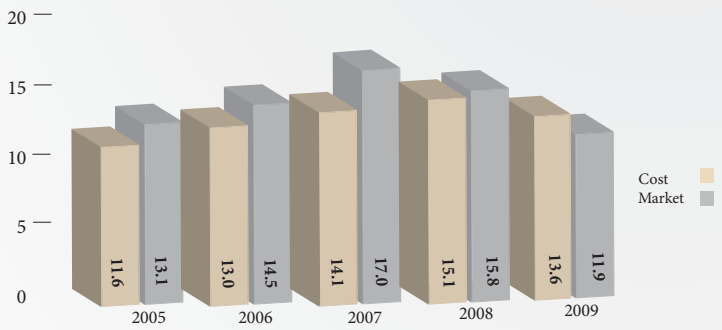
San Francisco Employees' Retirement System

Summary of Investments[1]

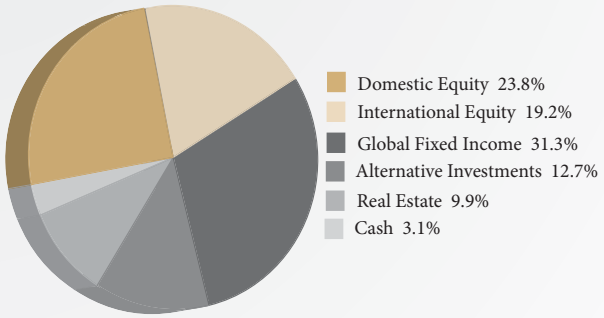
Asset Class	at June 30, 2009 Market Value ($000)	at June 30, 2009 % of Portfolio	at June 30, 2008 Market Value ($000)	at June 30, 2008 % of Portfolio
Equities				
U.S. Equities	$2,835,168	23.8%	$4,138,513	29.2%
International Equities	2,279,316	19.2%	3,226,693	22.9%
Total Equities	**$5,114,484**	**43.0%**	**7,365,206**	**52.1%**
Global Fixed Income	**$3,716,234**	**31.3%**	**$4,540,996**	**25.1%**
Alternative Investments				
Buyout	737,490	6.2%	850,211	4.5%
Venture	479,066	4.0%	554,999	3.4%
Special Situations	294,694	2.5%	281,717	1.5%
Total Alternative Investments	**$1,511,250**	**12.7%**	**$1,686,927**	**9.5%**
Real Estate	**$1,181,932**	**9.9%**	**$1,788,561**	**10.0%**
Cash	**$362,829**	**3.1%**	**$450,831**	**3.3%**
Total Investment Portfolio	**$11,886,729**	**100.0%**	**$15,832,521**	**100.0%**

Source: Macias Gini & O'Connell, LLP in FY 2009; Williams, Adley & Company, LLP in FY 2008

Pension Fund Net Assets *(in billions)*
as of June 30, 2009



Asset Allocation
as of June 30, 2009



1. Cash includes cash "set aside" for payment of benefits and expenses, and transactions in progress.

For the Fiscal year ended June 30, 2009, the Investment portfolio of the Retirement System suffered from continued economic malaise amid the "credit crisis" ending the fiscal year down -21.98%. On a broad asset class basis, all asset classes were substantially negative, with Alternative Investments and Real Estate returning -23.09% and -25.64%, respectively. Total Equities finished down -29.31% and Fixed Income returns also showed vulnerability to the "credit crunch", with the total Fixed Income Portfolio returning -6.66% for the year.

Investment Portfolio Performance vs. Benchmark Returns

Annualized Returns for the Period Ending 6/30/09
(Net of fees and expenses)

Asset Class	1-Year	3-Years	5-Years
Domestic Equity	**-26.37**	**-8.87**	**-2.34**
Russell 3000	*-26.56*	*-8.35*	*-1.84*
International Equity	**-33.23**	**-7.51**	**3.42**
MSCI ACWI Free ex U.S.	*-30.18*	*-5.46*	*4.71*
Global Fixed Income	**-6.66**	**0.22**	**2.62**
Lehman Global	*4.93*	*5.77*	*4.90*
Real Estate	**-25.64**	**-0.25**	**6.64**
Gross NPI + 1.5%	*-13.18*	*5.65*	*10.93*
Alternative Assets	**-23.09**	**5.75**	**15.17**
Through 12/31/06: S&P + 6%; Beginning 1/1/07: S&P +5%	*-21.21*	*-3.22*	*2.76*
Total Fund	**-21.98**	**-3.55**	**2.78**
Weighted Policy Benchmark	*-16.17*	*-1.29*	*3.46*

Source: The Northern Trust Company

Finance

Oversees the System's financial position and reports operating results

Overview

The Finance Division oversees trust accounting as well as provides management with key financial information to facilitate planning, control, and overall System oversight. The Finance Division also prepares and reports the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Disclosures as required by Governmental Accounting Standards Board (GASB) are included in the financial statements and other required supplemental reports.

In addition to financial oversight, the Finance 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.

The accounting and financial reporting functions are divided into several major activities:

- Investments Accounting
- Member and Employer Contributions Accounting
- Benefits Payment Accounting
- Employees' Deferred Compensation Accounting
- Budget and Appropriations Control
- General Ledger and Financial Reporting

The audited Statements of Plan Net Assets and Statements of Changes in Plan Net Assets (pages 24 and 25) for fiscal years ended June 30, 2009 and 2008, demonstrate the financial condition of the pension trust fund. 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, 2009.

Readers who have questions regarding the financial information provided in this report are encouraged to contact SFERS and request the full set of audited Financial Statements and Supplemental Schedule as prepared by the City's independent auditors, Macias Gini & O'Connell, LLP (2009) and Williams, Adley & Company, LLP (2008).

Statements of Plan Net Assets

Years Ended June 30, 2009 and 2008

Assets	2009 ($000)	2008 ($000)
Deposits	$ 34,170	$ 77,554
Accounts Receivable -- Airport Police Transfer from CalPERS	6,351	-
Contributions Receivable – Members	8,286	7,635
Contributions Receivable – City and County	5,344	5,826
Investment Income Receivable:		
Interest	27,526	39,844
Dividends	9,026	11,297
Securities lending Income	7,859	3,364
Fixed Coupon Dollar Repurchase Agreement Income	0	1,381
Receivables from Brokers, General Partners, Others	185,725	330,883
Investments at Fair Value:		
Short-Term Investments	504,096	879,724
Debt Securities:		
U.S. Government Securities	1,053,552	1,358,339
Other Debt Securities	2,662,681	3,182,657
Equity Securities	5,114,484	7,365,206
Real Estate	1,181,932	1,788,561
Venture Capital	1,511,250	1,686,927
Forward Currency Contracts, Net	2,094	-
Investments in Lending Agents' Short-Term Investment Pool	837,074	1,567,442
Total Investments	$ 12,867,163	$ 17,828,856
Total Assets	$ 13,151,450	$ 18,306,640
Liabilities	**2009**	**2008**
Payable to Brokers	$366,728	561,394
Securities Lending Payable	46,242	-
Obligations Under Fixed Coupon Dollar Repurchase Agreements	0	322,063
Foreign Currency Contracts, Net	0	504
DROP	4,143	-
Other Liabilities	12,020	22,716
Payable to Borrowers of Securities	881,830	1,567,442
Total Liabilities	1,264,721	2,474,119
Net Assets Held in Trust For Pension Benefits:	**$ 11,886,729**	**$ 15,832,521**

Source: Macias Gini & O'Connell, LLP in FY 2009; Williams, Adley & Company, LLP in FY 2008

Statements of Changes in Plan Net Assets

Years Ended June 30, 2009 and 2008

Additions	**2009** *($000)*	**2008** *($000)*
Member Contributions:		
Miscellaneous	$ 161,386	$ 156,203
Police	18,566	16,823
Police – Airport Police Transfer from CalPERS	6,350	-
Firefighter	13,012	12,097
Total Member Contributions	199,314	185,123
City and County Contributions:		
Miscellaneous	98,306	111,548
Police	12,910	13,114
Firefighter	8,535	9,398
Total City & County Contributions	119,751	134,060
Investment Income (Expenses):		
Interest	232,926	254,737
Dividends	144,815	183,940
Net Appreciation (Depreciation) in Fair Value of Investments	(3,815,666)	(1,103,894)
Securities Lending Income	(25,493)	54,550
Fixed Coupon Dollar Repurchase Agreement Income	(9,104)	8,638
Investment Expenses	(37,110)	(51,079)
Securities Lending Borrower Rebates and Expenses	(1,568)	(69,352)
Fixed Coupon Dollar Repurchase Agreement Finance Charges and Expenses	(1,650)	(12,972)
Investment Gain/(Loss), Net	(3,512,850)	(735,432)
Total Additions/(Deductions)	$ (3,193,785)	$ (416,249)
Deductions	**2009**	**2008**
Benefits	732,342	682,230
Refunds of Contributions	6,714	8,449
Administrative Expenses	12,951	12,594
Total Deductions	$752,007	$ 703,273
Net Increase/(Decrease)	$(3,945,792)	$ (1,119,522)
Net Assets Held in Trust For Pension Benefits:		
Beginning of Year	**$ 15,832,521**	**$ 16,952,043**
End of Year	**$ 11,886,729**	**$ 15,832,521**

Source: Macias Gini & O'Connell, LLP in FY 2009; Williams, Adley & Company, LLP in FY 2008

Pension Fund Investment Income

Plan Year 2008-09

Income	Realized Gain/Loss	Unrealized Gain/Loss	Total
Interest Earned			232,925,611
Dividends Earned			144,815,280
Securities Lending Income-Net			(27,060,978)
Dollar Roll Income – Net			(10,753,965)
Recaptured Commission Income – Net			76,606
Real Estate Income			65,028,368
Alternative Investment Income			(114,073,309)
Investment Expenses			(37,110,315)
Total Income[1]			**$ 253,847,298**
Net Appreciation in Fair Values			
Short-Term Securities	(39,454,659)	$(1,704,952)	(41,159,611)
Equities	(1,215,192,080)	(1,047,419,249)	(2,262,611,329)
Debt Securities	(172,330,328)	(367,804,617)	(540,134,945)
Real Estate	5,721,076	(525,261,212)	(519,540,136)
Venture Capital	109,053,778	(455,946,650)	(346,892,872)
Other Assets	8,418,737	(27,026,698)	(18,607,961)
Total Net Appreciation	**$(1,303,783,476)**	**$(2,425,163,378)**	**$(3,728,946,854)**
Total Income (Including Net Appreciation):			**$ (3,475,099,556)**
Increase/(Decrease) from FY 2007-08:			$ 1,232,171,711

Source: Macias Gini & O'Connell, LLP

1. Total Income excludes employee and employer contributions.

Pension Fund Disbursements

Plan Year 2008-09

Payments/Expenses	Amount
Service Retirement Payments	$ 539,917,085
Disability Retirement Payments	140,804,385
Proposition C – Cost of Living Adjustment	36,446,694
Death Allowance Payments	3,938,609
Death Benefits	2,538,880
Normal Contributions Paid as Death Benefit	3,923,725
Retired Annuitant Rolls (Option 1 Death Benefit)	629,379
DROP Program Accrued Retirement Benefits	4,143,265
Refunds of Contributions	6,714,122
Administrative Expenses: Retirement Services/Administration	12,034,282
Total Payments & Expenses	**$ 751,090,426**
Increase/(Decrease) from FY 2007-08:	$ 47,816,531

Source: Macias Gini & O'Connell, LLP

3-Year Comparison of Contributions

Employer (City & County) Contributions

Member Plan	2008-09	2007-08	2006-07
Miscellaneous Plan	$ $98,305,683	$ 111,548,066	$ 110,317,193
Firefighter Plan	8,534,677	9,398,037	9,681,960
Police Plan	12,909,608	13,113,815	12,602,415
Total	**$ 119,749,968**	**$ 134,059,918**	**$ 132, 601,568**

Employee Contributions

Member Plan	2008-09	2007-08	2006-07
Miscellaneous Plan	$ 161,385,899	$ 156,203,410	$ 148,452,563
Firefighter Plan	13,012,377	12,096,680	11,802,825
Police Plan[1]	24,916,935	16,822,537	15,491,371
Total	**$ 199,315,211**	**$ 185,122,627**	**$ 175,746,759**

1. Includes transfer of plan assets from CalPERS.

3-Year Comparison of Actual Administrative Expenditures

Retirement Services & Administration Divisions

Expenditure	2008-09	2007-08	2006-07
Personnel Services (Staff)	$ 8,624,045	$ 7,194,372	$ 6,014,410
Equipment Purchase	0	39,323	0
Materials and Supplies	167,372	220,590	119,260
Services of Other Departments	1,675,812	3,470,726	3,739,136
Other Services	2,484,098	1,669,669	1,489,065
Total	**$ 12,951,327**	**$ 12,594,680**	**$ 11,361,871**

Investment Division

Expenditure	2008-09	2007-08	2006-07
Personnel Services (Staff)	$ 1,595,310	$ 1,608,135	$ 1,589,905
Equipment Purchase	0	48,186	34,069
Materials and Supplies	1,689	9,255	16,397
Services of Other Departments	825,417	409,449	368,399
Investment Management and Consulting	33,859,326	48,444,904	41,435,148
Total	**$ 36,281,742**	**$ 50,519,929**	**$ 43,443,918**

Retirement Services

Providing members with information and education about retirement benefits and services

Overview

SFERS employs a dedicated team of knowledgeable professionals who offer invaluable services to our members and their beneficiaries. Under the direction of the Deputy Director, the Retirement Services Division conducts new member enrollments, benefits calculations, active and retired member counseling, pre-retirement education, as well as oversees member communications, retiree payroll and tax reporting, termination benefits and death payments.

SFERS Plan Membership

The Retirement System administers six benefit structures for the City and County of San Francisco's pension plan according to employee group: Police New Plan and Old Plan, Firefighter New Plan and Old Plan, and Miscellaneous New Plan and Old Plan. Generally, employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Plans, whereas employees who became SFERS members after the November 1976 Charter amendments are covered by the New Plans.

While the November 1976 Charter amendments established the New Plans, New Plan benefits currently in effect for Miscellaneous members were established by Charter amendment passed in November 2000, and New Plan benefits currently in effect for Safety members were established by Charter amendment passed in November 2002. A description of each Plan by Charter section is found on page 32.

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.

Beginning on September 1, 1995, employees hired into positions not eligible for SFERS membership, who earn 1040 hours of compensation or more during any 12-month period, become 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, members of the Safety Old Plans were eligible to become members of SFERS under San Francisco Charter Sections A8.597 and A8.595 respectively, while members of the Safety New Plans 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.

Members of the Miscellaneous Plan are also members of the Social Security System, beginning 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. This reduced contribution provision is no longer available to SFERS members.

Additionally, employees in certain job classifications of the City and County of San Francisco are eligible for membership in other retirement systems. For example, deputized personnel of the Sheriff's Department, institutional police officers, district attorney investigators, and probation officers are members of CalPERS; full-time school teachers hired after June 30, 1972 are members of the State Teachers Retirement System.

SFERS Plan Structure

Charter Section	Employee Group
S.F. Charter Section A8.509	Miscellaneous employees who became members before November 2, 1976
S.F. Charter Section A8.587	Miscellaneous employees 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 Plan Membership Summary

SFERS Active Membership falls within three categories:

1. Active Members who are currently on City and County and other qualified employers Payroll
2. 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
3. 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, 2009, there were 26,205 members of the Miscellaneous Plans, 2,246 members of the Police Plans and 1,459 members of the Firefighter Plans.

SFERS Active Membership
as of June 30, 2009

Plan Membership Group	Active	Vested	Reciprocal	Total
Old Miscellaneous Plan Members Before November 2, 1976	430	33	6	469
New Miscellaneous Plan Members on or After November 2, 1976	25,775	3,735	846	30,356
Old Police Plan Members Before November 2, 1976	15	0	0	15
New Police Plan Members on or After November 2, 1976	2,231	107	17	2,355
Old Firefighter Plan Members Before November 2, 1976	11	0	0	11
New Firefighter Plan Members on or After November 2, 1976	1,448	39	21	1,508
Total	29,910	3,914	890	34,714

Contribution Rates

Employer (City and County) Contribution Rates[1]

as a Percentage of Covered Payroll

Covered Plan Year	Police	Firefighter	Miscellaneous
1998-2004	0%	0%	0%
2004-2005	4.48%	4.48%	4.48%
2005-2006	6.58%	6.58%	6.58%
2006-2007	6.24%	6.24%	6.24%
2007-2008	5.91%	5.91%	5.91%
2008-2009	4.99%	4.99%	4.99%

Employee Contribution Rates[1]

as a Percentage of Covered Payroll

Plan Membership Group	Rate of Contribution
Miscellaneous (Old)[2]	8.00%
Miscellaneous (New)	7.50%
Police (Old)	7.00%
Police (New)	7.50%
Firefighter (Old)	7.00%
Firefighter (New)	7.50%

1. Contribution Rates are composite rates for Old and New groups.
2. Contributions for Old Plan Miscellaneous Employees (S.F. Charter Section A8.509) are based on gross income Contributions for other groups are based on gross income minus overtime compensation.

Retirement Statistics

Plan Year ended June 30, 2009

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2008-09, as well as benefits payment summaries and comparisons.

The following table summarizes major activities of the SFERS Retirement Services Division during Plan Years 2008-09 and 2007-08:

Activity	2008-09	2007-08
Retirement Estimate Requests	938	1070
Retirement Appointments[1]	2199	1806
Retirement Applications Processed[1]	1087	996
Buyback Appointments	1818	1844
DROP Counseling Sessions	118	0
Personnel Transactions:	1822	3236
New Members (New Hires)	941	1728
New Members (1040 Hours Membership)	626	938
Rehires	115	170
Police Recruits	118	342
Fire Recruits	22	58
Pre-Retirement Seminars	6	9
Registered Attendees at Pre-Retirement Seminars	756	827
Mid-Career Retirement Planning Seminars	1	1
Registered Attendees at Mid-Career Seminars	90	76
New Member Retirement Planning Seminars	1	0
Registered Attendees at New Member Seminars	62	0

1. DROP not included.

The Retirement Services Division sponsored and conducted six pre-retirement seminars during Plan Year 2008-09. These seminars provided individualized benefits counseling for 756 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted one mid-career 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 Fire Department, and the Public Utilities Commission (including Hetch Hetchy).

New Retirements

Effective During Plan Year ended June 30, 2009

Member Group	Service	Vesting	Industrial Disability	Ordinary Disability	Total
Miscellaneous	762	208	N/A	22	992
Police	51	4	7	0	62
Firefighter	61	1	6	0	68
Totals	874[1]	213	13	22	1122

The total number of new retirements effective during Plan Year 2008-09 was 43.3% higher than retirements in Plan Year 2007-08, mostly due to a benefit enhancement passed by the voters in June 2008, effective in January 2009. Service retirements represent 77.9% of the total of new retirements processed.

Miscellaneous retirements represented 88.4% of the total retirements processed in Plan Year 2008-09, higher than 85.8% in Plan Year 2007-08.

Police retirements represented 5.5% of the total retirements processed in Plan Year 2008-09, a significant decrease from 8.4% in Plan Year 2007-08.

Firefighter retirements represented 6.1% of the total retirements processed in Plan Year 2008-09, a slight increase from 5.8% in Plan Year 2007-08.

Deferred Retirement Option Program (DROP)

Effective During Plan Year ended June 30, 2009

Rank	Elected Participation	Term of DROP	Exited Participation
Police Officer	30	36 months	2
Sergeant	11	24 months	1
Inspector	14	24 months	2
Lieutenant	3	12 months	1
Captain	1	12 months	0
Totals	59		6

1. Total service retirements in Plan Year 2008-09 include applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

Total Retirement Allowances

Retired Members and Survivor Continuation Benefits
as of June 30, 2009

Member Category	Service Retirements	Disability Retirements[1]	Death in Line of Duty	Total
Miscellaneous	**16,080**	**1,926**	**N/A**	**18,006**
Member	13,593	1,409	N/A	15,002
Continuation	2,487	517	N/A	3,004
Police	**1,334**	**800**	**41**	**2,175**
Member	990	521	0	1511
Continuation	344	279	41	664
Firefighter	**1,005**	**989**	**34**	**2028**
Member	725	711	0	1,436
Continuation	280	278	34	592
Total	18,419	3,715	75	22,209

Monthly Retirement Benefits Payable

Retired Members and Survivor Continuation Benefits
as of June 30, 2009

Member Category	Service Retirements	Disability Retirements[1]	Death in Line of Duty	Total
Miscellaneous	$35,291,005	$3,122,400	N/A	$38,413,405
Police	7,541,205	3,655,674	181,679	11,378,558
Firefighter	6,423,581	5,624,154	127,190	12,174,925
Total	$49,255,791	$12,402,228	$308,869,	$61,966,888

1. Includes ordinary disability (Miscellaneous, Police and Fire) and industrial disability (Police and Fire).

San Francisco Deferred Compensation Plan

Providing members with opportunities to maximize retirement savings

San Francisco Deferred Compensation Plan (SFDCP) 457(b) Plan Overview

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

The SFERS Deferred Compensation Division oversees and monitors the City's 457(b) Deferred Compensation Plan through a third-party plan administrator. Last year, SFERS conducted its customary five-year review of the third-party administrator (TPA) for the SFDCP. From that review, The Retirement Board selected Great-West Retirement Services as the new TPA for the SFDCP, replacing ING Life Insurance and Annuity Company.

The Deferred Compensation Division administers the unforeseen emergency withdrawal program, qualified domestic relations orders, payroll deferrals, requests for proposals, SFDCP News, and review of investment fund performance reviews.

As of June 30, 2009, there were 24,272 participants in the SFDCP with Plan assets valued at $1.5 billion. The table on page 41 provides detailed information about the 19 core investment funds that make up the City's 457(b) Deferred Compensation Plan for Fiscal Year 2008-09.

San Francisco Deferred Compensation Plan

Fund Values as of June 30, 2009

Fund Name	Total Assets	Percent of Total Assets
Ameritrade - Self Directed Brokerage Account	$9,906,855	0.64%
SFDCP Core Bond Portfolio	58,565,029	3.82%
SFDCP International Equity Portfolio	96,456,139	6.29%
SFDCP Large Cap Core Equity - Active Portfolio	17,114,143	1.12%
SFDCP Large Cap Core Equity - S&P 500 Index	65,931,305	4.30%
SFDCP Large Cap Growth Equity Portfolio	168,694,924	11.00%
SFDCP Large Cap Social Equity Portfolio	5,810,863	0.38%
SFDCP Large Cap Value Equity Portfolio	16,383,317	1.07%
SFDCP Long Term Portfolio	69,371,485	4.52%
SFDCP Mid Cap Core Equity Portfolio	31,417,806	2.05%
SFDCP Mid Cap Growth Equity Portfolio	5,123,433	0.33%
SFDCP Mid Cap Value Equity Portfolio	9,263,002	0.60%
SFDCP Mid Term Portfolio	163,761,551	10.68%
SFDCP Near Term Portfolio	12,125,304	0.79%
SFDCP Real Estate Portfolio	8,975,899	0.59%
SFDCP Small Cap Core Equity Portfolio	4,300,892	0.28%
SFDCP Small Cap Growth Equity Portfolio	12,913,176	0.84%
SFDCP Small Cap Value Equity Portfolio	24,370,910	1.59%
SFDCP Stable Value Portfolio	753,125,252	49.11%
Total Investment Fund Assets At Great-West Retirement Services	$1,533,611,285	100.00%
Total Annuity Assets At ING	$2,277,106	
Total Annuity Assets At The Hartford	$19,041,916	
Total Plan Assets	$1,554,930,307	

San Francisco Deferred Compensation Plan

Statistics as of June 30, 2009

Retiree Assets:	
Total Retiree Assets Held at Great-West Retirement Services (Non-Annuity)	$9,787,394
Total Annuity Assets at ING	19,041,916
Total Annuity Assets at The Hartford	21,285,692.68
Total Retiree Assets:	$31,106,416.00

Changes to the Core Investment Lineup during Fiscal Year 2008-09:

Previous Investment Fund Underlying Investment Fund Name	**To**	**New Investment Fund** Underlying Investment Fund Name
American Funds EuroPacific Growth, Class R-4 (AEPGX)	⇨	American Funds EuroPacific Growth, Class R-5 (RERFX)
American Funds Growth Fund of America, Class R-4 (AGTHX) – 50% of the SFDCP Large Cap Growth Equity Portfolio	⇨	American Funds Growth Fund of America, Class R-5 (RGAFX) – 50% of the SFDCP Large Cap Growth Equity Portfolio
ING T. Rowe Price Growth Stock (PRGFX) – 50% of the SFDCP Large Cap Growth Equity Portfolio	⇨	T. Rowe Price Growth Stock (PRGFX) – 50% of the SFDCP Large Cap Growth Equity Portfolio
Fidelity VIP Contrafund, Initial Class (FAVMC)	⇨	Fidelity Contrafund (FCNTX)
Fidelity VIP Mid Cap, Initial Class (FNBSC)	⇨	Fidelity Low Priced Stock Fund (FLPSX)
RiverSource Mid Cap Value, Class R-4 (RMCVX)	⇨	RiverSource Mid Cap Value, Class R-5 (RSCMX)
Vanguard VIF Small Company Growth (VSGIX)	⇨	Vanguard Explorer Fund, Admiral Shares (VEXRX)
Vanguard VIF Small Company Growth (VSGIX) – 50% of the SFDCP Small Cap Core Equity Portfolio	⇨	Vanguard Explorer Fund, Admiral Shares (VEXRX) – 50% of the SFDCP Small Cap Core Equity Portfolio
ING Stabilizer Core Plus Fixed Income	⇨	Great-West Custom Stable Value

As a result of the change to the underlying core investment fund, modifications were also made to the SFDCP Long Term Portfolio, SFDCP Mid Term Portfolio, and SFDCP Near Term Portfolio.

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.

Appendix

Actuarial Summary

Assumptions and Method

The main assumptions used to measure the System's funded status to pay future benefits payments were:

Investment Return	**8.00% per year** (through June 30, 2008)
Investment Return	**7.75% per year** (July 1, 2008)
Wage Inflation	**4.50% per year**
Price Inflation	**3.50% per year**
Retiree Mortality	**1994 Group Annuity Mortality Table**

The actuarial funding methods used are 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 investment return greater than or less than the actuarial assumed investment return.

Key Results

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

Funded Status as of July 1, 2008

Actuarial Liability	15,358,824,000
Actuarial Value of Assets	15,941,390,000
Unfunded Actuarial Liability <Surplus>	<$582,566,000>
Funded Status (assets / liabilities)	**104%**

Employer (City & County) Contribution Rates

The retirement contribution rates to be paid by the City in Fiscal Year 2008-09 were derived from the July 1, 2007 actuarial valuation:

Normal Cost	16.19%
Unfunded Actuarial Liability	(7.55)%
Remaining Cost of Propositions	3.42%
Employee Contributions	(7.52)%
Administrative Expenses	0.45%
Board Approved City Contribution Rate	**4.99%**

Readers who have questions regarding the information provided in this summary may contact SFERS and request the full actuarial report as prepared by SFERS' consulting actuary, Cheiron.

Disability Retirement Hearing Report

A member or, legal agent acting on behalf of the member can initiate a claim for disability retirement (ordinary and industrial) by filing an application with the SFERS. The Retirement System makes a preliminary determination about the claim, and if in order, forwards the application to the City Attorney's office for review. If uncontested by SFERS counsel, the application is referred to the American Arbitration Association or the Office of Administrative Hearings for hearing. All such applications shall be adjudicated by an independent hearing officer, in accordance with the provisions of San Francisco Charter §A8.518. The table below provides a summary of disability retirement hearings in the fiscal year ending June 30, 2009.

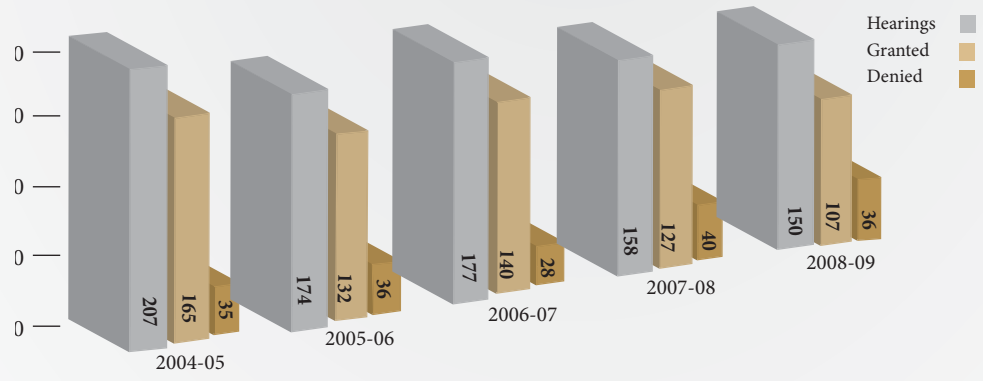
Hearing Officer Report[1]

Fiscal Year ended June 30, 2009

Case Category	# Of Hearings	# Granted	# Denied
Industrial Disability Retirements	68	46	9
Ordinary Disability Retirements	70	57	16
Death Benefits	3	0	1
Petitions for Rehearings	0	0	9
PERS	8	4	1
Reinstatements	0	0	0
Total	150	107	36

Hearing Officer Report

5-Year Comparison



1. The Hearing Officer Report represents cases processed in the period July 1, 2008 – June 30, 2009, and may reflect cases pending from prior periods.

The San Francisco Employees' Retirement System Senior Management Team extends sincere gratitude to the entire SFERS staff for their hard work and dedication during the year.

SFERS Staff During Fiscal Year 2008-09

Administration

Timothy Benetti

Geraldine Cerda

Mark Cervantes

Cristina Garcia

Josephine Perez

Mhalou Villamejor

Accounting

Christine Deng

Rowena Lomboy

Michael Ma

Raymond Ng

Phil Samson

Ted Wong

James Yung

Business Services

Allan Amber

Emmanuel Anyiam

Ted Davis

Deborah Rio

Diane Souvannavong

Human Resources

Edward To

Information Services

Will Beatty

Bruce Burnell

Carson Dang

Edna Ho

An Hoang

Irene Miranda

Vinny To

Gus Vallejo

Felix Yan

Investments

Lindsey Adams

Marie Aure-Flieder

Mark Coleman

Daniel Han

Tanya Kemp

Cynthia Wong

Retirement Services

Carolina Acosta

Joseph Almeida

Lois Black

Dorothy Boutte

Debbie Carmel

Imelda Cerezo

Maglenta Chan

Felix Chan

Allan Chang

Grace Chin

Linda Cochran

Mark Davis

Bonnie Decker

Michelle Dones

Candace Fan

Mary Fong

Michael Guess

John Ho

Sue Hwang

Kathleen Kissick

Loan Le

Iris Lee

Emmett Lew

Rheba Martin

Ted Muniz

Reggie Neri

Michael Olsen

Margaret Price

Eric Resendez

Veronica Rodriguez

Nydia Shiffren

Diane Terrell

Phuong Tieu

Vicky Tong

Bill Tran

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SFERS

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