

City of San José
Federated City Employees' Retirement System

R3835



3810
7620
17375
66295

3810

4877

9



2
Photo Credits:

Cover Top Row, Left to Right: © 2009 Gary Reyes/San José Mercury News, *Road Show Hands Mural Installation*;
© 2005 City of San José, *San José City Hall*; © 2011 John Palmer, California State Parks

Cover Middle Row, Left to Right: © GaryReyes/San José Mercury News, *Bullet Train Construction*; ©Andreas G. Karelias/Shutterstock, *Construction Workers*

Cover Bottom Row, Left to Right: © 2005 City of San José, Animal Care & Services, *Animal Control Officers*, © 2014 San Jose Parks Foundation, Sherman Oaks Group; © 2017 Expedia/trvl-media.com, *San José California Tourism*

Title Page, Left to Right: © 2017 Expedia/trvl-media.com, *San José California Tourism*; © GaryReyes/San José Mercury News, *Bullet Train Construction*;
©Andreas G. Karelias/Shutterstock, *Construction Workers*; © 2005 City of San José, *San José City Hall*; © 2011 John Palmer, California State Parks

Introductory: © 2013 Matt Granz Photographs, *San José City Hall*

Financial: ©2010 Graniterock Construction Division works on new terminal at San Jose Airport

Investment: © 2015 Ryan Clark/Worldwide Railfan Productions, *Cal Train Cabcar Wash Rack San José, CA.*

Actuarial: © 2011 David Schmitz Photography, *Martin Luther King, Jr. Library*

Statistical: © City of San José, *San José City Hall Interior Rotunda*



City of San José Federated City Employees' Retirement System



Roberto L. Peña
Chief Executive Officer

Office of Retirement Services
1737 North First Street, Suite 600
San José, California 95112-4505
Phone 408-794-1000
Fax 408-392-6732
www.sjretirement.com

Pension Trust and Postemployment Healthcare
Trust Funds of the City of San José, California
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2017
and June 30, 2016

Board Chair Letter



November 1, 2017

The Honorable Mayor and City Council
Members of the Federated City Employees' Retirement System
City of San José
San José, California

Dear Mayor, Council Members, and System Members:

On behalf of the members of the Board of Administration, I present the Federated City Employees' Retirement System's (the System) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017.

The System earned a time-weighted gross of investment fees rate of return of 8.0% and net of investment fees rate of return of 7.5% on investments for the pension plan for the fiscal year, compared to an 8.1% return for its policy benchmark and a 12.7% return for the InvestorForce universe net median of public funds greater than \$1 billion. Additionally, the System earned a time-weighted net of investment fees rate of return of 1.9% and 5.4% for the three-year and five-year periods ending June 30, 2017, respectively. The InvestorForce net median earned a time-weighted rate of return of 4.9% and 8.6% for the same periods.

The System earned a time-weighted gross of investment fees rate of return of 8.7% and net of investment fees rate of return of 8.7% on investments for the healthcare plan for the fiscal year, compared to a 9.2% return for its policy benchmark. Additionally, the System earned a time-weighted net of investment fees rate of return of 0.9% and 5.4% for the three-year and five-year periods ending June 30, 2017, respectively. In contrast, the net rate of return assumed by the System's actuary for fiscal year 2016-2017 is 6.875%.

The System's net position increased from \$2,084,728,000 to \$2,233,162,000 (see the Financial Section beginning on page 15). The net increase in System net position for fiscal year 2016-2017 was \$148,434,000.

The System continued to hold its annual General Meeting for all stakeholders in the fall. Feedback from the attendees continue to be positive and help enhance communication with the System's members.

In May 2017, the System's Chief Investment Officer resigned. Despite the change, the Investment Program continued to manage portfolio investments and move initiatives forward. The continuity of the Investment Program is a testament to the human capital and infrastructure that are in place. The implementation of the risk analytics system and risk advisory work continues, along with process improvements and governance related projects across the Investment Program. In addition, during fiscal year 2016-2017, the Investment Program completed comprehensive reviews across asset classes and improved fee reporting structures.

Board Chair Letter *(continued)*

The Board believes that the professional services rendered by the staff, investment consultant, actuary, and counsel have produced a sound fund capable of sustained growth over the long term. The Board of Administration and Retirement Services staff are available to provide additional information as requested.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Loesch". The signature is fluid and cursive, with the first name "M" being particularly prominent.

Matt Loesch, Chairman
Board of Administration

Table of Contents

	PAGE
I. INTRODUCTORY SECTION	
Letter of Transmittal	6
Certificate of Achievement for Excellence in Financial Reporting	10
Certificate for Meeting Professional Standards in Public Pensions	11
Board of Administration, Administration, and Outside Consultants	12
Office of Retirement Services Organizational Chart	14
II. FINANCIAL SECTION	
Independent Auditor's Report	16
Management's Discussion and Analysis	19
Basic Financial Statements	
Statements of Plan Net Position	31
Statements of Changes in Plan Net Position	33
Notes to the Basic Financial Statements	35
Required Supplementary Information	
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios - Defined Benefit Pension Plan	70
Schedule of Investment Returns - Defined Benefit Pension Plan	70
Schedule of Employer Contributions - Defined Benefit Pension Plan	71
Notes to Schedule	71
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios - Postemployment Healthcare Plan	74
Schedule of Investment Returns - Postemployment Healthcare Plan	74
Schedule of Employer Contributions - Postemployment Healthcare Plan	74
Other Supplemental Information	
Combining Schedule of Defined Benefit Pension Plan Net Position	75
Combining Schedule of Changes in Defined Benefit Pension Plan Net Position	76
Combining Schedule of Other Postemployment Plan Net Position	77
Combining Schedule of Changes in Other Postemployment Plan Net Position	78
Schedules of Administrative Expenses and Other	79
Schedules of Payments to Consultants	79
Schedules of Investment Expenses	80
III. INVESTMENT SECTION	
Report of Investment Activity	82
Statement of Investment Policy	88
Investment Professionals	117
Schedule of Investment Results	118
Investment Review	
Target Asset Allocation / Actual Asset Allocation - Defined Benefit Pension Plan	120
Historical Asset Allocation (Actual) / Market Value Growth of Plan Assets / History of Gross and Net Performance - Defined Benefit Pension Plan	121
Target Asset Allocation / Actual Asset Allocation - Postemployment Healthcare Plan	122

Table of Contents *(continued)*

	PAGE
Market Value Growth of Plan Assets / Historical Asset Allocation (Actual) / History of Gross and Net Performance - Postemployment Healthcare Plan	123
List of Largest Assets Held	124
Schedule of Investment Fees	125
Schedule of Commissions- Defined Benefit Pension Plan/Postemployment Healthcare Plan	126
Investment Summary	130
 IV. ACTUARIAL SECTION	
Defined Benefit Pension Plan	
Actuary's Certification Letter - Pension	132
Actuarial Assumptions and Methods	135
Member Valuation Data - Schedule of Active Member Data	141
Changes in Retirees and Beneficiaries	142
Actuarial Analysis of Financial Experience	142
Alternate Analysis of Financial Experience	143
Solvency Test	143
Schedule of Funding Progress	144
Summary of Pension Plan Provisions	145
 Postemployment Healthcare Plan	
Actuary's Certification Letter	151
Actuarial Assumptions and Methods	154
Schedule of Active Member Data	163
Schedule of Retirees and Beneficiaries Added to and Removed From Rolls	164
Solvency Test	165
Analysis of Financial Experience	165
Schedule of Funding Progress	165
Summary of Key Substantive Plan Provisions	166
 V. STATISTICAL SECTION	
Statistical Review	
Changes in Plan Net Position - Defined Benefit Pension Plan	170
Changes in Plan Net Position - Postemployment Healthcare Plan	170
Benefit and Refund Deductions from Plan Net Position by Type - Defined Benefit Pension Plan	171
Benefit and Refund Deductions from Plan Net Position by Type - Postemployment Healthcare Plan	172
Employer and Employee Contribution Rates	173
Retired Members by Type of Benefit	174
Average Benefit Payment Amounts	175
 Retirements During Fiscal Year	
Retirements	178
 Deaths During Fiscal Year	
Deaths	179

This page intentionally left blank

Introductory Section



Pension Trust and Postemployment Healthcare
Trust Funds of the City of San José, California

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2017
and June 30, 2016

Letter of Transmittal



November 1, 2017

Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 600
San José, CA 95112

Dear Trustees:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Federated City Employees' Retirement System (System) for the fiscal year ended June 30, 2017. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System's management.

This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB) and the reporting requirements prescribed by the Government Finance Officers' Association of the United States and Canada (GFOA). In fiscal year 2016-2017, the System adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB 74 addresses accounting and financial reporting requirements for Other Postemployment Employee Benefit (OPEB) plans and replaces GASB Statement No. 43. There was no material impact to the System's financial statements as a result of the implementation of GASB 74, other than increased disclosures. Transactions of the System are reported on an accrual basis of accounting. For an overview and analysis of the financial activities of the System for the fiscal years ended June 30, 2017 and 2016, please refer to the Management's Discussion and Analysis (MD&A) on page 19.

Grant Thornton LLP, the System's independent auditor, has audited the accompanying financial statements. Because the cost of a control should not exceed the benefits to be derived, management believes internal control is adequate and the accompanying statements, schedules, and tables are fairly presented and free from material misstatement. Sufficient internal controls over financial reporting exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

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

Letter of Transmittal *(continued)*

I am proud to report that the GFOA awarded its Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2016. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. This report satisfies both generally accepted accounting principles and applicable legal requirements. We believe our current report continues to conform to the Certificate of Achievement Program Requirements and staff will submit it to the GFOA to determine its eligibility for another certificate for the fiscal year ended June 30, 2017. The System also received the Public Pension Standards Award in recognition of meeting professional standards for plan design and administration by the Public Pension Coordinating Council.

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

Funding

The System's funding objective for both its defined benefit pension plan and its defined benefit other post-employment benefits (OPEB) healthcare plan is to meet long-term benefit obligations through contributions and investment income. As of the most recent funding valuation dated June 30, 2016, the funding ratio of the defined benefit pension and the defined benefit OPEB plan was 53.7%, and 29.6%, respectively, based on the actuarial value of assets.

For the valuation of pension and OPEB benefits, the actuarial assumption for the net rate of return to be earned by the System is currently 6.875%. The impact of the difference between the actual net rate of return earned by the System and the 6.875% assumption will result in an investment gain or loss that will be reflected in the pension and OPEB unfunded liabilities in next year's CAFR, respectively. The net increase in System net position for fiscal year 2016-2017 was \$148,434,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Position on page 33. The defined benefit pension plan's funding progress is presented on page 144 and the defined benefit OPEB plan's funding progress is presented on page 165.

Financial and Economic Summary

The 2017 fiscal year started with solid returns across most risk assets, including equities and credit. Following the U.S. Presidential election in November 2016, risk assets and inflation expectations surged on hopes for President Trump led initiatives which included decreased regulation, tax reform, infrastructure spending, and elimination of the Affordable Care Act. As the new Administration faced challenges in 2017, inflation expectations waned contributing to weakness in the commodity complex, while equity markets continued to grind higher. Levels of market volatility remained compressed on both realized and implied bases. For the US Dollar, the fiscal year told two different stories, with the first half of the fiscal year seeing US Dollar strength, which reversed in January 2017 to a strong trend of US Dollar weakness. US Dollar weakness in the second half of the fiscal year supported foreign asset prices. Through the fiscal year, the global economic backdrop was resilient, and the U.S. Federal Reserve continued a modest rate hiking initiative, and began setting the stage for reducing the central bank's balance sheet which had built up over nearly 10 year of quantitative easing.

Domestic equities, as measured by the S&P 500 index, posted a 17.9% return for the fiscal year. Despite strong US equity returns, the US underperformed international developed market equities and emerging market equities, which produced returns of 20.3% and 23.7%, as reflected by the MSCI EAFE and MSCI Emerging Markets indices. Credit markets were also strong up, with the Bloomberg Barclays High Yield index up 12.7%. Global fixed income produced modest negative returns for the year with the Bloomberg Barclays Aggregate down 0.3%. Commodities was one of the worst performing asset classes, with the Bloomberg Commodity Index down 6.5% for the year.

Letter of Transmittal *(continued)*

As the Investment Program transitions into fiscal year 2017-2018, the financial and economic backdrop is similar to last year. Market valuations are increasingly elevated, the US economy has likely moved into late cycle, and a number of global risks persist; at the same time moderate global economic growth and loose central bank policy continues to be supportive of markets.

Investment Summary

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

Over the past fiscal year, the System's time-weighted gross of investment fees rate of return on the pension plan was 8.0% and net of investment fees rate of return was 7.5%, compared to an 8.1% return for its policy benchmark and a 12.7% return for the InvestorForce universe net median of public funds greater than \$1 billion. Additionally, the System earned a time-weighted net of investment fees rate of return of 1.9% and 5.4% for the three-year and five-year periods ending June 30, 2017, respectively. The InvestorForce universe net median earned a time-weighted rate of return of 4.9% and 8.6% for the same periods.

The System earned a time-weighted gross of investment fees rate of return on the healthcare plan of 8.7% and net of investment fees rate of return of 8.7%, compared to a 9.2% return for its policy benchmark. Additionally, the System earned a time-weighted net of investment fees rate of return of 0.9% and 5.4% for the three-year and five-year periods ending June 30, 2017, respectively.

The net position of the System increased from \$2,084,728,000 to \$2,233,162,000 (see the Financial Section beginning on page 15).

Major Initiatives

The System continued to hold its annual stakeholders' meeting for its members in the fall. Feedback from the attendees continue to be positive and help enhance communication with the System's members.

In May 2017, the System's Chief Investment Officer resigned. Despite the change, the Investment Program continued to manage portfolio investments and move initiatives forward. The continuity of the Investment Program is a testament to the human capital and infrastructure that are in place. The implementation of the risk analytics system and risk advisory work continues, as does a group of process improvements and governance related projects across the Investment Program. In addition, during fiscal year 2016-2017, the Investment Program completed comprehensive reviews across asset classes as well as a number of other projects.

Letter of Transmittal *(continued)*

The Office of Retirement Services (ORS) kicked off the upgrade of its pension administration system in March 2015. The implementation process is expected to last approximately 42 months and is estimated at \$9 million. ORS has completed the user acceptance testing for Software Deliverable 3 (out of 4 planned deliverables) and is currently in the design phase of Software Deliverable 4.

ORS staff, in conjunction with the City of San Jose (City) Administration, participated in the Request For Proposal (RFP) for Long-Term Disability, Life and Accidental Death and Dismemberment Services. Proposals by vendors are being reviewed for a final decision for implementation in 2018. ORS staff also collaborated with the Human Resources department of the City to implement the self-funded Blue Shield PPO for active and pre-65 retirees. ORS and the Human Resources department held a Wellness Summit with the City's current insurance vendors to reinforce the City's ongoing initiative to assist employees and retirees with managing their health by highlighting the resources that our vendors provide and encouraging participation in wellness programs.

In November 2016, Measure F passed, and on June 16, 2017, the ordinance implementing the Framework and Measure F became effective for employees in the System. The provisions of the framework include, but are not limited to, revising Tier 2 benefit, allowing rehired Tier 1 employees to remain in Tier 1, creating a Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare and an irrevocable opt-out of the defined benefit retiree healthcare plan for eligible employees, defining the qualifications for members of the independent medical panel, and creating a Guaranteed Purchasing Power benefit for Tier 1 retirees. ORS has been collaborating with City Administration to ensure that these changes are implemented as necessary.

Conclusion

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

Respectfully Submitted,

A handwritten signature in black ink that reads "Roberto L. Peña". The signature is written in a cursive style with a large initial 'R'.

Roberto L. Peña
Chief Executive Officer
Office of Retirement Services



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**San Jose Federated City
Employees' Retirement System
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO



Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2016

Presented to

City of San Jose Federated City Employees'
Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

Board of Administration, Administration, and Outside Consultants

BOARD OF ADMINISTRATION

The Retirement System is administered by a seven-member Board of Administration composed of two City employees elected by members of the System, a Retiree Representative and three public members, who are not connected with the City and have significant banking or investment experience, and another public member selected by the six Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08.300 of the San Jose Municipal Code.

As of June 30, 2017, the members of the Board were as follows:



MATT LOESCH, CHAIR
Employee Representative appointed to the Board in December 2007. His current term expires November 30, 2019.



MICHAEL ARMSTRONG VICE CHAIR
Public member appointed to the Board in December 2010. His current term expires November 30, 2018.



MARTIN DIRKS, TRUSTEE
Public member appointed to the Board in March 2011. His current term expires February 28, 2019.



UDAYA RAJBHANDARI, TRUSTEE
Employee Representative appointed to the Board. Her current term expires November 30, 2017.



EDWARD F. OVERTON, TRUSTEE
Retired System member appointed to the Board in January 2009. His current term was extended until a replacement is sworn in.



ANURAG CHANDRA, TRUSTEE
Public member appointed to the Board in December 2016. His current term expires December 2020.

VACANT, TRUSTEE



DEVORA "DEV" DAVIS
Non-voting member appointed to the Board March 2017

OFFICE OF RETIREMENT SERVICES ADMINISTRATION



ROBERTO L. PENA, DIRECTOR CHIEF EXECUTIVE OFFICER



DONNA BUSSE, DEPUTY DIRECTOR CHIEF OPERATIONS OFFICER

VACANT, ASSISTANT DIRECTOR CHIEF INVESTMENT OFFICER

STANDING PUBLIC MEETINGS

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

Agendas for all public meetings are posted on the bulletin board at City Hall and on the department's website at <http://sjretirement.com/fed/meetings/agendas.asp> or they can be obtained from the Retirement Office at 1737 North First Street, Suite 600, San Jose, CA 95112. Meeting times and locations are subject to change; please call our office at (408) 794-1000 for current information.

Board of Administration, Administration, and Outside Consultants *(continued)*

OUTSIDE CONSULTANTS

ACTUARY

Cheiron, Inc.
Encinitas, CA

AUDIT ACTUARY

Segal Consulting
San Francisco, CA

GENERAL & FIDUCIARY COUNSEL

Reed Smith LLP
San Francisco, CA

INVESTMENT COUNSEL

Hanson Bridgett LLP	Reed Smith LLP
San Francisco, CA	San Francisco, CA

INVESTMENT CONSULTANTS

Albourne America LLC – Absolute Return
San Francisco, CA

Meketa Investments Group, Inc. – General Consultant
Carlsbad, CA

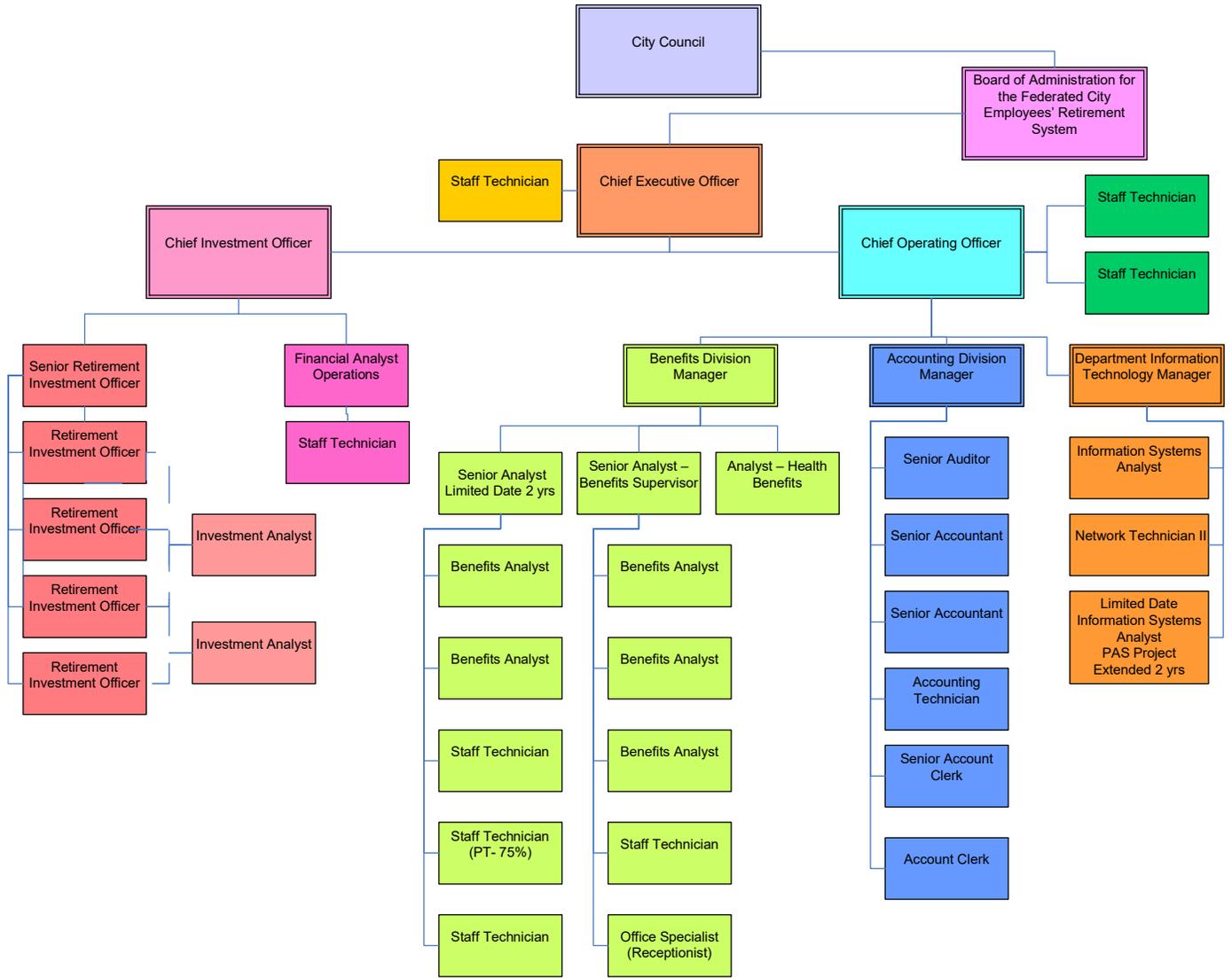
Verus Advisory Inc. – Risk Advisory
Seattle, WA

AUDITOR

Grant Thornton LLP
San Francisco, CA

A list of investment professionals begins on page 117 of the Investment Section of this report. The Schedule of Investment Fees and Schedule of Commissions can be found on pages 125 and 126, respectively.

2017 Office of Retirement Services Organizational Chart



Office of Retirement Services
 1737 North First Street Suite 600, San Jose, CA 95112
 (408) 794-1000 | (800) 732-6477 | (408) 392-6732 Fax
www.sjretirement.com

Financial Section



Pension Trust and Postemployment Healthcare
Trust Funds of the City of San José, California

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2017
and June 30, 2016



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Grant Thornton LLP
101 California Street, Suite 2700
San Francisco, CA 94111
T 415.986.3900
F 415.986.3916
www.GrantThornton.com

Report on the financial statements

We have audited the accompanying financial statements of the City of San José Federated City Employees' Retirement System (the "System"), a pension trust fund and postemployment healthcare trust fund of the City of San José, California, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the System as of June 30, 2017 and 2016, and the changes in plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the employer's net pension liability and related ratios – defined benefit pension, schedule of investment returns – defined benefit pension plan, schedule of employer contributions – defined benefit pension plan, notes to schedule, schedule of changes in the employers net OPEB liability and related ratios – postemployment healthcare plans, schedule of investment returns – postemployment healthcare plan, and schedule of employer contributions – postemployment healthcare plan, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The combining schedule of defined benefit pension plan net position as of June 30, 2017, combining schedule of changes in defined benefit pension plan net position for the year ended June 30, 2017, combining schedule of other postemployment plan net position as of June 30, 2017, combining schedule of changes in other postemployment plan net position for the year ended June 30, 2017, and the schedules of administrative expenses and other, schedules of payments to consultants and schedules of investment expenses for the years ended June 30, 2017 and 2016 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic



financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other information

The introductory, investment, actuarial and statistical sections of the Comprehensive Annual Financial Report are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 1, 2017, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Grant Thornton LLP

San Francisco, California
November 1, 2017

Management's Discussion and Analysis (unaudited)



November 1, 2017

Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 600
San José, California 95112-4505

The Office of Retirement Services is pleased to provide this overview and analysis of the financial activities of the Federated City Employees' Retirement System (the System) for the fiscal years ended June 30, 2017 and 2016. The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established to provide retirement benefits for eligible non-sworn employees of the City of San José (City). We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 6 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2017

- As of June 30, 2017, the System had \$2,233,162,000 in plan net position restricted for pension benefits and postemployment healthcare benefits. Plan net position of \$1,972,792,000 restricted for pension benefits is available to meet the System's ongoing obligations to plan participants and their beneficiaries. The postemployment healthcare Plan's net position of \$260,370,000 is only available for the exclusive use of retiree medical benefits.
- The System's total plan net position held in trust for pension benefits and postemployment healthcare benefits increased during the fiscal year ended June 30, 2017 by \$148,434,000 or 7.1% from the prior fiscal year, primarily as a result of the appreciation in the fair value of investments caused by favorable market conditions during the fiscal year.
- Additions to plan net position during the fiscal year ended June 30, 2017 were \$367,493,000, which includes employer and employee contributions of \$170,388,000 and \$34,054,000, respectively, and net investment income of \$163,051,000. This represents an increase of \$211,228,000 of total additions from the prior fiscal year.
- Deductions from plan net position for fiscal year ended June 30, 2017 increased from \$207,072,000 to \$219,059,000 over the prior fiscal year, or approximately 5.8%, due to an increase in retirement benefit payments and healthcare insurance premiums, which was attributable to an increased number of retired members and beneficiaries.

Overview of the Financial Statements

The System's financial statements, notes to the financial statements, required supplementary and other supplemental information for the year ended June 30, 2017, were prepared in conformity with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB) and the reporting requirements prescribed by the Government Finance Officers' Association of the United States and Canada (GFOA). In fiscal year 2016-2017, the System adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB 74 applies to Other Postemployment Employee Benefit (OPEB) plans and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement, which essentially parallels GASB Statement No. 67, addresses accounting and financial reporting requirements for OPEB plans. There was no material impact to the System's financial statements as a result of the implementation of GASB 74, other than increased disclosures. The following discussion and analysis is intended to serve as an introduction to the System's financial statements, which are comprised of these components:

- 1) Statements of Plan Net Position
- 2) Statements of Changes in Plan Net Position
- 3) Notes to the Basic Financial Statements

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

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

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

Both statements are in compliance with accounting principles generally accepted in the United States of America (GAAP) as set forth by the GASB. GAAP requires state and local government pension plans and other postemployment benefit plan reports to use the full accrual method of accounting and make certain disclosures. The System complies with all significant requirements of these pronouncements.

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

These two statements report the System's net position held in trust for pension benefits and postemployment healthcare benefits (net position)—the difference between assets and liabilities. Over time, increases and decreases in the System's net position are one indicator of whether its financial health is improving or deteriorating. Other factors, such as the net pension liability and the net OPEB liability, should also be considered in measuring the System's overall health.

Management's Discussion and Analysis (unaudited)(continued)

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see Notes to Basic Financial Statements beginning on page 35 of this report).

Required Supplementary Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning employer contributions and the System's progress in funding its obligations to provide pension and other postemployment healthcare benefits to members and beneficiaries (see Required Supplementary Information beginning on page 70 of this report). The *Schedule of Changes in the Employer's Net Pension Liability and Related Ratios of the Defined Benefit Pension Plan* was prepared using the System's net position.

Other Supplemental Information. The *Combining Schedules of Defined Benefit Pension Plan Net Position and Changes in Defined Benefit Pension Plan Net Position, Combining Schedules of Other Postemployment Plan Net Position and Changes in Other Postemployment Plan Net Position, Schedules of Administrative Expenses and Other, Payments to Consultants, and Investment Expenses* are presented immediately following the *Required Supplementary Information*.

Financial Analysis

As previously noted, plan net position may serve over time as a useful indication of the System's financial position (see Tables 1a and 1c on page 22). At the close of fiscal years 2017 and 2016, the System's total assets exceeded the System's total liabilities. The System's financial statements do not include the total pension liability or the total OPEB liability for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan, respectively.

The Pension System's net position as a percentage of the total pension liability and the Postemployment Healthcare Plan's total OPEB liability should also be considered when evaluating the System's financial health. Based on the June 30, 2016 valuation rolled forward to June 30, 2017, the net position of the Defined Benefit Pension Plan was 50.3% of the total pension liability, and the net position of the Other Postemployment Employee Benefit Plan was 34.0%. For more information on the results and impact of the June 30, 2016 valuations, please see Notes 4 and 5 to the financial statements beginning on page 60.

Management's Discussion and Analysis (unaudited)(continued)

NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 1a)

As of June 30, 2017 and 2016 (In Thousands)

	2017	2016	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	\$ 68,585	\$ 15,114	\$ 53,471	353.8 %
Investments at fair value	1,918,487	1,846,167	72,320	3.9 %
Capital assets	1,448	893	555	62.2 %
Total Assets	1,988,520	1,862,174	126,346	6.8 %
Current liabilities	15,728	3,292	12,436	377.8 %
Total Liabilities	15,728	3,292	12,436	377.8 %
Plan Net Position	\$ 1,972,792	\$ 1,858,882	\$ 113,910	6.1 %

NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 1b)

As of June 30, 2016 and 2015 (In Thousands)

	2016	2015	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	\$ 15,114	\$ 10,674	\$ 4,440	41.6 %
Investments at fair value	1,846,167	1,917,708	(71,541)	(3.7)%
Capital assets	893	61	832	100.0 %
Total Assets	1,862,174	1,928,443	(66,269)	(3.4)%
Current liabilities	3,292	2,669	623	23.3 %
Total Liabilities	3,292	2,669	623	23.3 %
Plan Net Position	\$ 1,858,882	\$ 1,925,774	\$ (66,892)	(3.5)%

NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN (Table 1c)

As of June 30, 2017 and 2016 (In Thousands)

	2017	2016	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	\$ 5,944	\$ 4,119	\$ 1,825	44.3 %
Investments at fair value	270,727	221,839	48,888	22.0 %
Capital assets	66	44	22	50.0 %
Total Assets	276,737	226,002	50,735	22.4 %
Current liabilities	16,367	156	16,211	10,391.7 %
Total Liabilities	16,367	156	16,211	10,391.7 %
Plan Net Position	\$ 260,370	\$ 225,846	\$ 34,524	15.3 %

NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN (Table 1d)

As of June 30, 2016 and 2015 (In Thousands)

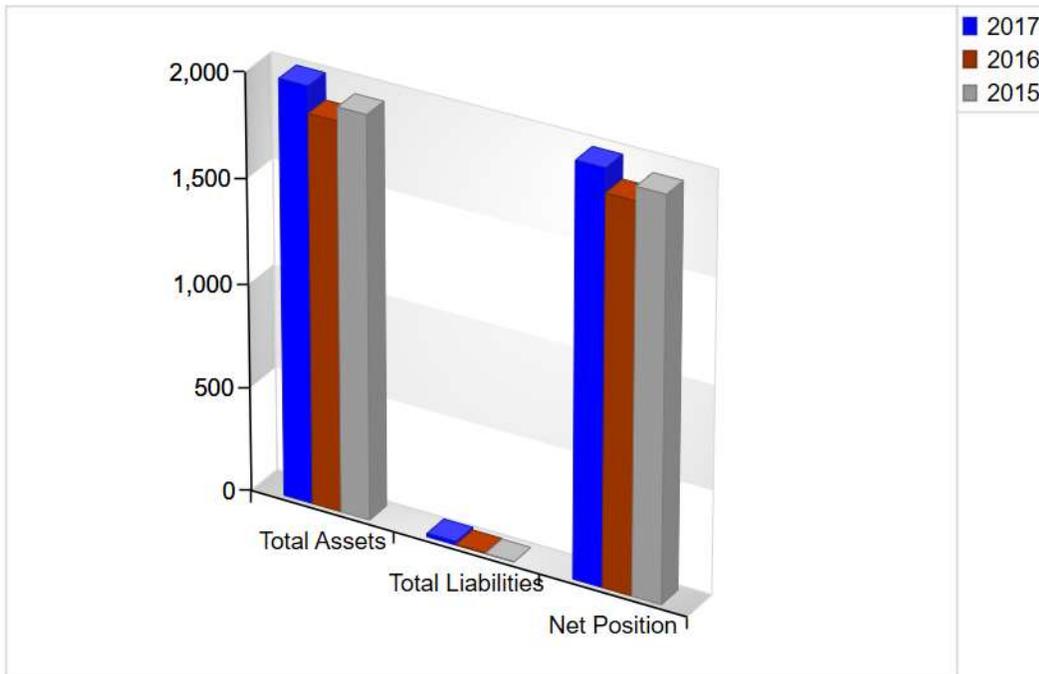
	2016	2015	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	\$ 4,119	\$ 1,036	\$ 3,083	297.6 %
Investment at fair value	221,839	209,417	12,422	5.9 %
Capital assets	44	3	41	100.0 %
Total Assets	226,002	210,456	15,546	7.4 %
Current liabilities	156	695	(539)	(77.6)%
Total Liabilities	156	695	(539)	(77.6)%
Plan Net Position	\$ 225,846	\$ 209,761	\$ 16,085	7.7 %

Management's Discussion and Analysis (unaudited)(continued)

DEFINED BENEFIT PENSION PLAN NET POSITION (Tables 1a and 1b)

As of June 30, 2017, 2016 and 2015

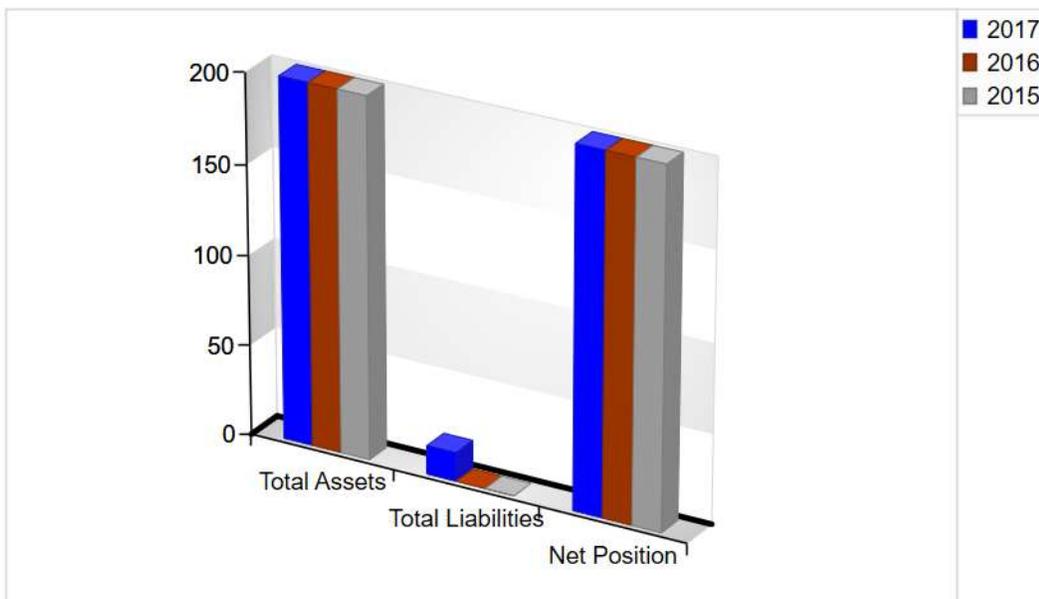
(Dollars in Millions)



POSTEMPLOYMENT HEALTHCARE PLAN NET POSITION (Tables 1c and 1d)

As of June 30, 2017, 2016 and 2015

(Dollars in Millions)



Management's Discussion and Analysis (unaudited)(continued)

As of June 30, 2017, \$1,972,792,000 and \$260,370,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 22). Plan net position restricted for pension benefits of \$1,972,792,000 is available to meet the System's ongoing obligations to pension plan participants and their beneficiaries. Postemployment healthcare plan net position of \$260,370,000 is only available for the exclusive use of retiree medical benefits.

As of June 30, 2017, total net position restricted for pension benefits increased by 6.1% and increased by 15.3% for the postemployment healthcare benefits plan from the prior year, primarily due to the net appreciation in the fair value of investments of \$129,235,000 and \$12,760,000 for the Defined Benefit Pension Plan and the Postemployment healthcare plan, respectively. The appreciation in the fair value of investments was caused by favorable market conditions during the fiscal year. The System's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 47.

As of June 30, 2016, \$1,858,882,000 and \$225,846,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1b and 1d on page 22). Plan net position restricted for pension benefits of \$1,858,882,000 was available to meet the System's ongoing obligations to pension plan participants and their beneficiaries. Postemployment healthcare plan net position of \$225,846,000 was only available for the exclusive use of retiree medical benefits.

As of June 30, 2016, total net position restricted for pension benefits decreased by (3.5)% and increased by 7.7% for the postemployment healthcare benefits plans from the prior year, primarily due to the net depreciation in the fair value of investments for the Defined Benefit Pension Plan caused by unfavorable investment returns during the fiscal year. The increase in the postemployment healthcare benefits is due to the increase in contributions from the prior fiscal year. The System's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 47.

As of June 30, 2017, receivables increased by \$53,471,000 or 353.8% and by \$1,825,000 or 44.3% in the Defined Benefit Pension Plan and Postemployment Healthcare Plans, respectively, due mainly to an increase in receivables from brokers and others for year-end investment trades for both Plans. In the previous year, receivables for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by \$4,440,000 or 41.6% and increased by \$3,083,000 or 297.6%, respectively, due mainly to an increase in contributions receivable for both plans.

As of June 30, 2017, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan increased by \$12,436,000 or 377.8% and by \$16,211,000 or 10,391.7%, respectively, compared with June 30, 2016, due to increases in payable to brokers, primarily as a result of the timing of investment transactions. In the previous year, liabilities increased by \$623,000 or 23.3% for the Defined Benefit Pension Plan and decreased by \$539,000 or 77.6% for the Postemployment Healthcare Plan from the prior year due to changes in payables to brokers and other liabilities primarily as a result of the timing of investment transactions.

FEDERATED SYSTEM ACTIVITIES

In the fiscal year ended June 30, 2017, the System's combined Defined Benefit Pension Plan and Postemployment Healthcare Plans net position increased by \$148,434,000 or 7.1%, primarily due to the favorable market conditions during the fiscal year. Key elements of the System's financial activities are described in the sections that follow.

Additions to Plan Net Position

The assets needed to fund retirement benefits are accumulated through the collection of employer and employee contributions along with earnings on investments (net of investment expense). Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plan for the fiscal year ended June 30, 2017, were \$301,720,000 and \$65,773,000, respectively (see Tables 2a and 2c on pages 26 - 27).

Management's Discussion and Analysis (unaudited)(continued)

For the fiscal year ended June 30, 2017, total additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plans increased by \$191,354,000 and \$19,874,000, or 173.4% and 43.3%, respectively. The primary cause of the increase from the prior year was net investment income of \$146,010,000 and \$17,041,000, in the Defined Benefit Pension Plan and postemployment healthcare plan, respectively, compared to investment losses of \$35,010,000 and \$2,447,000, respectively, in 2016. The net investment income was primarily a result of the favorable market conditions during the fiscal year ended June 30, 2017. The System's time-weighted gross rate of return, as determined by the System's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2017, was 8.0% compared to (0.3)% for fiscal year 2016. On a net of management fee basis, the System's time-weighted rate of return for the fiscal year ended June 30, 2017, was 7.5% compared to (0.7)% for fiscal year 2016.

For fiscal year ended June 30, 2016, total additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan decreased by \$(1,364,000) and increased by \$6,217,000, or (1.2)% and 15.7%, respectively. The primary cause of the decrease from the prior year was net investment losses of \$(35,010,000) and \$(2,447,000), respectively, compared to net investment losses of \$(16,642,000) and \$(5,922,000) in 2015. The net investment losses were primarily a result of the unfavorable investment returns during the fiscal year ended June 30, 2016. The System's time-weighted gross rate of return, as determined by the System's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2016, was (0.3)% compared to (0.9)% for fiscal year 2015. On a net of manager fee basis, the System's time-weighted rate of return for the fiscal year ended June 30, 2016, was (0.7)% compared to (1.0)% for fiscal year 2015. In addition, employer contributions for the Postemployment Healthcare Plan increased by \$3,506,000.

Deductions from Plan Net Position

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

Deductions for the fiscal year ended June 30, 2017, totaled \$187,810,000 and \$31,249,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 6.0% from the previous year due to an increase in benefit payments (see Table 2a on page 26). The increase in benefit payments is primarily due to continued increases in the number of retirees and beneficiaries with higher final average salaries and added cost of living adjustments. Deductions for the Postemployment Healthcare Plan increased by 4.8% from the previous year due to an increase in the healthcare insurance premiums for retirees and beneficiaries, as well as the increase in number of retirees and beneficiaries (see Table 2c on page 27).

Deductions for the fiscal year ended June 30, 2016, totaled \$177,258,000 and \$29,814,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 5.2% from the previous year due to an increase in benefit payments (see Table 2b on page 26). The increase in benefit payments are primarily due to continued increases in the number of retirees and beneficiaries with higher final average salaries and added cost of living adjustments. Deductions for the Postemployment Healthcare Plan increased slightly by 0.4% from the previous year due to an increase in healthcare insurance premiums for retirees and beneficiaries receiving healthcare benefits (see Table 2d on page 27).

Management's Discussion and Analysis (unaudited)(continued)

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

For the Fiscal Years Ended June 30, 2017 and 2016 (Dollars in Thousands)

	2017	2016	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	\$ 17,227	\$ 15,920	\$ 1,307	8.2 %
Employer contributions	138,483	129,456	9,027	7.0 %
Net investment income (loss)*	146,010	(35,010)	181,020	517.1 %
Total Additions	301,720	110,366	191,354	173.4 %
Retirement benefits	169,756	160,499	9,257	5.8 %
Death benefits	12,411	11,530	881	7.6 %
Refund of contributions	1,263	1,289	(26)	(2.0)%
Administrative expenses	4,380	3,940	440	11.2 %
Total Deductions	187,810	177,258	10,552	6.0 %
Net Increase (Decrease) in Plan Net Position	113,910	(66,892)	180,802	270.3 %
Beginning Net Position	1,858,882	1,925,774	(66,892)	(3.5)%
Ending Net Position	\$ 1,972,792	\$ 1,858,882	\$ 113,910	6.1 %

* Net of investment expenses of \$11,827 and \$11,139 in 2017 and 2016, respectively.

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

For the Fiscal Years Ended June 30, 2016 and 2015 (Dollars in Thousands)

	2016	2015	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	\$ 15,920	\$ 13,621	\$ 2,299	16.9 %
Employer contributions	129,456	114,751	14,705	12.8 %
Net investment loss*	(35,010)	(16,642)	18,368	110.4 %
Total Additions	110,366	111,730	(1,364)	(1.2)%
Retirement benefits	160,499	152,119	8,380	5.5 %
Death benefits	11,530	10,724	806	7.5 %
Refund of contributions	1,289	1,719	(430)	(25.0)%
Administrative expenses	3,940	3,898	42	1.1 %
Total Deductions	177,258	168,460	8,798	5.2 %
Net Decrease in Plan Net Position	(66,892)	(56,730)	26,574	(46.8)%
Beginning Net Position	1,925,774	1,982,504	(56,730)	(2.9)%
Ending Net Position	\$ 1,858,882	\$ 1,925,774	\$ (30,156)	(1.6)%

* Net of investment expenses of \$11,139 and \$9,588 in 2016 and 2015, respectively.

Management's Discussion and Analysis (unaudited)(continued)

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN (Table 2c)

For the Fiscal Years Ended June 30, 2017 and 2016 (Dollars in Thousands)

	2017	2016	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	\$ 16,827	\$ 17,881	\$ (1,054)	(5.9)%
Employer contributions	31,905	30,465	1,440	4.7 %
Net investment income (loss)*	17,041	(2,447)	19,488	796.4 %
Total Additions	65,773	45,899	19,874	43.3 %
Healthcare insurance premiums	31,007	29,577	1,430	4.8 %
Administrative expenses	242	237	5	2.1 %
Total Deductions	31,249	29,814	1,435	4.8 %
Net Increase in Plan Net Position	34,524	16,085	18,439	114.6 %
Beginning Net Position	225,846	209,761	16,085	7.7 %
Ending Net Position	\$ 260,370	\$ 225,846	\$ 34,524	15.3 %

* Net of investment expenses of \$706 and \$721 in 2017 and 2016, respectively.

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN (Table 2d)

For the Fiscal Years Ended June 30, 2016 and 2015 (Dollars in Thousands)

	2016	2015	Increase / (Decrease) Amount	Increase / (Decrease) Percent
Employee contributions	\$ 17,881	\$ 18,645	\$ (764)	(4.1)%
Employer contributions	30,465	26,959	3,506	13.0 %
Net investment loss*	(2,447)	(5,922)	(3,475)	(58.7)%
Total Additions	45,899	39,682	6,217	15.7 %
Healthcare insurance premiums	29,577	29,443	134	0.5 %
Administrative expenses	237	254	(17)	(6.7)%
Total Deductions	29,814	29,697	117	0.4 %
Net Increase in Plan Net Position	16,085	9,985	(850)	(8.5)%
Beginning Net Position	209,761	199,776	9,985	5.0 %
Ending Net Position	\$ 225,846	\$ 209,761	\$ 9,135	4.4 %

* Net of investment expenses of \$721 and \$765 in 2016 and 2015, respectively.

Management's Discussion and Analysis (unaudited)(continued)

Reserves

The System is required by the City of San José Municipal Code to establish various reserves in the System's net position. The System's net position is allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan (which includes the 401(h) and 115 Trust). The Defined Benefit Pension Plan Retirement Fund and the Defined Benefit Pension Plan Cost-of-Living Fund both have a General Reserve and Employee Contributions Reserve. The Postemployment Healthcare 401(h) and 115 Funds have a General Reserve only (see table on page 49 for a complete listing and year-end balances of the System's reserves).

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

The System's Fiduciary Responsibilities

The System's Board of Administration is the fiduciary trustee of the Defined Benefit Pension Plan and Postemployment Healthcare Plan. Under the California Constitution and the San José Municipal Code, System assets may only be used for the exclusive benefit of providing benefits to plan participants and their beneficiaries and defraying reasonable costs of administration.

Economic Factors and Rates Affecting Next Year

The City and the bargaining units engaged in settlement discussions concerning litigation arising out of a voter-approved ballot measure, known as Measure B, which was approved in 2012. On November 23, 2015, the City and the bargaining units reached an Alternative Pension Reform Settlement Framework (Framework) which was approved by the City Council and the bargaining units' memberships. A ballot measure (Measure F) was presented to the public for voting in the November 2016 election, which determined whether the terms of the Framework will be implemented. Measure F passed, and on June 16, 2017, the ordinance implementing the Framework and Measure F became effective for employees in the System. The provisions of the framework include, but are not limited to, revising Tier 2 benefit, allowing rehired Tier 1 employees to remain in Tier 1, creating a Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare and an irrevocable opt-out of the defined benefit retiree healthcare plan for eligible employees, defining the qualifications for members of the independent medical panel, and creating a Guaranteed Purchasing Power benefit for Tier 1 retirees. All Tier 1 employees will be eligible to opt-in to the VEBA. The VEBA Opt-in election period is October 18, 2017 through December 1, 2017, and it is expected to take effect January 1, 2018 or sometime thereafter. However, this is pending the receipt of a Private Letter Ruling from the Internal Revenue Service regarding several of the Framework provisions related to retiree healthcare.

The System's actuarial valuations as of June 30, 2016, were used to determine the contribution rates effective June 18, 2017, for fiscal year 2017-2018. The annual determined contribution rates and dollar amounts calculated in the June 30, 2016 valuations were adopted by the Board and became effective in fiscal year 2017-2018. The June 30, 2016 actuarial valuations include Board adopted actuarial assumption changes recommended by the System's actuary in the June 30, 2016 Preliminary Valuation Results and Economic Assumption Review presented in November 2016.

Defined Benefit Pension Plan

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The System's actuarial valuation for funding purposes uses a five-year smoothing method for investment gains and losses. This means that the current year's gains or losses compared to the actuarially assumed rate of return, as calculated at year-end, are recognized over five years. The unfunded actuarial accrued liability (UAAL) of \$1,752 million, as of June 30, 2016, does not include the impact of approximately \$175.9 million of net deferred investment losses yet to be recognized, primarily resulting from unfavorable investment returns during fiscal years 2015 and 2016. It is anticipated that future actuarial valuations will recognize these remaining deferred net investment losses as described above and the smoothing of any new gains or losses over a five-year period.

The System is exposed to general investment market risk. In a pension plan context, this is the risk that the long-term rate of return earned on the pension plan assets could be below the actuarially assumed rate of return, which is 6.875%, net of investment expenses, in the actuarial valuation as of June 30, 2016. With all other actuarial variables being equal, underperforming the assumed rate of return would increase the UAAL and decrease the funded status of the System, thereby increasing required contributions to the System.

In addition to investment market risk, the System is exposed to non-economic or demographic risk. The demographic assumptions, which include rates of termination, retirement, disability and mortality, are often unique to the System's provisions and the specific demographics of the System participants. Deviations from these actuarial assumptions cause the System to experience gains or losses, which in turn can lead to volatility in the contribution rates. To minimize this risk, every three to five years, the System's actuary conducts an experience study to assess whether the experience of the System is conforming to the actuarial assumptions. The actuarial assumptions may be adjusted where it is determined that current assumptions will not provide the most accurate expectation of what may happen in the future. The Board approved to make changes to the June 30, 2015 actuarial valuation as a result of the demographic experience study presented in November 2015. The next experience study is scheduled for fiscal year ending June 30, 2019.

The June 30, 2016 actuarial valuation contains the Board-adopted 30/20 layered amortization methodology, which includes the level amortization of the unfunded liability as of June 30, 2009 over 30 years from that date, and the amortization of subsequent gains and losses or assumption changes over 20 years from the valuation in which they are first recognized.

Contribution rates for fiscal year 2017-2018, as determined by the June 30, 2016 actuarial valuation included the impact of the continued effect of the layered 20-year closed amortization period and the recognition of smoothed deferred investment gains and losses.

The valuation for June 30, 2016, which was prepared in January 2017, does not include changes in plan provisions arising from Measure F which became effective June 18, 2017. However, supplemental reports provided by the actuary contained correct contribution rates reflecting the changes from Measure F.

Postemployment Healthcare Plan

During the year ended June 30, 2017, the System adopted GASB Statement No.74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which applies to OPEB plans and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The OPEB valuation as of June 30, 2016, was prepared by Cheiron, Inc., the System's actuary. A summary of the results is presented in Note 5 to the Financial Statements, which reflects changes as a result of GASB Statement No. 74.

Management's Discussion and Analysis (unaudited)(continued)

In 2009, the City entered into agreements ("Retiree Healthcare Agreements") with the bargaining units representing the System members to increase the contribution rates for retiree health and dental benefits in order to phase-in to full funding of the GASB Statement No. 43 annual required contributions (ARC) over a five period ending fiscal year 2012-2013. The Retiree Healthcare Agreements also provides that the five-year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions phase-in; the City and active members' contributions for retiree medical benefits were to pay the ARC for retiree healthcare benefits. Under the Retiree Healthcare Agreements, the ratio of contribution remained unchanged, with the contribution for retiree medical benefits split evenly between the City and the employee and retiree dental benefits split in the ratio of 8 to 3, with the City contributing 8/11 of the total contribution. The year ended June 30, 2013 was supposed to mark the end of the 0.75% cap and per the Retiree Healthcare Agreements, the employees and the City were required to contribute at the GASB Statement No. 43 ARC for fiscal year ended June 30, 2014.

However, the City and the bargaining groups negotiated an extension of the 0.75% cap on increases to medical contributions for 18 months. In October 2014, the City Council approved to extend the cap for an additional six months to June 20, 2015, the last pay period for fiscal year 2014-2015, keeping the contribution rates the same throughout the year. In December 2015, the Board approved to extend the fiscal year 2014-2015 healthcare rates until the implementation of the Framework.

With the passage of Measure F, the Framework became effective as of June 16, 2017. A VEBA for retiree healthcare was created and an irrevocable opt-out of the defined benefit retiree healthcare plan for eligible employees will be happening. The VEBA Opt-in election period is October 18, 2017 through December 1, 2017, and it is expected to take effect January 1, 2018 or sometime thereafter. However, this is pending the receipt of a Private Letter Ruling from the Internal Revenue Service regarding several of the Framework provisions related to retiree healthcare.

Requests for Information

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

Federated City Employees' Retirement System
1737 North First Street, Suite 600
San José, California 95112-4505

Respectfully Submitted,



Roberto L. Peña
Chief Executive Officer
Office of Retirement Services

This page intentionally left blank

Basic Financial Statements

STATEMENTS OF PLAN NET POSITION

As of June 30, 2017 and 2016 (In Thousands)

	2017		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ASSETS			
Receivables			
Employee contributions	\$ 761	\$ 634	\$ 1,395
Employer contributions	7,876	1,324	9,200
Brokers and others	56,982	3,738	60,720
Accrued investment income	2,966	248	3,214
Total Receivables	68,585	5,944	74,529
Investments, at fair value:			
Securities and other:			
Global equity	812,043	107,920	919,963
Private equity	59,820	1,842	61,662
Global fixed income	384,293	80,894	465,187
Collective short term investments	100,960	40,787	141,747
Private debt	73,510	2,263	75,773
Real assets	243,429	29,495	272,924
International currency contracts, net	(615)	(19)	(634)
Absolute return	245,047	7,545	252,592
Total Investments	1,918,487	270,727	2,189,214
Capital Assets	1,448	66	1,514
TOTAL ASSETS	1,988,520	276,737	2,265,257
LIABILITIES			
Payable to brokers	14,237	16,200	30,437
Other liabilities	1,491	167	1,658
TOTAL LIABILITIES	15,728	16,367	32,095
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	1,972,792	-	1,972,792
Postemployment healthcare benefits	-	260,370	260,370
TOTAL PLAN NET POSITION	\$ 1,972,792	\$ 260,370	\$ 2,233,162

See accompanying notes to basic financial statements.

(continued)

Basic Financial Statements *(continued)*

STATEMENTS OF PLAN NET POSITION *(continued)*

As of June 30, 2017 and 2016 *(In Thousands)*

	2016		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ASSETS			
Receivables			
Employee contributions	\$ 580	\$ 607	\$ 1,187
Employer contributions	6,205	1,082	7,287
Brokers and others	2,184	2,310	4,494
Accrued investment income	6,145	120	6,265
Total Receivables	15,114	4,119	19,233
Investments, at fair value:			
Securities and other:			
Global equity	721,251	90,090	811,341
Private equity	83,412	3,624	87,036
Global fixed income	387,238	59,557	446,795
Collective short term investments	108,168	25,127	133,295
Private debt	73,977	3,214	77,191
Real assets	229,712	29,696	259,408
International currency contracts, net	94	4	98
Absolute return	242,315	10,527	252,842
Total Investments	1,846,167	221,839	2,068,006
Capital Assets	893	44	937
TOTAL ASSETS	1,862,174	226,002	2,088,176
LIABILITIES			
Payable to brokers	2,056	30	2,086
Other liabilities	1,236	126	1,362
TOTAL LIABILITIES	3,292	156	3,448
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	1,858,882	-	1,858,882
Postemployment healthcare benefits	-	225,846	225,846
TOTAL PLAN NET POSITION	\$ 1,858,882	\$ 225,846	\$ 2,084,728

See accompanying notes to basic financial statements.

(concluded)

Basic Financial Statements *(continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Fiscal Years Ended June 30, 2017 and 2016 (In Thousands)

	2017		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ADDITIONS			
Contributions:			
Employee	\$ 17,227	\$ 16,827	\$ 34,054
Employer	138,483	31,905	170,388
Total Contributions	155,710	48,732	204,442
Investment income			
Net appreciation in fair value of investments	129,235	12,760	141,995
Interest income	13,617	845	14,462
Dividend income	14,985	4,142	19,127
Less: investment expense	(11,827)	(706)	(12,533)
Net Investment Income	146,010	17,041	163,051
TOTAL ADDITIONS	301,720	65,773	367,493
DEDUCTIONS			
Retirement benefits	169,756	-	169,756
Healthcare insurance premiums	-	31,007	31,007
Death benefits	12,411	-	12,411
Refund of contributions	1,263	-	1,263
Administrative expenses and other	4,380	242	4,622
TOTAL DEDUCTIONS	187,810	31,249	219,059
NET INCREASE	113,910	34,524	148,434
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS			
BEGINNING OF YEAR	1,858,882	225,846	2,084,728
END OF YEAR	\$ 1,972,792	\$ 260,370	\$ 2,233,162

See accompanying notes to basic financial statements.

(continued)

Basic Financial Statements *(continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION *(continued)*

For the Fiscal Years Ended June 30, 2017 and 2016 *(In Thousands)*

	2016		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ADDITIONS			
Contributions:			
Employee	\$ 15,920	\$ 17,881	\$ 33,801
Employer	129,456	30,465	159,921
Total Contributions	145,376	48,346	193,722
Investment income / (loss)			
Net depreciation in fair value of investments	(57,268)	(6,600)	(63,868)
Interest income	21,199	1,172	22,371
Dividend income	12,198	3,702	15,900
Less: investment expense	(11,139)	(721)	(11,860)
Net Investment Loss	(35,010)	(2,447)	(37,457)
TOTAL ADDITIONS	110,366	45,899	156,265
DEDUCTIONS			
Retirement benefits	160,499	-	160,499
Healthcare insurance premiums	-	29,577	29,577
Death benefits	11,530	-	11,530
Refund of contributions	1,289	-	1,289
Administrative expenses and other	3,940	237	4,177
TOTAL DEDUCTIONS	177,258	29,814	207,072
NET (DECREASE) / INCREASE	(66,892)	16,085	(50,807)
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS			
BEGINNING OF YEAR	1,925,774	209,761	2,135,535
END OF YEAR	\$ 1,858,882	\$ 225,846	\$ 2,084,728

See accompanying notes to basic financial statements.

(concluded)

Notes to the Basic Financial Statements

NOTE 1 - DESCRIPTION OF THE PLAN

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

(a) General

The System was established in 1941 to provide retirement benefits for certain employees of the City of San José (City). The current System consists of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan and includes all provisions of SJMC Chapters 3.28, 3.44, and 3.52.

The Defined Benefit Pension Plan was established pursuant to Internal Revenue Code (IRC) Section 401(a), is held and administered in the 1975 Federated City Employees' Retirement System (Pension Trust) and includes all provisions of SJMC Chapters 3.28.

The Postemployment Healthcare Plan is comprised of an IRC Section 401(h) plan and an IRC Section 115 trust and is held and administered in the 1975 Federated City Employees' Retirement System and the Federated City Employees' Healthcare Trust Fund, respectively; it includes all provisions of SJMC Chapters 3.28 and 3.52, respectively.

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

On June 24, 2011, a new IRC Section 115 trust was established by the San José City Council (City Council) under the provisions of SJMC Chapter 3.52 (Ordinance number 28914) to provide an alternative to the existing 401(h) account within the Pension Trust for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. A request for private letter ruling on the tax qualified status of the new trust and the pre-tax treatment of employee contributions to the trust was filed with the IRS on October 17, 2011. On August 6, 2013, the City obtained a private letter ruling from the IRS confirming the pre-tax treatment of employee contributions to the 115 Trust. Effective pay period 1 of 2014, beginning on December 23, 2013, employee contributions made for retiree healthcare are deposited into the 115 Trust.

On August 18, 2012, the System received a favorable tax determination letter from the IRS for the Pension Trust, which includes the Defined Benefit Pension Plan and the 401(h) portion of the Postemployment Healthcare Plan. A new determination letter was received on July 8, 2014, which expires January 31, 2019.

Effective September 30, 2012, pursuant to City of San José Ordinance Number 29120, the System was amended to provide for different retirement benefits for individuals hired, rehired or reinstated by the City on and after that date but before September 27, 2013. Members subject to these new benefit provisions are referred to as Tier 2 members, whereas members hired before September 30, 2012 are referred to as Tier 1 members. Differences in benefits are noted in the appropriate sections below.

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(a) General *(continued)*

Effective February 3, 2013, pursuant to City of San José Ordinance Number 29184, unrepresented executive management and professional employees who are hired directly into a position in Unit 99 on or after that date, may make a one-time irrevocable election to participate in either a newly created Defined Contribution Plan or become a Tier 2 participant in the System. To be eligible, an employee must not have been previously a member of the City of San José Retirement System. The System does not administer or hold the assets of the Defined Contribution Plan.

Effective September 27, 2013, pursuant to City of San José Ordinance Number 29283, the System was amended to provide for different retirement benefits for individuals hired or rehired by the City on and after that date. Members subject to these new benefits are referred to as Tier 2B members, having the same benefits as Tier 2 members in the Defined Benefit Pension Plan, except, Tier 2B members do not have Postemployment Healthcare benefits. The ordinance also stated that the City shall bear and pay an amount equal to the additional costs incurred by the Retirement System for that portion of the unfunded liability as determined by the actuary of the Retirement System that the City and the new employees hired on or after September 27, 2013, would have otherwise paid as contributions had those employees been eligible for retiree healthcare. The additional payment by the City shall be for a period of time under the terms and conditions set forth by the City Council.

Tier 2C members are former Tier 1 members who have vested in dental benefits and are re-entering the Plan as Tier 2B members but with dental benefits.

The City and the Federated bargaining units engaged in settlement discussions concerning litigation arising out of a voter approved ballot measure, known as Measure B, which passed in 2012. On December 15, 2015, and January 12, 2016, the City and the bargaining units representing employees in Federated reached a settlement agreement on the Federated Alternative Pension Reform Settlement Framework (Federated Framework). The terms of the Federated Framework also applied to unrepresented employees, including unrepresented management and executive employees in Unit 99. The Federated Framework included an agreement that a ballot measure would be placed on the November 8, 2016, election for the voters to replace Measure B. On November 8, 2016, the voters approved the Alternative Pension Reform Act known as Measure F. Measure F included, among other things, prohibiting any enhancements to defined retirement benefits without voter approval; codifying the Tier 2 pension benefit; closing the defined benefit retiree healthcare plan; and prohibiting retroactive defined retirement benefit enhancements. The City Council approved Ordinance number 29879 on May 16, 2017, amending the San Jose Municipal Code to reflect the terms of Measure F and the Federated Framework. The changes to the Municipal Code became effective thirty (30) days after May 16, 2017. Most of the terms of Measure F and the Federated Framework were implemented on June 18, 2017, which is the first pay period of Fiscal Year 2017-2018. The provisions of the Federated Framework include, but are not limited to, revising Tier 2 benefits, allowing rehired Tier 1 employees to remain in Tier 1, creating a defined contribution Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare (medical and dental) and a one time irrevocable election to opt in to the defined contribution VEBA from the defined benefit retiree healthcare plan for eligible employees, defining the qualifications for members of the independent medical panel, and creating a Guaranteed Purchasing Power benefit for Tier 1 retirees. All Tier 1 employees (except those who enter the Plan after June 18, 2017 with "Classic" membership in CalPERS) and Tier 2 employees who were previously making contributions into the defined benefit retiree healthcare plan (Tier 2A), will be eligible to opt-in to the VEBA, while all Tier 2 employees (except unrepresented employees) are required to move in to the defined contribution VEBA. The VEBA opt-in election period is October 18, 2017 through December 1, 2017, and it is expected to take effect January 1, 2018 or sometime thereafter. However, this is pending approval from the Internal Revenue Service regarding several of the Framework provisions related to retiree healthcare.

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(a) General *(continued)*

The System is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension and postemployment healthcare trust fund. The System is administered by the Chief Executive Officer of the Office of Retirement Services, an employee of the City, who serves at the pleasure of the Federated City Employees' Retirement System Board of Administration (Board of Administration). The seven-member Board of Administration is composed of two City employees elected by members of the System, a retiree representative, and three public members, who are not connected with the City and have significant banking or investment experience, and another public member, who is selected by the six Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08.300 of the San José Municipal Code. The contribution and benefit provisions and all other requirements are established by City ordinance. The System is responsible for all direct administrative costs, except for certain support services, which are provided and funded directly by the City. The System is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

All full-time and eligible part-time employees of the City are required to be members of the System, except unrepresented executive management and professional employees in Unit 99 who are first hired on or after February 3, 2013 and have made an irrevocable election to participate in the Defined Contribution Plan pursuant to SJMC Chapter 3.49, instead of Tier 2 of the Defined Benefit Plan. Also excluded are employees who are members of the City's Police and Fire Department Retirement Plan.

With the passage of Measure F, rehires with prior Tier 1 City service who were in Tier 2 became part of the Tier 1 membership Defined Benefit Pension Plan effective June 18, 2017. In addition, employees in Tier 2 who have "Classic" membership with CalPERS may be moved to Tier 1 subject to the identification of these employees and confirmation of "Classic" membership with CalPERS. Rehires in the Tier 1 membership is broken down into the type of coverage the member had in the Postemployment Healthcare Plan prior to the passage of Measure F. The System members are categorized into four membership types based on when they entered the Plan, except for the rehires mentioned above.

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(a) General (continued)

The following table summarizes the System members as of June 30, 2017 and 2016, respectively.

<i>As of June 30, 2017</i>		2017			
Defined Benefit Pension Plan:	Tier 1 Members	Tier 2 Members	Tier 2B Members	Tier 2C Members	Total
Retirees and beneficiaries currently receiving benefits*	4,114	-	1	-	4,115
Terminated vested members not yet receiving benefits	1,037	65	250	-	1,352
Active members	1,991	164	1,255	-	3,410
Total	7,142	229	1,506	-	8,877
Postemployment Healthcare Plan:					
Retirees and beneficiaries currently receiving benefits****	3,535	-	-	-	3,535
Terminated vested members not yet receiving benefits	158	-	-	-	158
Active members	1,991	164	-	-	2,155
Total	5,684	164	-	-	5,848

<i>As of June 30, 2016</i>		2016			
Defined Benefit Pension Plan:	Tier 1 Members	Tier 2 Members	Tier 2B Members	Tier 2C Members	Total
Retirees and beneficiaries currently receiving benefits*	4,002	-	-	1	4,003
Terminated vested members not yet receiving benefits**	1,038	52	114	2	1,206
Active members***	2,162	212	910	13	3,297
Total	7,202	264	1,024	16	8,506
Postemployment Healthcare Plan					
Retirees and beneficiaries currently receiving benefits****	3,461	-	-	-	3,461
Terminated vested members not yet receiving benefits	151	-	-	-	151
Active members***	2,162	212	13	-	2,387
Total	5,774	212	13	-	5,999

* The combined domestic relations orders are not included in the count above as their benefit payment is included in the retiree member count. 1 deferred vested member in Tier 2 have a portion of their benefit under Tier 1

** 3 retired members in Tier 2 have a portion of their benefit under Tier 1

*** 35 active members in Tier 2 have a portion of their benefit under Tier 1

**** Payees that have health and/or dental coverage.

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits

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

The following table summarizes the pension, disability and healthcare benefits for the members. Please consult the Municipal Code for complete information.

	Tier 1 and 1A	Tier 1B or Tier 1 Classic	Tier 1C	Tier 2	Tier 2B
	Employees hired on or before September 30, 2012*	Employees rehired, or reinstated before June 18, 2017 with less than 5 years of service**	Employees hired, rehired, or reinstated after September 27, 2013***	Employees hired, rehired, or reinstated after September 30, 2012	Employees hired, rehired, or reinstated after September 27, 2013
Contributions					
Employee Contributions	15.36% of Base Salary (Pension: 6.60%, Retiree Health: 8.76%) As of 6/18/17	6.60% of Base Salary as of 6/18/2017	6.99% of Base Salary (Pension: 6.60%, Retiree Dental: 0.39%) As of 6/18/2017	16.48% (Pension: 7.72% Retiree Healthcare: 8.76%) As of 6/18/2017	7.72% of Base Salary as of 6/18/2017
City Contributions	103.45% of Base Salary (Pension: 94.04%, Retiree Health: 9.41%) As of 6/18/17	94.04% of Base Salary as of 6/18/2017	95.08% of Base Salary (Pension: 94.04%, Retiree Health: 1.04%) As of 6/18/2017	17.13% (Pension: 7.72% Retiree Healthcare: 9.41%) As of 6/18/2017	7.72% of Base Salary as of 6/18/2017
Service Required to Leave Contributions in Retirement System	5 years			5 years Federated City Service Years of Service (Year of Service = 2080 hours worked in the applicable 12-month period)	
Service Retirement					
Age/Years of Service	55 with 5 years' service 30 years' service at any age			62 years with 5 years Federated City Service May retire on or after 55 years with 5 years Federated City Service. A reduction factor of 5% per year for each year between age fifty-five (55) and the Tier 2 member's age at retirement before age 62, prorated to the closest month.	
"Deferred Vested" Retirement	55 with 5 years service (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.)			May commence on or after 55 years with 5 years Federated City Service with actuarial equivalent reduction (This applies to members who separate from City service before retirement and leave their contributions in the retirement system.) Can begin at age 55 with reduction fact of 5% per year for each year between age fifty-five and the Tier 2 member's age at retirement before age 62, prorated to the closest month.	

Notes to the Basic Financial Statements (continued)

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits (continued)

	Tier 1 and 1A	Tier 1B or Tier 1 Classic	Tier 1C	Tier 2	Tier 2B
	Employees hired on or before September 30, 2012*	Employees rehired, or reinstated before June 18, 2017 with less than 5 years of service**	Employees hired, rehired, or reinstated after September 27, 2013***	Employees hired, rehired, or reinstated after September 30, 2012	Employees hired, rehired, or reinstated after September 27, 2013
Allowance	2.5% x Years of Service x Final Compensation (75% max) If separation takes place prior to July 1, 2001, Final Compensation is highest average monthly salary during 36 consecutive months If separation takes place on or after July 1, 2001, Final Compensation is highest average monthly salary during 12 consecutive months			2.0% x Years of Federated City Service x Final Compensation (70% max) "Final Compensation" is the average monthly (or biweekly) base pay for the highest 3 consecutive Years of Federated City Service Excludes premium pay or any other forms of additional compensation	
Disability Retirement - (Service Connected)					
Minimum Service	None				
Allowance	40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of final compensation)			2% x Years of Federated City Service x Final Compensation. (Minimum of 40% and maximum of 70% of Final Compensation)	
Disability Retirement (Non-Service Connected)					
Minimum Service	5 years				
Allowance	40% of Final Compensation plus 2.5% x Years of Service in excess of 16 years x Final Compensation (Maximum 75% of final compensation) If under 55 years old, subtract 0.5% for every year under age 55. **For those entering the System 9/1/98 or later, the calculation is as follows: 20% of Final Compensation for up to 6 years of service. Add 2% for each year of service in excess of 6 years but less than 16 years. Add 2.5% for each year of service in excess of 16 years of service. (Maximum 75% of final compensation)			2% x Years of Federated City Service x Final Compensation. (Minimum of 20% and maximum of 70% of Final Compensation)	

Notes to the Basic Financial Statements (continued)

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits (continued)

	Tier 1 and 1A	Tier 1B or Tier 1 Classic	Tier 1C	Tier 2	Tier 2B
	Employees hired on or before September 30, 2012*	Employees rehired, or reinstated before June 18, 2017 with less than 5 years of service**	Employees hired, rehired, or reinstated after September 27, 2013***	Employees hired, rehired, or reinstated after September 30, 2012	Employees hired, rehired, or reinstated after September 27, 2013
Medical Benefits					
Eligibility	Retired for disability or service with 15 years' service or receive allowance that is at least 37.5% of final compensation. ("Deferred vested" members are eligible.)	N/A	N/A	Retired for disability or service with 15 years' service or receive allowance that is at least 37.5% of final compensation. (Certain "Deferred vested" members are also eligible.)	N/A
Premiums	Retirement System pays 100% of lowest cost plan that is available to active City employees. If retiree does not choose the lowest cost plan, retiree pays the difference between that premium and the premium for the lowest cost plan.	N/A	N/A	Retirement System pays 100% of lowest cost single or family premium that is available to active City employees. If retiree does not choose the lowest cost plan, retiree pays the difference between that premium and the premium for the lowest cost plan.	N/A
Medicare Eligibility	N/A	N/A	N/A	At age 65, Members of FCERS will be required to enroll in Medicare Parts A & B. If a Member does not meet this requirement within 6 months of the date Member turns 65, health care benefits will cease until such requirements are met.	N/A

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits (continued)

	Tier 1 and 1A	Tier 1B or Tier 1 Classic	Tier 1C	Tier 2	Tier 2B
	Employees hired on or before September 30, 2012*	Employees rehired, or reinstated before June 18, 2017 with less than 5 years of service**	Employees hired, rehired, or reinstated after September 27, 2013***	Employees hired, rehired, or reinstated after September 30, 2012	Employees hired, rehired, or reinstated after September 27, 2013
Dental Benefits					
Eligibility	Must be enrolled at retirement with 5 years' service or receive retirement allowance of at least 37.5% of final compensation. In addition, the employee must retire directly from City service. ("Deferred vested" members are not eligible.)		Must be enrolled at retirement with 5 years' service or receive retirement allowance of at least 37.5% of final compensation. In addition, the employee must retire directly from City service. ("Deferred vested" members are not eligible.)	Must be enrolled at retirement with 5 years' service or receive retirement allowance of at least 37.5% of final compensation. ("Deferred vested" members are not eligible.)	N/A
Premiums	Fully paid by retirement fund	N/A	Fully paid by retirement fund	Fully paid by retirement fund	N/A
Reciprocity					
Reciprocity	As of December 9, 1994, the City of San José Federated City Employees' Retirement System adopted a reciprocal agreement with CalPERS. This may result in improved benefits for members who transfer between this retirement system and CalPERS or certain other public agency retirement systems that also have reciprocal agreements with CalPERS. Please call the Retirement Department or CalPERS for more information.				

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(b) Pension, Disability and Healthcare Benefits (continued)

	Tier 1 and 1A	Tier 1B or Tier 1 Classic	Tier 1C	Tier 2	Tier 2B
	Employees hired on or before September 30, 2012*	Employees rehired, or reinstated before June 18, 2017 with less than 5 years of service**	Employees hired, rehired, or reinstated after September 27, 2013***	Employees hired, rehired, or reinstated after September 30, 2012	Employees hired, rehired, or reinstated after September 27, 2013
Cost-of-Living Adjustments (COLA)					
Cost-of-living Adjustments	Retirees are eligible for a 3% annual cost-of-living adjustment (COLA). Regular COLA's are compounded and paid each April. There is no prorating of COLA.			Retirees are eligible for annual cost-of-living adjustment (COLA) limited to the lesser of the increase in the Consumer Price Index (San Jose-San Francisco-Oakland, U.S. Bureau of Labor Statistics index, CPI-U, December to December), or a back-loaded 2% COLA per fiscal year. The back-loaded COLA shall be calculated as follows: i. Service at retirement of 1-10 years: 1.25% per year ii. Service at retirement of 1-10 years and hired before June 16, 2017: 1.5% iii. Service at retirement of 11-20 years: 1.5% per year iv. Service at retirement of 21-25 years: 1.75% per year v. Service at retirement of 26 years and above: 2.0% per year The first COLA will be prorated based on the number of months retired.	

* Tier 1 applies to employees hired on or before September 29, 2012, or former Tier 1 members who were rehired on or after June 18, 2017, who did not take a return of contributions. Tier 1A applies to employees rehired on or after September 30, 2012 through September 27, 2013, and employees rehired after September 27, 2013 with 15 or more years of service, but before June 18, 2017.

** Tier 1B applies to employees rehired after September 27, 2013 with less than 5 years of service, but before June 18, 2017. Tier 1B employees are not eligible for the defined benefit retiree healthcare plan. Employees with "Classic" membership from a CalPERS or reciprocal agency hired by the City of San Jose on or after June 18, 2017. Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan.

*** Tier 1C applies to employees rehired after September 27, 2013 with between 5 and 15 years of service, but before June 18, 2017. Tier 1C employees are not eligible for the defined benefit retiree medical plan.

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN *(continued)*

(c) Death Benefits

The following table summarizes the survivorship pension and health benefits for Tier 1 members. Please consult the Municipal Code for complete information.

FED Tier 1, 1A, 1B, and 1C	
Death Before Retirement	
Non-service-connected death with less than 5 years of service	Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (benefit may not exceed 50% of the salary earned in year prior to death.)
Greater than 5 years of service or service-connected death	To surviving spouse/domestic partner: Years of Service x 2.5% x Final Compensation (40% minimum, 75% maximum, except that "deferred vested" members not eligible for 40% minimum) If no surviving spouse/domestic partner, to surviving children: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% of spousal/domestic partnership allowance If no surviving spouse/domestic partner or surviving children: Return of employee contributions, plus death benefit: 1/12 of compensation in year prior to death x years of service (benefit may not exceed 50% of the salary earned in year prior to death.)
Death After Retirement	
Standard allowance to surviving spouse/domestic partner or children (Minimum 5 years of service)	To surviving spouse/domestic partner: 50% of Retiree's Allowance If no surviving spouse/domestic partner, to surviving children: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% of spousal/domestic partnership allowance If no surviving spouse/domestic partner or surviving children: estate or beneficiary will receive the difference between employee contributions (including interest) and the total paid to member by the retirement system at the time of death.
Optional settlements	Retiree may choose an optional settlement at retirement that reduces the allowance to provide a survivorship allowance to a designated beneficiary or a higher survivorship allowance to their spouse/domestic partner.
Special death benefit	\$500 death benefit paid to estate or designated beneficiary in addition to benefits above.

For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death or remarriage. For members who were at least 55 and had at least 20 years of service at the time of death, or 30 years of service regardless of age, the survivorship allowance to surviving spouse/domestic partner lasts until death.

**If there is an allowance payable to a surviving spouse/domestic partner, no allowance will be paid to surviving children. Surviving children receive a monthly survivorship allowance only when there is no surviving spouse/domestic partner.*

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(c) Death Benefits (continued)

The following table summarizes the death benefits for Tier 2 members. Please consult the Municipal Code for complete information.

Tiers 2 and 2B	
Death Before Retirement	
Non-service-connected death not eligible for retirement	Return of employee contributions, plus interest.
Eligible for retirement	<p>To surviving spouse/domestic partner: $2.0\% \times \text{Years of Federated Service} \times \text{Final Compensation (70\% max)}$</p> <p>If no surviving spouse/domestic partner, to surviving children until age 18: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% of spousal/domestic partnership allowance</p> <p>If no surviving spouse/domestic partner or surviving children: Return of employee contributions, plus death benefit: $1/12$ of compensation in year prior to death \times years of service (benefit may not exceed 50% of the salary earned in year prior to death.)</p> <p>Employees killed in the line of duty – To surviving spouse/domestic partner: Monthly benefit equivalent to 50% of Final Compensation.</p>
Death After Retirement	
Survivorship allowance to surviving spouse/domestic partner or children that was elected by the member at retirement. (Minimum 5 years of service)	<p>To surviving spouse/domestic partner: 50% of Retiree's Allowance</p> <p>If no surviving spouse/domestic partner, to surviving children until age 18: 1 Child: 25% of spousal/domestic partnership allowance 2 Children: 50% of spousal/domestic partnership allowance 3 Children: 75% of spousal/domestic partnership allowance</p> <p>If no surviving spouse/domestic partner or surviving children: estate or beneficiary will receive the difference between employee contributions (including interest) and the total paid to member by the retirement system at the time of death.</p>
Optional Settlements	Retiree may choose an optional settlement at retirement that reduces the allowance to provide a survivorship allowance to a designated beneficiary or a higher survivorship allowance to their spouse/domestic partner.

For death before retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death, remarriage, or establishment of a domestic partnership if member was at least 65 with at least 20 years of service (or 55 with a reduction factor of 5%) at the time of death. For death after retirement, the survivorship allowance to surviving spouse/domestic partner lasts until death.

Notes to the Basic Financial Statements *(continued)*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying financial statements present only the financial statements of the System in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statements of the System are intended to present only the plan net position and changes in plan net position of the System. They do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2017 and 2016, and the changes in its financial position for the years then ended in conformity with U.S. GAAP. The System is reported in a pension and postemployment healthcare trust fund in the City of San José's basic financial statements.

(b) Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting. Contributions are recognized as revenue when due pursuant to legal requirements. Benefits and refunds of contributions are recognized when currently due and payable under the provisions of the System. Activities of the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are accounted for separately. It is required by the Municipal Code that transactions of the Defined Benefit Pension Plan be accounted for in two funds: a Retirement Fund and a Cost-of-Living Fund.

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

(c) Investments

The City of San José Municipal Code Section 3.28.355 delegates authority to the Board of Administration to invest the monies of the System as provided in Section 3.28.355. The Board has adopted detailed investment guidelines consistent with conditions and limitations set forth in Section 3.28.355.

For the year ended June 30, 2017, there was no change to the Defined Benefit Pension Plan investment policy, which the Board approved on January 5, 2017. The new asset allocation was prepared to align with the long-term expected returns of the underlying asset classes and the System's adopted actuarial assumed rate of return as utilized in the June 30, 2016 valuations.

Notes to the Basic Financial Statements *(continued)*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments (continued)

The System's investment asset allocation is as follows:

PENSION						
Asset Class	As of June 30, 2017			As of June 30, 2016		
	Minimum Allocation	Target Asset Allocation	Maximum Allocation	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Global equity	20 %	28 %	36 %	20 %	28 %	36 %
Private equity	4 %	9 %	14 %	4 %	9 %	14 %
Global fixed income	9 %	19 %	29 %	9 %	19 %	29 %
Private debt	-	5 %	10 %	-	5 %	10 %
Absolute return	6 %	11 %	16 %	6 %	11 %	16 %
Global tactical asset allocation/ Opportunistic	-	5 %	8 %	-	5 %	7 %
Real assets	15 %	23 %	30 %	15 %	23 %	30 %
Cash	-	-	10 %	-	-	5 %

The absolute return and global tactical asset allocation/opportunistic asset class includes allocations to global macro and relative value hedge fund strategies and managers with unconstrained global mandates. In addition, during times of significant market dislocations, opportunistic mandates would be allocated to this asset class.

The real assets asset class includes allocations to real estate, commodities, infrastructure and natural resources.

On September 30, 2014, the Board adopted a new asset allocation for the 115 healthcare trust which primarily decreased the allocation to global equity and increased allocations to real assets.

The Postemployment Healthcare Plan investment policy was originally approved on March 21, 2013, and there was no change for the year ended June 30, 2017.

HEALTHCARE						
Asset Class	As of June 30, 2017			As of June 30, 2016		
	Minimum Allocation	Target Asset Allocation	Maximum Allocation	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Global equity	40 %	47 %	54 %	40 %	47 %	54 %
Fixed income	20 %	30 %	40 %	20 %	30 %	40 %
Real assets	15 %	23 %	30 %	15 %	23 %	30 %

The real assets asset class allocates to commodities, natural resources, infrastructure, and real estate.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market, such as private equity, commingled real estate funds and certain pooled fund investments, are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. See Note 3 starting on page 51 for more detailed information on the fair value of investments.

Notes to the Basic Financial Statements *(continued)*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Investments *(continued)*

The fair value of derivative investments that are not exchange traded, such as swaps and rights is determined by the System's custodian based on the base market value of similar instruments. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated based on the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

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

Investment expenses presented within the accompanying financial statements consist of management and performance fees and other investment-related fees. Other investment-related fees include expenses for shared investment-related administration, consultants, custody, and legal services. These fees are disclosed within the Investment Expenses within the Statement of Changes in Fiduciary Net Position and detailed in the Investment Expenses Schedule in the Other Supplemental Information section.

The investment expenses do not include the commissions and fees paid to transact public securities. Partnership management fees paid for the private equity program are drawn from the committed capital and reported as an increase in the cost basis. These fees and costs are included within the net asset value (NAV) or public securities cost and are also reported in the net appreciation/(depreciation) in fair value of investments line items on the financial statements.

For the years ended June 30, 2017 and 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.53% and (0.79)%, respectively. For the year ended June 30, 2017, the annual money-weighted rate of return on healthcare plan investments, net of healthcare plan investment expenses, was 8.81%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(d) Capital Assets

Capital assets are recorded at cost and comprise of all costs related to the development of a new pension administration system. The development of the new pension administration system is expected to be completed in four years, by the fall of 2018. It will be amortized per GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, over 10 years, once it has been placed into service.

(e) Plan Net Position Restricted for Pension and Postemployment Healthcare Benefits

The System is required by the City of San José Municipal Code to establish various reserves in the plan net position. The plan net position is allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan (which includes the 401(h) and 115 Trust).

Notes to the Basic Financial Statements *(continued)*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Plan Net Position Restricted for Pension and Postemployment Healthcare Benefits (continued)

As of June 30, 2017 and 2016, plan net position totaling \$2,233,162 and \$2,084,728, respectively, is allocated as follows (in thousands):

	Retirement Fund	Cost-of-Living Fund	Defined Benefit Pension Plan	Post-employment Health-care 401(h)	Post-employment Health-care (115)	Post-employment Health-care Plan	Total
June 30, 2017							
Employee contributions reserve	\$ 308,714	\$ 50,274	\$ 358,988	\$ -	\$ -	\$ -	\$ 358,988
General reserve	1,042,461	571,343	1,613,804	34,149	226,221	260,370	1,874,174
TOTAL	\$1,351,175	\$621,617	\$1,972,792	\$ 34,149	\$ 226,221	\$ 260,370	\$2,233,162
June 30, 2016							
Employee contributions reserve	\$ 309,489	\$ 47,750	\$ 357,239	\$ -	\$ -	\$ -	\$ 357,239
General reserve	988,608	513,035	1,501,643	57,241	168,605	225,846	1,727,489
TOTAL	\$1,298,097	\$560,785	\$1,858,882	\$ 57,241	\$ 168,605	\$ 225,846	\$2,084,728

Employee Contributions Reserve represents the total accumulated employee contributions of current active and deferred members plus credited interest. The reserve is accounted for separately due to the possibility of a return of accumulated employee contributions, plus credited interest, to the member upon separation from City employment. Terminated members' returns of contributions are paid from the Defined Benefit Pension Plan only. No employee contributions are paid into or out of the healthcare plan.

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

(f) Allocation of Investment income

Earnings on investments, excluding unrealized gains and losses, are recorded first in the general reserve category of plan net position. An allocation is made semi-annually from the general reserve category to the employee contributions category of plan net position based on the balance in that account at an annual rate of 3%, as specified by the City of San José Municipal Code.

Notes to the Basic Financial Statements *(continued)*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Implementation of Governmental Accounting Standards Board Statements

During the year ended June 30, 2017, the System implemented the following GASB Statements:

In June 2015, the GASB recently issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which applies to OPEB plans and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement, which essentially parallels GASB Statement No. 67, addresses accounting and financial reporting requirements for OPEB plans and is effective for financial statements for fiscal years beginning after June 15, 2016. This Statement essentially updated all of Note 5 with new disclosures and added additional disclosures in the Required Supplementary Information section.

In March 2016, the GASB recently issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to GASB Statements No. 67, No. 68, and No. 73, that are not within the scope of GASB Statement No. 68, and amendments to certain provisions of GASB Statements No. 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The application of Statement No. 82, did not have a material effect on the System's financial statements.

The System is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, which is effective for fiscal years beginning after June 15, 2017. This statement addresses practice issues that have been identified during implementation and application of certain GASB statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, which is effective for fiscal years beginning after December 15, 2019. This statement improves the accounting and financial reporting for leases by governments.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS

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

Interest Rate Risk – The fair value of fixed income investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest-sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. The System does not have a policy regarding interest rate risk. However, the System does settle on a transaction plus one day basis (T+1), therefore limiting the System's exposure to counterparty risk.

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in months and years) as of June 30, 2017 and 2016.

INVESTMENT MATURITIES AT FAIR VALUE

As of June 30, 2017 (In Thousands)

	0- 3 Months	3- 6 Months	6 Months - 1 Year	1- 5 Years	5-10 Years	More than 10 Years	Total Fair Value	Cost
Fixed Income								
Global Fixed Income:								
Commingled funds	\$ 38,283	\$ -	\$ -	\$ 125,865	\$ 47,627	\$ 95,988	\$ 307,763	\$ 294,400
Corporate bonds	-	-	-	1	-	-	1	1
Mortgage-backed securities	-	-	-	-	1,813	38,656	40,469	35,906
Other debt securities	-	-	-	1,331	8,306	10,655	20,292	20,725
U.S. Treasury inflation-protected securities	-	-	-	76,494	20,168	-	96,662	98,830
Total Global Fixed Income	38,283	-	-	203,691	77,914	145,299	465,187	449,862
Collective Short Term Investments	141,747	-	-	-	-	-	141,747	141,566
TOTAL FIXED INCOME	\$ 180,030	\$ -	\$ -	\$ 203,691	\$ 77,914	\$ 145,299	\$ 606,934	\$ 591,428

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

INVESTMENT MATURITIES AT FAIR VALUE

As of June 30, 2016 (In Thousands)

	0-3 Months	3-6 Months	6 Months -1 year	1- 5 Years	5-10 Years	More than 10 Years	Total Fair Value	Cost
Fixed Income								
Global Fixed Income:								
Commingled funds	\$ 35,326	\$ -	\$ -	\$ 127,152	\$ 88,683	\$ 31,141	\$ 282,301	\$ 270,585
Corporate bonds	-	-	-	2	-	-	2	5
Mortgage-backed securities	-	-	-	-	3,538	41,860	45,398	45,445
Other debt securities	-	-	-	2,081	3,658	2,401	8,140	8,051
U.S. Treasury inflation protected securities	5,154	-	16,345	89,455	-	-	110,954	111,967
Total Global Fixed Income	40,480	-	16,345	218,690	95,879	75,402	446,795	436,053
Collective Short Term Investments	133,295	-	-	-	-	-	133,295	135,466
TOTAL FIXED INCOME	\$ 173,775	\$ -	\$ 16,345	\$ 218,690	\$ 95,879	\$ 75,402	\$ 580,090	\$ 571,519

Custodial Credit Risk – Custodial credit risk is the risk that the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party, if that outside party fails. The System does not have a policy regarding custodial credit risk. As of June 30, 2017 and 2016, all of the System's investments are held in the System's name and/or not exposed to custodial credit risk.

Credit Quality Risk – The System's investment policy allows for investments in a wide variety of domestic and international debt securities that may carry a high rating, low rating, or be unrated. Investment managers may, as part of their investment strategy, invest in securities where the issuer's ability or willingness to pay is limited. At times, these debt securities may be converted into other debt, equity, or hybrid securities that have different risk and return characteristics than the securities initially purchased. The System may hedge against the possible adverse effects of currency fluctuations on the System's portfolio of international fixed income obligations when it is considered appropriate. This is typically achieved using forward currency contracts. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments. Nationally recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations.

The following tables provide information for the portfolio as of June 30, 2017 and 2016 concerning credit risk. These tables reflect only securities held in the System's name.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

RATINGS OF FIXED INCOME INVESTMENTS

As of June 30, 2017 and 2016 (Dollars In Thousands)

S&P Quality Rating	2017		2016	
	Fair Value	Fair Value as a % of Total Fixed Income	Fair Value	Fair Value as a % of Total Fixed Income
AAA	\$ 332	0.1%	\$ 479	0.1%
AA+	101,048	16.6%	114,389	19.7%
A+	1,580	0.3%	1,588	0.3%
A	392	0.1%	462	0.1%
A-	-	-	210	-%
BBB+	1,676	0.4%	1,095	0.2%
BBB	5,652	0.9%	2,478	0.4%
BBB-	503	0.1%	-	-
BB+	1,331	0.2%	1,316	0.2%
BB	749	0.1%	322	0.1%
BB-	499	0.1%	1,385	0.2%
B+	484	0.1%	2,448	0.4%
B	1,423	0.2%	2,234	0.4%
B-	436	0.1%	1,592	0.3%
CCC	3,726	0.6%	3,845	0.7%
CCC-	-	-	1,182	0.2%
CC	720	0.1%	-	-
D	6,310	1.0%	9,055	1.6%
Not Rated	480,073	79.0%	436,010	75.1%
TOTAL	\$ 606,934	100.0%	\$ 580,090	100.0%

Foreign Currency Risk – This is the risk that changes in exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the System’s investment policy permits individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The System’s investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The System utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2017 and 2016, the System’s net position in these contracts is recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The System’s commitments relating to international currency contracts are settled on a net basis.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

The following tables provide information as of June 30, 2017 and 2016, concerning the fair value of investments that are subject to foreign currency risk:

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2017 (In Thousands)

Currency Name	Cash	Global Equity	International Currency Contracts, Net	Private Equity	Real Assets	Total Exposure
Australian dollar	\$ -	\$ 2,095	\$ (30)	\$ -	\$ 13,709	\$ 15,774
Brazilian real	-	-	(65)	-	619	554
British pound	-	21,450	(131)	-	28,083	49,402
Canadian dollar	-	3,932	(53)	-	31,900	35,779
Chile peso	-	-	-	-	665	665
China yuan renminbi	-	-	(115)	-	-	(115)
Colombian peso	-	-	-	-	13	13
Danish krone	-	5,203	-	-	-	5,203
Euro currency	452	13,005	(244)	2,252	28,677	44,142
Hong Kong dollar	-	945	-	-	7,465	8,410
Hungarian forint	-	-	-	-	109	109
Indonesian rupiah	-	-	-	-	1,044	1,044
Israeli shekel	-	-	-	-	819	819
Japanese yen	-	7,963	8	-	3,421	11,392
Korean won	-	6,808	-	-	442	7,250
Malaysian ringgit	-	-	-	-	1,846	1,846
Mexican peso	-	-	-	-	1,003	1,003
New Zealand dollar	-	-	-	-	569	569
Norwegian krone	-	1,411	-	-	2,421	3,832
Philippine peso	-	-	-	-	89	89
Polish zloty	-	-	-	-	546	546
Singapore dollar	-	46	-	-	2,555	2,601
South African rand	-	-	-	-	871	871
Swedish krona	-	1,725	(4)	-	690	2,411
Swiss franc	-	10,881	-	-	536	11,417
Taiwanese new dollar	-	-	-	-	327	327
Thai baht	-	-	-	-	428	428
TOTAL	\$ 452	\$ 75,464	\$ (634)	\$ 2,252	\$ 128,847	\$ 206,381

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

FOREIGN CURRENCY RISK ANALYSIS

As of June 30, 2016 (In Thousands)

Currency Name	Cash	Global Equity	International Currency Contracts, Net	Private Equity	Real Assets	Total Exposure
Australian dollar	\$ 20	\$ 2,158	\$ 7	\$ -	\$ 15,206	\$ 17,391
Brazilian real	-	-	-	-	330	330
British pound	(127)	19,271	31	-	31,631	50,806
Canadian dollar	(17)	4,149	29	-	36,339	40,500
Chile peso	-	-	-	-	403	403
China yuan renminbi	-	-	27	-	-	27
Danish krone	-	7,967	-	-	-	7,967
Euro currency	(199)	10,417	(15)	4,370	24,609	39,182
Hong Kong dollar	-	700	-	-	9,025	9,725
Hungarian forint	-	-	-	-	55	55
Indonesian rupiah	-	-	-	-	498	498
Israeli shekel	-	-	-	-	410	410
Japanese yen	(113)	8,887	4	-	3,992	12,770
Korean won	-	6,686	-	-	473	7,159
Malaysian ringgit	-	-	-	-	1,412	1,412
Mexican peso	-	-	-	-	1,135	1,135
New Zealand dollar	-	-	-	-	774	774
Norwegian krone	-	1,560	-	-	1,742	3,302
Philippine peso	-	-	-	-	28	28
Polish zloty	-	-	-	-	370	370
Russian ruble	-	-	-	-	123	123
Singapore dollar	-	-	-	-	1,450	1,450
South African rand	-	-	-	-	1,522	1,522
Swedish krona	(44)	1,335	(27)	-	613	1,877
Swiss franc	-	9,576	42	-	6,587	16,205
Taiwanese new dollar	-	-	-	-	167	167
Thai baht	-	-	-	-	275	275
Turkish lira	-	-	-	-	19	19
TOTAL	\$ (480)	\$ 72,706	\$ 98	\$ 4,370	\$ 139,188	\$ 215,882

Investment Concentration Risk – The System’s investment policy specifies that investments shall be diversified with the intent to minimize the risk of large investment losses. In addition, the total portfolio shall be constructed in a way to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, issuers, geographies or industries. In addition, assets will be assigned to a variety of investment managers that employ a range of investment management strategies. No single investment management firm shall be authorized to manage more than 10% of the System’s assets without Board approval, with the exception of passive management where the System’s assets are not held in the System’s name at the System’s custody bank. In such cases, the investment management firm can manage no more than 20% of the System’s assets without Board approval. As a general rule, System assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without prior Board approval. As of June, 30, 2017 and 2016, the System did not hold investments in any one issuer, excluding U.S. government guaranteed investments, that represented five percent or more of the total plan net position or total investments.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

Derivatives – The System’s investment policy allows for investments in derivative instruments that comply with the System’s objectives of providing a cost effective means of managing portions of a portfolio and to manage risk through hedging activities. The System is currently authorized to use derivative strategies to equitize cash during portfolio transitions until physical securities are in place and to reproduce or replicate a physical holding that corresponds to a Board approved policy benchmark. In addition to the System’s internal derivative policies, it is understood that the mandates of certain investment managers retained by the System may use derivatives.

Derivative investments are reported at fair value. Derivative instruments traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2017 or 2016. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated based on the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

The fair values and notional amounts for derivative instruments outstanding as of June 30, 2017 and 2016, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2017 and 2016 financial statements are as follows (amounts in thousands):

Investment Derivative Instruments	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2017		Fair Value at June 30, 2017		Notional Amount/ Shares
	Classification	Amount	Classification	Amount	
Foreign currency forwards	Investment income	\$ (1,388)	Foreign currency contracts, net	\$ (634)	\$ 60,007
Futures options bought/written	Investment income	9,747	Fixed income - collective short-term investments	-	(927)
Rights/warrants	Investment Income	(39)	Global equity	24	90
Total Derivative Instruments		\$ 8,320		\$ (610)	

Investment Derivative Instruments	Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2016		Fair value at June 30, 2016		Notional Amount/ Shares
	Classification	Amount	Classification	Amount	
Foreign currency forwards	Investment income	\$ 778	International currency contracts, net	\$ 98	\$ 61,803
Futures options bought/written	Investment income	2,939	Fixed income - collective short-term investments	\$ -	\$ (25,354)
Rights/warrants	Investment income	47	Global equity	5	24
Total Derivative Instruments		\$ 3,764		\$ 103	

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

Derivative investments are also subject to counterparty credit risk (non-exchange traded). The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2017 and 2016.

Counterparty Credit Risk – The System is exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. The System's investments in forward currency contracts bear counterparty credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2017, total commitments in forward currency contracts to purchase and sell international currencies were \$60,007,000, with fair values of \$60,035,000 and \$60,669,000, respectively, held by counterparties with S&P rating of A and above. As of June 30, 2016, total commitments in forward currency contracts to purchase and sell international currencies were \$61,803,000, with fair values of \$61,412,000 and \$61,314,000, respectively, held by counterparties with S&P rating of A and above.

Fair Value Measurements – In fiscal year 2016, the System adopted GASB Statement No. 72 ("GASB 72"), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements.

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The System has the following recurring fair value measurements as of June 30, 2017 and 2016:

Investments Measured at Fair Value As of June 30, 2017		Fair Value Measurements Using				Net Asset Value (NAV)
(In Thousands)	Total	Level 1	Level 2	Level 3		
Investments by Fair Value Level						
Global equity	\$ 919,963	\$ 441,932	\$ -	\$ -	\$ 478,031	
Private equity	61,662	-	-	4,519	57,143	
Global fixed income	465,187	118,098	60,760	-	286,329	
Collective short term investments	141,747	141,747	-	-	-	
Private debt	75,773	-	-	17,559	58,214	
Real assets	272,924	-	-	-	272,924	
International currency contracts, net	(634)	(634)	-	-	-	
Absolute return	252,592	-	-	-	252,592	
Total investments measured at fair value	\$ 2,189,214	\$ 701,143	\$ 60,760	\$ 22,078	\$ 1,405,233	

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

Investments at Fair Value As of June 30, 2016		Fair Value Measurements Using				Net Asset Value (NAV)
(In Thousands)	Total	Level 1	Level 2	Level 3		
Investments by Fair Value Level						
Global equity	\$ 811,341	\$ 462,327	\$ -	\$ -	\$ 349,014	
Private equity	87,036	-	-	15,002	72,034	
Global fixed income	446,795	128,333	52,511	1,028	264,923	
Collective short term investments	133,295	133,074	-	221	-	
Private debt	77,191	-	-	15,690	61,501	
Real assets	259,408	-	-	-	259,408	
International currency contracts, net	98	98	-	-	-	
Absolute return	252,842	-	-	-	252,842	
Total investments measured at fair value	\$ 2,068,006	\$ 723,832	\$ 52,511	\$ 31,941	\$ 1,259,722	

Equity and Fixed Income Securities

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for these securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Debt and equity securities classified in Level 3 are securities whose stated market price is unobservable by the market place. Many of these securities are priced by the issuers or industry groups for these securities. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank.

Alternative Investments

Alternative investments include global equity, private equity, global fixed income, private debt, real assets, and absolute return investments. These are investments for which exchange quotations are not readily available and are valued at estimated fair value, as determined in good faith by the General Partner (GP) of each investment firm retained by the System. These investments are initially valued at cost with subsequent adjustments that reflect third party transactions, financial operating results and other factors deemed relevant by the GP. The assets in our alternative investment program are classified as Level 3 assets or at the NAV Level. A more detailed explanation of the Level 3 and NAV valuation methodologies follows.

Investments in non-public equity securities are valued by the GP using one or more valuation methodologies outlined in GASB 72, depending upon the availability of data required by each methodology. In some cases, the GP may use multiple approaches to estimate a valuation range. For the immediate time period following a transaction, the determination of the fair value for equity securities, in which no liquid trading market exists, can generally be approximated based on the transaction price (absent any significant developments). Thereafter, or in the interim, if significant developments relating to such portfolio company or industry occur which may suggest a material change in value, the GP should value each investment by applying generally accepted valuation methods including: (1) the market approach (such as market transaction and comparable public company multiples, which are based on a measurement of the company's historical and projected financial performance with typical metrics including enterprise value/latest 12 months EBITDA or projected fiscal year EBITDA) or (2) the income or discounted cash flow approach.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

The determination of fair value using these methodologies should take into consideration a range of factors, including but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. Because of the subjective nature of estimated fair value of the private investments, such value may differ significantly from the values that would have been used had a ready market existed for these investments. These financial instruments have been classified as Level 3 or NAV in the fair value hierarchy.

The following tables present the category, fair value, unfunded commitments, redemption frequency and redemption notice period for investments for which fair value is presented using the NAV as of June 30, 2017 and 2016:

Investments Measured at the NAV As of June 30, 2017 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Global equity	\$ 478,031	\$ -	Daily, Monthly, Quarterly	1 – 90 Days
Private equity	57,143	14,132	N/A	N/A
Global fixed income	286,329	-	Daily, Quarterly	1 – 60 Days
Private debt	58,214	51,755	N/A	N/A
Real assets	272,924	62,402	Monthly, Quarterly, Annual, N/A (Closed- end funds)	3 – 180 Days, N/A (Closed-end funds)
Absolute return	252,592	-	Weekly, Monthly, Quarterly	14 – 75 Days
Total investments measured at the NAV	\$ 1,405,233	\$ 128,289		

Investments Measured at the NAV As of June 30, 2016 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Global equity	\$ 349,014	\$ -	Daily, Monthly, Quarterly	1 – 90 Days
Private equity	72,034	14,400	N/A	N/A
Global fixed income	264,923	-	Daily, Quarterly	1 – 60 Days
Private debt	61,501	31,400	N/A	N/A
Real assets	259,408	39,650	Monthly, Quarterly, Annual, N/A (Closed- end funds)	3 – 180 Days, N/A (Closed-end funds)
Absolute return	252,842	-	Weekly, Monthly, Quarterly	14 – 75 Days
Total investments measured at the NAV	\$ 1,259,722	\$ 85,450		

Global equity - This type includes investments in six commingled investment funds and four long/short funds. Public equities are shares of ownership of a firm listed on an exchange; the System holds global public equities in order to benefit from their total return (capital appreciation plus current yield) over a long-term horizon. Four commingled funds offer daily liquidity with one day notice, one is monthly with one month notice, and one is monthly with two weeks' notice. One long/short fund offers monthly redemptions with quarterly notice. The remaining three long/short funds offer quarterly liquidity with notice periods ranging from one to two months.

Notes to the Basic Financial Statements *(continued)*

NOTE 3 - INVESTMENTS (continued)

Private equity - This type includes investments in six private equity limited partnership funds, which generally invest in privately held companies. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market.

Global fixed income - This type includes investments in three commingled investment funds and two limited partnership funds. These funds typically invest in contractual cash flows of governments and other sovereign entities, corporations, securitizations, and derivatives thereof. All commingled funds offer daily liquidity with notice periods of one to two days. The two limited partnership funds have a quarterly redemption period with notice periods of forty-five and sixty days.

Private debt - This type includes investments in three private debt limited partnership funds. These investments cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market.

Real assets - This type includes eight closed-end real assets funds, two open-end real estate funds, and two commingled commodities funds. Real assets are physical or tangible assets that have value due to their substance and properties. The goal of real assets is to help the portfolio maintain purchasing power through periods of inflation. The closed-end real estate funds cannot be redeemed early from the funds. Instead, the nature of the investments in this type is that distributions are received through the liquidation of the underlying assets of the fund. The only way to exit these funds is through a sale in a secondary market. The open-end real estate funds offer quarterly redemptions with notice periods ranging from two weeks to three months. Three commodities funds offer monthly liquidity with three business days' notice. The other commodities funds offer annual redemptions with 180 days' notice after a 3-year soft lock. Early redemptions are available on a quarterly basis with 90 days' notice and are subject to a 5% fee. This restriction will be in effect until December 2018.

Absolute return - This type includes investments in twelve hedge funds that invest both long and short in a wide array of securities, including listed and OTC derivatives, and typically use leverage and hedging to capture directional market movements or relative market mispricing. The redemption frequencies range from one week to one quarter with notice periods of two weeks to one quarter. Two funds have 25% per quarter maximum investor-level redemption gates; one of which can be overcome by a 3% redemption fee. Another fund has a fund-level gate of 8.33%.

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS

Net Pension Liability. The components of the net pension liability (i.e., the total pension liability determined in accordance with GASB Statement No. 67 less the plan net position) as of June 30, 2017 and 2016, were as follows (dollars in thousands):

	2017	2016
Total pension liability	\$ 3,923,210	\$ 3,692,147
Plan fiduciary net position	\$ 1,972,792	\$ 1,858,882
Net pension liability	\$ 1,950,418	\$ 1,833,265
Plan fiduciary net position as a percentage of the total pension liability	50.3 %	50.3 %

Notes to the Basic Financial Statements *(continued)*

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (continued)

Actuarial Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and investment return. Experience studies are performed by the Board's actuary to determine appropriate revisions to the actuarial assumptions, as actual results are compared with past expectations and new estimates are made about the future. The last experience study was performed in November 2015, and the next experience study is scheduled to be conducted in 2019.

The total pension liability as of June 30, 2017 and 2016 is based on results of an actuarial valuation date of June 30, 2016 and 2015, respectively, and rolled-forward to June 30, 2017 and 2016 using standard roll forward procedures.

A summary of the actuarial assumptions used to determine the total pension liability is shown below.

Actuarial Assumptions	Method/Assumption	
Valuation date	June 30, 2016	June 30, 2015
Measurement date	June 30, 2017	June 30, 2016
Inflation rate	2.50%	2.50%
Discount rate	6.875% per annum	7.00% per annum
Mortality	Healthy annuitants: 0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table. Healthy non-annuitants: 0.919 for males and 0.918 for females, times the CalPERS 2009 Employee Mortality Table. Disabled annuitants: 1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disability Mortality Table. Mortality is projected from 2009 on a generational basis using the MP-2015 scale.	Healthy annuitants: 0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table. Healthy non-annuitants: 0.919 for males and 0.918 for females, times the CalPERS 2009 Employee Mortality Table. Disabled annuitants: 1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disability Mortality Table. Mortality is projected from 2009 on a generational basis using the MP-2015 scale.
Active service, withdrawal, death, disability service retirement	Tables based on current experience	Tables based on current experience
Salary increases	The base wage inflation assumption of 2.85% plus a merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service.	The base wage inflation assumption of 2.85% plus a merit / longevity increase based on years of service ranging from 4.50% at hire to 0.25% for members with 14 or more years of service.
Projected total payroll increases	For the amortization schedule, payroll is assumed to grow 2.85% per year.	For the amortization schedule, payroll is assumed to grow 2.85% per year.
Cost of Living Adjustment	Tier 1- 3% per year; Tier 2 - 1.5% per year	Tier 1- 3% per year; Tier 2 - 1.5% per year

The assumption for the long-term expected rate of return on pension plan investments of 6.875% and 7.00% for the valuation years ending June 30, 2016 and 2015, respectively, was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return.

Notes to the Basic Financial Statements *(continued)*

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (continued)

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017 and 2016, (see the discussion of the System's investment policy) are summarized in the following table:

Asset Class	2017		2016	
	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	28%	4.6%	28%	7.5%
Private equity	9%	7.0%	9%	9.4%
Global fixed income	19%	1.0%	19%	4.0%
Private debt	5%	4.3%	5%	6.9%
Absolute return	11%	3.0%	11%	6.0%
Real assets	23%	3.7%	23%	6.5%
Global tactical asset allocation/ Opportunistic	5%	2.1%	5%	5.0%
Cash	-	0.2%	-	2.3%

Discount Rate. The discount rate used to measure the total pension liability was 6.875% and 7.00% for the measurement years ending June 30, 2016 and 2015, respectively. It is assumed that System member contributions and City contributions will be made based on the actuarially determined rates based on the Board's funding policy. Based on those assumptions, the System's net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in Discount Rate. In accordance with GASB Statement No. 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following presents the net pension liability of the City, as of June 30, 2017 and 2016, respectively, calculated using the discount rate of 6.875% and 7.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1.0% lower (5.875% and 6.00%) or 1.0% higher (7.875% and 8.00%) than the current rate (in thousands):

	2017			2016		
	1% Decrease (5.875%)	Current Discount Rate (6.875%)	1% Increase (7.875%)	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Total pension liability	\$ 4,480,433	\$ 3,923,210	\$ 3,470,615	\$ 4,212,657	\$ 3,692,147	\$ 3,268,777
Plan fiduciary net position	1,972,792	1,972,792	1,972,792	1,858,882	1,858,882	1,858,882
Net pension liability	\$ 2,507,641	\$ 1,950,418	\$ 1,497,823	\$ 2,353,775	\$ 1,833,265	\$ 1,409,895
Plan fiduciary net position as a percentage of the total pension liability	44.0 %	50.3 %	56.8 %	44.1 %	50.3 %	56.9 %

**NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS
(continued)**

Contributions to the Defined Benefit Pension Plan by both the City and the participating employees are based upon an actuarially determined percentage of each employee's pensionable and earnable salary sufficient to provide adequate assets to pay benefits when due. On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum payments of City required contributions to the System.

In November 2010, the Board adopted a funding policy (referred to as the floor methodology) setting the annual contribution to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

In October 2014, the Board approved implementing an incremental reduction approach to determining "actuarial equivalence" for the floor methodology when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach will ensure that as business expansions and/or market valuation mature and exceed historic norms, the Plans reduce the incentive for the City to prefund its contributions. The incremental reduction is 15% per year, up to a maximum of 45%. Since fiscal year June 30, 2017 was the third year of this type of economic environment, the reduction was 45%.

In February 2016, the Board approved the City's request that the floor methodology for Tier 1 be used only for the annual employer Normal Cost contribution (which includes administrative expenses) and that the annual employer Unfunded Accrued Liability (UAL) contribution be set at the dollar amount recommended by the actuary and adopted by the Board in the annual actuarial valuation report beginning fiscal year 2016-2017.

The employer contribution for Tier 1 determined in the June 30, 2015 valuation for fiscal year ended June 30, 2017 was the greater of \$130,175,000 (if paid at the beginning of the fiscal year) or 78.06% of actual payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual Tier 1 payroll for the fiscal year of \$177,171,000 was greater than the actuarial payroll of \$170,792,000, resulting in an additional contribution of \$2,573,000, which includes current and prior year contribution accruals and adjustments, as well as the additional amount based on the floor methodology.

The employer contribution for Tier 1 determined in the June 30, 2014 valuation for fiscal year ended June 30, 2016 was the greater of \$119,438,000 (if paid at the beginning of the fiscal year) or 66.16% of actual Tier 1 payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual Tier 1 payroll for the fiscal year of \$188,343,000 was more than the actuarial payroll of \$186,762,000 resulting in an additional contribution of \$1,046,000 as of July 1, 2016.

San José City Council Ordinance No. 29120 implemented the terms approved by the City Council on June 12, 2012 for Tier 2 pension benefits for new System members hired on or after September 30, 2012. The new tier includes significant benefit changes from the existing Tier 1 plan as described in Note 1. In addition, the contribution rate for Tier 2 members includes a change in the cost sharing between the City and active Tier 2 members which is a 50/50 split of all costs, including unfunded actuarial accrued liability (UAAL). Currently, Tier 1 members split normal cost with 8/11 paid by the City and 3/11 paid by Tier 1 members. The responsibility for funding the UAAL is generally not shared with the Tier 1 employees.

Beginning September 2014, the Board approved the City's request to exclude Tier 2 from the floor methodology to ensure that the City does not pay more than the actuarially determined contribution (ADC) and that contributions are based on the annual determined contribution percentages developed by the actuary. Instead, the contribution rate determined by the actuary multiplied by the actual payroll will be used.

Notes to the Basic Financial Statements *(continued)*

NOTE 4 - DEFINED BENEFIT PENSION PLAN: NET PENSION LIABILITY AND CONTRIBUTIONS (continued)

The actual payroll for Tier 2 for the fiscal year ending June 30, 2017 was \$93,890,000, resulting in a contribution of \$5,671,000, excluding year end contributions receivable and prior year contribution adjustments. The contribution rate for Tier 2 for fiscal year ending June 30, 2017 was 6.04%, as determined in the June 30, 2015 valuation. Actual employer contributions for the fiscal year ending June 30, 2017 were \$5,735,000.

The actual payroll for Tier 2 for the fiscal year ending June 30, 2016 was \$69,428,000, resulting in a contribution of \$3,957,000 excluding year end contributions receivable and prior year contribution adjustments. The contribution rate for Tier 2 for fiscal year ending June 30, 2016 was 5.7%, as determined in the June 30, 2014 valuation. Actual employer contributions for the fiscal year ending June 30, 2016 were \$3,968,000.

Contributions to the Defined Benefit Pension Plan for both the City and the participating members are based upon an actuarially determined percentage of each member's covered payroll sufficient to provide adequate assets to pay benefits when due. The contribution rates for fiscal years ended June 30, 2017 and 2016 were based on the actuarial valuations performed as of June 30, 2015 and 2014, respectively, except for the period of June 18 through June 30, 2017, which were based on the June 30, 2016 valuation.

The City and the participating member's contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2017 and 2016 were as follows:

Period	City - Board Adopted*		Member	
	City Tier 1*	City Tier 2	Employee Tier 1	Employee Tier 2
06/18/17-06/30/17	94.04%	7.72%	6.60%	7.72%
06/19/16-06/17/17	78.06%	6.04%	6.47%	6.04%
07/01/15-06/18/16	66.16%	5.70%	6.33%	5.70%

* The actual contribution rates paid by the City for fiscal years ended June 30, 2017 and June 30, 2016 differed for Tier 1 due to the City funding the actuarially determined contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS

Net OPEB Liability. The components of the net Other Postemployment Benefit (OPEB) liability of the System (i.e., the System's liability determined in accordance with GASB Statement No. 74, which 2016-2017 is the first year of implementation and thus only one year of presentation is required, less the plan fiduciary net position) as of June 30, 2017 were as follows (dollars in thousands):

	2017
Total OPEB liability	\$ 766,801
Plan fiduciary net position	\$ 260,370
Net OPEB liability	\$ 506,431
Plan fiduciary net position as a percentage of the total OPEB liability	34.0 %

Notes to the Basic Financial Statements *(continued)*

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (continued)

Actuarial Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and investment return. Experience studies are performed by the Board's actuary to determine appropriate revisions to the actuarial assumptions, as actual results are compared with past expectations and new estimates are made about the future. The last experience study was performed in November 2015 and the next experience study is scheduled to be conducted in 2019.

The total OPEB liability as of June 30, 2017 is based on results of an actuarial valuation date of June 30, 2016, and rolled-forward to June 30, 2017 using generally accepted actuarial procedures.

A summary of the actuarial assumptions used to determine the total OPEB liability is shown below.

Description	Method/Assumption
Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry age normal, level of percentage of pay
ACTUARIAL ASSUMPTIONS	
Discount rate (net)	6.875%
Inflation rate	2.50%
Projected payroll increases	
Wage inflation rate	2.85% for FY 2017 and for all years.
Merit increase	Merit component added based on an individual's years of service ranging from 6.75% to 1.00%.
Rates of mortality	
Healthy annuitant	0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table.
Healthy non-annuitant	0.919 for males and 0.918 for females, times the CalPERS 2009 Employee Mortality Table.
Disable annuitant	1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disability Mortality Table.
HEALTHCARE COST TREND RATE	
Medical	The valuation assumes that future medical inflation will be at a rate of 8.50% to 4.25% per annum graded down over a 14 year period for medical pre-age 65 and 6.50% to 4.25% per annum graded down over a 14 year period for medical post-age 65.
Dental	Dental inflation is assumed to be 4.00%

The expected long-term return on assets changed from 7.00% to 6.875% between the June 30, 2015 and June 30, 2016 valuation dates. The discount rate changed from 6.1% to 6.875% between the June 30, 2015 and June 30, 2016 measurement dates as a result of the adoption of GASB 74. The discount rate used at the June 30, 2017 measurement date was also 6.875%

The assumption for the long-term expected rate of return on OPEB plan investments of 6.875% for the valuation year ending June 30, 2016 was selected by estimating the median nominal rate of return based on long-term capital market assumptions adopted by the Board, including nominal expected rates of return for each asset class, and reducing the estimated median by a margin so that there is estimated to be a greater than 50 percent probability of achieving the return.

Notes to the Basic Financial Statements *(continued)*

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (continued)

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017, (see the discussion of the System's investment policy) are summarized in the following table:

Asset Class	2017	
	Target Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	46.0%	5.3%
Fixed income	30.0%	0.8%
Real assets	23.0%	3.4%
Cash	-	0.20%

Discount Rate. In addition, to the disclosure requirements in GASB 74, the new standard also narrowed the definition of a discount rate from methods that were previously allowed. Therefore, in accordance with GASB 74, the discount rate used to measure the total OPEB liability was 6.875% for the measurement year ending June 30, 2017 and is based on the long-term expected rate of return on investments. It is assumed that System member contributions and City contributions will continue at the current contribution rates and that the City will contribute the implicit subsidy. Based on those assumptions, the System's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in Discount Rate. In accordance with GASB No. 74 regarding the disclosure of the sensitivity of the net OPEB liability to changes in the discount rate, the following presents the net OPEB liability of the City, calculated using the discount rate of 6.875%, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1.00% lower (5.875%) or 1.00% higher (7.875%) than the current rate:

	Current Discount Rate		
	1% Decrease (5.875%)	(6.875%)	1% Increase (7.875%)
Total OPEB liability	\$ 877,863	\$ 766,801	\$ 676,758
Plan fiduciary net position	260,370	260,370	260,370
Net OPEB liability	\$ 617,493	\$ 506,431	\$ 416,388
Plan fiduciary net position as a percentage of the total OPEB liability	29.7 %	34.0 %	38.5 %

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1.0% lower (7.5% decreasing to 3.25%) or 1.0% higher (9.5% decreasing to 5.25%) than the current healthcare cost trend rates (dollar amounts in thousands):

	Health Care Cost Trend Rates (8.5% decreasing to 4.25%)		
	1% Decrease (7.5% decreasing to 3.25%)	(8.5% decreasing to 4.25%)	1% Increase (9.5% decreasing to 5.25%)
Total OPEB liability	\$ 666,629	\$ 766,801	\$ 891,030
Plan fiduciary net position	260,370	260,370	260,370
Net OPEB liability	\$ 406,259	\$ 506,431	\$ 630,660
Percentage of the total OPEB liability	39.1 %	34.0 %	29.2 %

**NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS
(continued)**

Prior to July 1, 2009, annual contributions for the Postemployment Healthcare Plan were based on the cost for funding, as a level-percentage of payroll, based upon a 15-year projection of premiums (Policy method). The contributions were not sufficient to meet the requirements of an annual required contribution (ARC) under GASB Statement No. 43. Effective June 28, 2009, the bargaining units representing the members of the System entered into agreements with the City to increase contribution rates for retiree health and dental benefits in order to phase in, full funding of the GASB Statement No. 43 annual required contributions over a five year period ending in fiscal year 2012-2013. The agreements also provided that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions. Notwithstanding these limitations on incremental increases, the agreements further provided that by the end of the five-year phase-in, the City and the employees shall be contributing the full ARC in the ratio currently provided in the relevant sections of the San José Municipal Code.

Effective June 18, 2013, the bargaining units representing the System's members entered into an amendment to the agreements on retiree healthcare that extended the incremental increase limitation of not more than 0.75% of pensionable pay for the fiscal year ending June 30, 2014. The 0.75% limitation was initially extended to December 20, 2014, and then to December 2015. In December 2015, the Board approved to extend the fiscal year 2014-2015 healthcare rates until the implementation of the Alternative Pension Reform Framework Settlement Agreement (Framework). See Note 8 regarding the Framework, at which point the contribution rates may change based on further negotiations between the City and the bargaining units.

In November 2010, the Board approved the establishment of a funding policy (referred to as the floor methodology) setting the annual contribution to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year.

In October 2014, the Board approved implementing an incremental reduction approach to determining "actuarial equivalence" for the floor methodology when the economic expansion has exceeded 58 months in duration and/or the S&P 500 has returns in excess of 130%. This approach will ensure that as business expansions and/or market valuation mature and exceed historic norms, the System reduces the incentive for the City to prefund its contributions. The incremental reduction is 15% per year, up to a maximum of 45%, which was the reduction for fiscal year June 30, 2017.

The contribution amount for the City for Tier 1 determined in the June 30, 2015 valuation for fiscal year ending June 30, 2017 was the greater of \$15,692,000 (if paid at the beginning of the fiscal year) or 9.41% of actual payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual Tier 1 payroll for the fiscal year of \$177,171,000 was greater than the actuarial payroll of \$170,792,000 resulting in an additional annual contribution of \$4,807,000, which includes current and prior year contribution accruals and adjustments, as well as the additional amount based on the floor methodology.

The annual contribution for Tier 1 determined in the June 30, 2014 valuation for fiscal year ending June 30, 2016 was the greater of \$16,990,000 (if paid at the beginning of the fiscal year) or 9.41% of actual payroll for the fiscal year, if actual payroll exceeds the actuarial payroll. The actual Tier 1 payroll for the fiscal year of \$188,343,000 was greater than the actuarial payroll of \$186,762,000 resulting in an additional annual contribution of \$149,000 as of July 1, 2015, excluding the implicit subsidy and other year end accruals, contributions receivable and prior year contribution adjustments.

Notes to the Basic Financial Statements *(continued)*

NOTE 5 - POSTEMPLOYMENT HEALTHCARE PLAN: NET OPEB LIABILITY AND CONTRIBUTIONS (continued)

On August 27, 2013, San Jose City Council adopted Ordinance No. 29283 to exclude Tier 2 members hired on or after September 27, 2013 from retiree medical and dental benefits (referred to as Tier 2B members) but the City shall bear and pay an amount equal to the additional costs incurred by the System for that portion of the unfunded liability as determined by the actuary for the System that the City and Tier 2B members would have otherwise paid as contributions had those employees been eligible for the retiree healthcare defined benefit.

During the fiscal year ended June 30, 2015, Tier 2C members were introduced into the System. Tier 2C members are former Tier 1 members who have vested in dental benefits and are re-entering the Plan as Tier 2B members with dental benefits.

In September 2014, the Board approved the City's request to exclude all forms of Tier 2 from the floor methodology to ensure that the City does not pay more than the ARC and that contributions are based on the annual required contribution percentages developed by the actuary. Instead, the contribution rate determined by the actuary multiplied by the actual payroll is what will be used.

The actual payroll for Tier 2 for the fiscal year ending June 30, 2017 was \$93,890,000, allocated to Tiers 2, 2B and 2C in the amount of, \$14,630,000, \$77,525,000, and \$1,735,000 respectively. The contribution rate for Tiers 2, 2B and 2C for fiscal year ending June 30, 2017 was 9.41%, 12.66%, and 12.86%, respectively, as determined in the June 30, 2015 valuation. Actual employer contributions for the fiscal year ending June 30, 2017 were \$11,406,000, allocated to Tiers 2, 2B and 2C in the amount of \$1,377,000, \$9,806,000 and \$223,000, respectively, excluding year end accruals, contributions receivable and prior year contribution adjustments.

The actual payroll for Tier 2 for fiscal year ending June 30, 2016 was \$69,428,000, allocated to Tiers 2, 2B and 2C in the amount of, \$15,392,000, \$53,093,000 and \$906,000 respectively. The contribution rate for Tiers 2, 2B and 2C for fiscal year ending June 30, 2015 was 9.41%, 12.66%, and 12.86%, respectively, as determined in the June 30, 2014 valuation. Actual employer contributions for the fiscal year ending June 30, 2016 were \$8,293,000, allocated to Tiers 2, 2B and 2C in the amount of \$1,450,000, \$6,722,000 and \$121,000, respectively, including year end accruals, contributions receivable and prior year contribution adjustments.

Contributions to the Postemployment Healthcare Plan for both the City and the participating members are based upon agreements between the City and the bargaining units. No amount has been determined on an actuarial basis to fund the System. The System transitioned to annual valuations beginning June 30, 2010, from biennial actuarial valuations.

The City and the participating member's contribution rates in effect for the Postemployment Healthcare Plan during the fiscal years ended June 30, 2017 and 2016 were as follows:

Period	City - Board Adopted			Member	
	City Tier 1 and Tier 2	City Tier 2B	City Tier 2C	Member Tier 1 and Tier 2	Member Tier 2C
07/01/15 - 06/30/17	9.41 %	12.66 %	12.86 %	8.76 %	0.39 %

Notes to the Basic Financial Statements *(continued)*

NOTE 6 - COMMITMENTS

As of June 30, 2017 and 2016, the System had unfunded commitments to contribute capital for private market fund investments in the amount of \$128,289,000 and \$85,450,000, respectively.

NOTE 7 - LITIGATION

The System handles various claims and legal actions in the ordinary course of its business. In the opinion of management and independent legal counsel, the ultimate disposition of these matters is not likely to have a material adverse effect on the System's financial position as a whole.

NOTE 8 - SUBSEQUENT EVENTS

Measure F - On May 16, 2017, the City Council approved the ordinance implementing the Alternative Pension Reform Settlement Framework and Measure F which became effective thirty (30) days after on June 16, 2017. The implementation of the terms of the Alternative Pension Reform Settlement Framework and Measure F were effective June 18, 2017 for employees in the System. Both the City and the System are still waiting for approval from the Internal Revenue Service regarding several of the Framework provisions related to retiree healthcare. In addition, further discussions regarding the implementation of the Alternative Pension Reform Settlement Framework and Measure F are being held between the City and the bargaining units, which may result in additional modifications to the framework.

415 Overpayment - On July 1, 2016, a portion of the UAAL totaling \$882,007 became due and payable from the City. The City failed to make timely payment of this amount, and has not paid this required contribution to date. This portion of the UAAL represents amounts of monthly benefit payments, plus interest, which were erroneously paid to certain retired members over two decades, in excess of limits established under Section 415b of the Internal Revenue Code. The City's Department of Retirement Services committed the errors in calculations, and corrected the errors in affected members' benefit payments going forward as of July 1, 2015. The correction and required contribution from the City were determined by the Board pursuant to its authority under the City Municipal Code and Internal Revenue Service Revenue Procedure 2015-27. This amount is not reflected in the financial statements for the fiscal years ending June 30, 2016 and 2017.

Required Supplementary Information

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS - DEFINED BENEFIT PENSION PLAN (unaudited)

(Dollars in Thousands)

Total Pension Liability	2017	2016	2015	2014
Service cost (middle of year)	\$ 51,887	\$ 49,011	\$ 46,795	\$ 43,334
Interest (includes interest on service cost)	249,388	229,609	221,690	214,487
Changes of benefit terms	12,132	-	-	-
Differences between expected and actual experience	40,853	39,720	13,005	-
Changes of assumptions	60,233	205,875	108,674	-
Benefit payments, including refunds of member contributions	(183,430)	(173,318)	(164,562)	(155,936)
Net Change in Total Pension Liability	231,063	350,897	225,602	101,885
Total Pension Liability - Beginning	3,692,147	3,341,250	3,115,648	3,013,763
Total Pension Liability - Ending	\$ 3,923,210	\$ 3,692,147	\$ 3,341,250	\$ 3,115,648

Plan Fiduciary Net Position	2017	2016	2015	2014
Contributions - employer	\$ 138,483	\$ 124,723	\$ 114,751	\$ 107,544
Contributions - employee	17,227	15,920	13,621	13,596
Net investment income	146,010	(35,010)	(16,642)	263,688
Benefit payments, including refunds of member contributions	(183,430)	(173,318)	(164,562)	(155,936)
Administrative expense	(4,380)	(3,940)	(3,898)	(3,201)
Net Change in Plan Fiduciary Net Position	\$ 113,910	\$ (71,625)	\$ (56,730)	\$ 225,691
Plan Fiduciary Net Position - Beginning	1,858,882	1,930,507	1,987,237	1,761,546
Plan Fiduciary Net Position - Ending	\$ 1,972,792	\$ 1,858,882	\$ 1,930,507	\$ 1,987,237
Net Pension Liability - Ending	\$ 1,950,418	\$ 1,833,265	\$ 1,410,743	\$ 1,128,411
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	50.29%	50.35%	57.78%	63.78%
Covered Employee Payroll	\$ 271,153	\$ 257,771	\$ 240,678	\$ 219,434
Net Pension Liability as a Percentage of Covered Employee Payroll	719.31%	711.20%	586.15%	514.24%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF INVESTMENT RETURNS - DEFINED BENEFIT PENSION PLAN (unaudited)

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	7.53%	(0.79)%	(1.07)%	7.49%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Required Supplementary Information (continued)

SCHEDULE OF EMPLOYER CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN (unaudited) (Dollars in Thousands)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contributions	\$ 138,483	\$ 129,456	\$ 114,751	\$ 102,811	\$ 103,109	\$ 87,082	\$ 59,180	\$ 54,566	\$ 57,020	\$ 54,958
Contributions in relation to actuarially determined contributions	138,483	124,723	114,751	107,544	103,109	87,082	59,180	54,566	57,020	54,958
Contribution deficiency (excess)	\$ -	\$ 4,733	\$ -	\$ (4,733)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 271,153	\$ 257,771	\$ 240,678	\$ 219,434	\$ 217,375	\$ 223,158	\$ 275,869	\$ 308,684	\$ 320,993	-\$302,414
Contributions as a percentage of covered employee payroll	51.07 %	48.39 %	47.68 %	49.01 %	47.43 %	39.02 %	21.45 %	17.68 %	17.76 %	18.17 %

*Actuarial valuations have been performed biennially through June 30, 2007. Effective with the June 30, 2009 valuation, which determined contribution rates for fiscal year 2011, the plan transitioned to annual actuarial valuations.

NOTES TO SCHEDULE

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Fiscal Year	2017	2016	2015	2014	2013	2012	2011	2010-09
Valuation date	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007**
Actuarial cost method	Entry age							
Asset valuation method	5-year smoothed market							
Discount rate	7.00%	7.00%	7.25%	7.50%	7.95%	7.95%	7.75%	8.25%

Required Supplementary Information *(continued)*

NOTES TO SCHEDULE *(continued)*

Fiscal Year	2017	2016	2015	2014	2013	2012	2011	2010-09
Valuation date	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007**
Salary increases	2.85% plus merit component based on years of service	2.85% plus merit component based on employee classification and years of service	2.0% for five years and 2.85% thereafter plus merit component based on employee classification and years of service	The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service	The base annual rate of salary increase is 3.90% wage inflation rate plus a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service	The base annual rate of salary increase is 3.90% wage inflation rate plus a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service	The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service	The rate of annual salary increase for all members with at least 5 years of service is equal to 4.25% plus an added merit component for those with 0-4 years of service
Amortization growth rate	2.85%	2.85%	2.43%	3.25%	3.90%	3.90%	3.83%	4.25%
COLA	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3% Tier 2: CPI, cap of 1.5%	Tier 1: 3%	Tier 1: 3%	Tier 1: 3%	Tier 1: 3%

Required Supplementary Information *(continued)*

NOTES TO SCHEDULE *(continued)*

Fiscal Year	2017	2016	2015	2014	2013	2012	2011	2010-09
Valuation date	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2007**
Mortality	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2015 projection scale	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table	The 1994 group annuity mortality table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 disability mortality table	The 1994 Group Annuity Mortality Table was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table

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

Required Supplementary Information *(continued)*

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET OPEB LIABILITY AND RELATED RATIOS - POSTEMPLOYMENT HEALTHCARE PLANS (unaudited)

(Dollars in Thousands)

2017	
Total OPEB Liability	
Service cost (BOY)	\$ 11,109
Interest (includes interest on service cost)	49,978
Benefit payments, including refunds of member contributions	\$ (31,007)
Net Change in Total OPEB Liability	30,080
Total OPEB Liability - Beginning	736,721
Total OPEB Liability - Ending	\$ 766,801
Plan Fiduciary Net Position	
Contributions - employer	\$ 31,905
Contributions - employee	16,827
Net investment income	17,041
Benefit payments, including refunds of member contributions	(31,007)
Administrative expense	(242)
Net Change in Plan Fiduciary Net Position	\$ 34,524
Plan Fiduciary Net Position - Beginning	225,846
Plan Fiduciary Net Position - Ending	\$ 260,370
Net OPEB Liability - Ending	\$ 506,431
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	33.96 %
Covered Employee Payroll	271,153
Net OPEB Liability as a Percentage of Covered Employee Payroll	186.77 %

SCHEDULE OF INVESTMENT RETURNS - POSTEMPLOYMENT HEALTHCARE PLAN (unaudited)

2017	
Annual money-weighted rate of return, net of investment expense	7.20%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POSTEMPLOYMENT HEALTHCARE PLAN (unaudited)

(Dollars in Thousands)

Beginning in FYE 2010, actual contributions were intended to phase in to the full ARC as defined in the bargaining agreements and consistent with the parameters of GASB 45, but the contribution rates were capped before the full ARC was reached. With the contribution rates capped, the ARC has been determined as the minimum amount that was consistent with the parameters of GASB 45. No amount has been determined on an actuarial basis to fund the plan, and consequently, the schedule of employer contributions is not provided.

Other Supplemental Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET POSITION

As of June 30, 2017 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ASSETS			
Receivables			
Employee contributions	\$ 589	\$ 172	\$ 761
Employer contributions	4,597	3,279	7,876
Brokers and others	40,047	16,935	56,982
Accrued investment income	2,331	635	2,966
Total Receivables	47,564	21,021	68,585
Investments, at fair value			
Securities and other:			
Global equity	541,237	270,806	812,043
Private equity	41,774	18,046	59,820
Global fixed income	268,360	115,933	384,293
Collective short term investments	70,503	30,457	100,960
Private debt	51,333	22,177	73,510
Real assets	169,991	73,438	243,429
International currency contracts, net	(429)	(186)	(615)
Absolute return	171,121	73,926	245,047
Total Investments	1,313,890	604,597	1,918,487
Capital Assets	1,034	414	1,448
TOTAL ASSETS	1,362,488	626,032	1,988,520
LIABILITIES			
Payable to brokers	10,244	3,993	14,237
Other liabilities	1,069	422	1,491
TOTAL LIABILITIES	11,313	4,415	15,728
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	1,351,175	621,617	1,972,792
TOTAL PLAN NET POSITION	\$ 1,351,175	\$ 621,617	\$ 1,972,792

Other Supplemental Information *(continued)*

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET POSITION For Fiscal Year Ended June 30, 2017 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ADDITIONS			
Contributions			
Employee	\$ 13,500	\$ 3,727	\$ 17,227
Employer	77,321	61,162	138,483
Total Contributions	90,821	64,889	155,710
Investment income			
Net appreciation in fair value of investments	89,077	40,158	129,235
Interest income	9,670	3,947	13,617
Dividend income	10,514	4,471	14,985
Less: investment expense	(8,307)	(3,520)	(11,827)
Net Investment Income	100,954	45,056	146,010
TOTAL ADDITIONS	191,775	109,945	301,720
DEDUCTIONS			
Retirement benefits	127,098	42,658	169,756
Death benefits	7,410	5,001	12,411
Refund of contributions	1,096	167	1,263
Administrative expenses and other	3,093	1,287	4,380
TOTAL DEDUCTIONS	138,697	49,113	187,810
NET INCREASE	53,078	60,832	113,910
PLAN NET POSITION - RESTRICTED FOR PENSION BENEFITS			
BEGINNING OF YEAR	1,298,097	560,785	1,858,882
END OF YEAR	\$ 1,351,175	\$ 621,617	\$ 1,972,792

Other Supplemental Information *(continued)*

COMBINING SCHEDULE OF OTHER POSTEMPLOYMENT PLAN NET POSITION

As of June 30, 2017 (In Thousands)

	Postemployment Healthcare 401(h)	Postemployment Healthcare (115)	Total
ASSETS			
Receivables			
Employee contributions	\$ -	\$ 634	\$ 634
Employer contributions	-	1,324	1,324
Brokers and others	3,715	23	3,738
Accrued investment income	17	231	248
Total Receivables	3,732	2,212	5,944
Investments, at fair value			
Securities and other:			
Global equity	1,055	106,865	107,920
Private equity	1,842	-	1,842
Global fixed income	7,103	73,791	80,894
Collective short term investments	3,109	37,678	40,787
Private debt	2,263	-	2,263
Real assets	7,496	21,999	29,495
International currency contracts, net	(19)	-	(19)
Absolute return	7,545	-	7,545
Total Investments	30,394	240,333	270,727
Capital Assets	66	-	66
TOTAL ASSETS	34,192	242,545	276,737
LIABILITIES			
Payable to brokers	-	16,200	16,200
Other liabilities	45	122	167
TOTAL LIABILITIES	45	16,322	16,367
PLAN NET POSITION - RESTRICTED FOR			
Postemployment healthcare benefits	34,147	226,223	260,370
TOTAL PLAN NET POSITION	\$ 34,147	\$ 226,223	\$ 260,370

Other Supplemental Information *(continued)*

COMBINING SCHEDULE OF CHANGES IN OTHER POSTEMPLOYMENT PLAN NET POSITION For Fiscal Year Ended June 30, 2017 (In Thousands)

	Postemployment Healthcare 401(h)	Postemployment Healthcare (115)	Total
ADDITIONS			
Contributions			
Employee	\$ -	\$ 16,827	\$ 16,827
Employer	4,577	27,328	31,905
Total Contributions	4,577	44,155	48,732
Investment income			
Net appreciation in fair value of investments	2,822	9,938	12,760
Interest income	569	276	845
Dividend income	499	3,643	4,142
Less: investment expense	(409)	(297)	(706)
Net Investment Income	3,481	13,560	17,041
TOTAL ADDITIONS	8,058	57,715	65,773
DEDUCTIONS			
Healthcare insurance premiums	31,007	-	31,007
Administrative expenses and other	145	97	242
TOTAL DEDUCTIONS	31,152	97	31,249
NET (DECREASE) / INCREASE	(23,094)	57,618	34,524
PLAN NET POSITION - RESTRICTED FOR POSTEMPLOYMENT HEALTHCARE			
BEGINNING OF YEAR	57,241	168,605	225,846
END OF YEAR	\$ 34,147	\$ 226,223	\$ 260,370

Other Supplemental Information *(continued)*

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2017 and 2016

	2017			2016
	Original Budget	Actual	(Over) Under Budget	Actual
Personnel services	\$ 3,496,700	\$ 3,065,147	\$ 431,553	\$ 2,930,849
Non-personnel/equipment	1,484,000	613,864	870,136	656,984
Professional services	1,270,500	941,998	328,502	590,654
TOTAL ADMINISTRATIVE EXPENSES & OTHER	\$ 6,251,200	\$ 4,621,009	\$ 1,630,191	\$ 4,178,487

\$671,500 of investment-related expenses for data processing were included in the budget approved by the Board for FY16-17. The actual amounts spent for those items are included in the Schedule of Investment Expenses - Other Investment Fees. The total actual amount spent was \$435,900.

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2017 and 2016

Firm	Nature of Service	2017	2016
Cheiron Inc	Actuarial consultant	\$ 197,124	\$ 166,425
Cortex Applied Research, Inc	Governance consultant	24,586	12,860
Ice Miller	Legal tax counsel	12,986	11,842
Levi, Ray, & Shoup	Web development and maintenance	15,252	16,213
Levi, Ray, & Shoup	Programming changes and business continuance services	6,950	11,424
Grant Thornton LLP	External auditors	59,107	47,743
Medical Director/Other Medical	Medical consultants	148,965	18,480
Pension Benefit Information	Reports on deceased benefit recipients	4,468	1,469
Reed Smith LLC	Fiduciary and general counsel	212,822	174,773
Saltzman & Johnson	Legal counsel	75,994	15,591
Segal Company	Actuarial auditors	100,000	-
Trendtec Inc	Temporary staff	83,056	112,341
Other Consultants	Miscellaneous professional services	688	1,493
TOTAL		\$ 941,998	\$ 590,654

Other Supplemental Information *(continued)*

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2017 and 2016

Investment Managers' Fees	2017	2016
Global equity	\$ 2,475,968	\$ 2,366,951
Private equity	591,023	938,076
Fixed income	716,145	1,399,286
Private debt	1,137,708	1,270,431
Real estate	2,583,896	2,074,799
Real assets	514,024	587,497
Absolute return	3,064,854	1,882,589
Total investment managers' fees	11,083,618	10,519,629
Other Investment Fees		
Custodian bank	570,035	479,486
Investment consultants	595,000	599,687
Investment legal fees	159,532	118,221
Other investment fees	124,296	130,181
Proxy voting	-	12,500
Total other investment fees	1,448,863	1,340,075
TOTAL INVESTMENT EXPENSES	\$ 12,532,481	\$ 11,859,704

This page intentionally left blank

Investment Section



Pension Trust and Postemployment Healthcare
Trust Funds of the City of San José, California

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2017
and June 30, 2016

Report of Investment Activity



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

BOSTON MA
CHICAGO IL
MIAMI FL
PORTLAND OR
SAN DIEGO CA
LONDON UK

September 20, 2017

Mr. Roberto L. Peña
Director
San Jose Federated City Employees' Retirement System
1737 North First Street, Suite 600
San Jose, CA 95112-4505

Dear Mr. Peña:

Fiscal 2017 Recap¹

The 2017 fiscal year started off strong for most risk assets as global equity markets rebounded and investment losses incurred in the wake of Brexit were quickly recovered. The British Pound, however, continued its slide to new historic lows. Emerging markets and high yield bonds outperformed in response to the continued quantitative easing from the foreign central banks (the level of central bank asset purchases surpassed the level directly following the Global Financial Crisis) and record low interest rates. During the third quarter 2016, domestic equity markets gained 4.4%, international developed equity markets gained 6.4%, and emerging markets posted a solid gain of 9.0%. Most fixed income asset classes continued to experience positive performance during the third quarter, benefiting from accommodative central bank policy. The Barclays Aggregate Bond Index gained 0.5%, the Barclays High Yield Index was up 5.6%, and the Barclays TIPS Index increased 1.0%.

The fourth quarter of 2016 was more eventful than the third. In a stunning upset, Donald Trump won the United States Presidential election and the markets responded. Mr. Trump's pro-growth policies, including lower taxes, higher infrastructure spending, and less regulation led to a stronger U.S. dollar and higher inflation expectations (10-year U.S. Treasury jumped from 1.8% to 2.4%). This environment generally benefited U.S. equities, while hurting U.S. bonds and foreign assets. For the quarter, domestic equity markets gained 4.2%, international developed equity markets lost -0.7%, and emerging markets declined -4.2%. Most fixed income asset classes experienced negative performance. The Barclays Aggregate Bond Index lost -3.0%, the Barclays High Yield Index was up 1.8%, and the Barclays TIPS Index decreased -2.4%. As 2016 came to an end, it was clear that monetary policy was moving in different directions globally. In the U.S., the Federal Reserve (Fed) had started tightening, electing in December to make their only Federal Funds rate increase in 2016 (0.50% to 0.75%). In Europe, the European Central Bank (ECB) had pledged to extend its bond-buying program until the end of 2018, while lowering monthly purchases starting in April 2017 from 80 billion euros to

¹ Relevant market reference benchmark: domestic equity (Russell 3000), international developed equity (MSCI EAFE), and emerging markets (MSCI Emerging Markets).

Report of Investment Activity *(continued)*

September 20, 2017

Page 2 of 6

60 billion euros. The ECB continued to keep interest rates at record lows with the deposit rate at -0.4% and its key interest rate close to 0%. In Japan, the Bank of Japan (BOJ) made no changes at the year-end meeting. The Bank of Japan maintained the scale of their asset purchase program, kept bank deposit rates negative (-0.1%), and continued to target a 0% yield on the 10-year Japanese government bond.

The first quarter of 2017 was stronger than the fourth quarter of 2016, with nearly all major asset classes producing positive returns. For the quarter, domestic equity markets gained 5.7%, international developed equity markets gained 7.2%, and emerging markets gained 11.4%. All major fixed income asset classes experienced positive performance as well. The Barclays Aggregate Bond Index gained 0.8%, the Barclays High Yield Index was up 2.7%, and the Barclays TIPS Index increased 1.3%. It seemed that global growth was finally moving in the right direction as the International Monetary Fund (IMF) increased their outlook, citing improvements in manufacturing, trade, and investment. This was the first increase in the IMF's forecast in six years. In the U.S., the Fed continued to tighten, electing to make its third 0.25% rate increase in March (0.75% to 1.00%), while the ECB and BOJ maintained the status quo. Near the end of the quarter, the United Kingdom triggered Article 50 of the Lisbon Treaty, officially starting the clock on the U.K.'s formal exit from the European Union. The U.K. will have up to two years to complete the process.

The final three months of the fiscal year presented a strong backdrop for foreign equity markets, somewhat of a reversal from the prior quarters. For the quarter, domestic equity markets gained 3.0%, international developed equity markets gained 6.1%, and emerging markets gained 6.3%. Most fixed income asset classes were slightly positive, with the exception of TIPS. The Barclays Aggregate Bond Index was up 1.4%, the Barclays High Yield Index was up 2.2%, and the Barclays TIPS Index decreased -0.4%. The IMF once again increased the global growth forecast, although the growth drivers had changed. In the U.S., despite softening data, the Fed raised rates by another 0.25% (1.00% to 1.25%). The ECB and BOJ elected not to make any changes to interest rates. However, improving economic conditions and recent statements by Mario Draghi have led to some speculation that the ECB could begin reducing its bond-purchasing program next year. The ECB has committed to continuing purchases through the end of calendar year 2017 and beyond, if needed, and to keeping interest rates low until their bond buying is done. Inflation levels remain below the ECB's target though, and are projected to stay there, which could lead to continual support.

Fiscal 2017 Market Returns

Equity markets were very strong throughout the fiscal year with most major equity indexes posting returns in the high teens to low twenties. The Russell 3000 returned +18.5%, while the MSCI ACWI (ex. U.S.) and MSCI

Report of Investment Activity *(continued)*

September 20, 2017

Page 3 of 6

Emerging Markets returned +20.5% and +23.7%, respectively. Fixed income was mixed by credit quality as investment grade credits were slightly negative but lower-grade credits were positive. For the full fiscal year: Barclays Aggregate Bond Index returned -0.3%, Barclays TIPS Index returned -0.6%, Credit Suisse Leveraged Loans returned +7.5%, Barclays High Yield Index returned +12.7%, and JPM GBI-EM Global Diversified (unhedged emerging market bonds) returned +6.7%.

Alternative asset classes were also mixed for the fiscal year. NAREIT Equity returned -1.7%, Bloomberg Commodity Index returned -6.5%, Dow Jones Brookfield Global Infrastructure returned +8.0%, and S&P Global Natural Resources returned +15.3%. Private real estate and private equity continued to provide strong returns, as the National Council of Real Estate Fiduciaries (NCREIF) Property Index returned +7.0%, and the Cambridge Associates Private Equity Composite returned +12.0% for the fiscal year¹.

Fiscal 2018 Outlook

Looking forward, Meketa Investment Group believes that four key issues are of primary concern:

1) The potential for simultaneous monetary tightening globally:

After the Global Financial Crisis, major central banks injected massive amounts of liquidity into the market by purchasing bonds from banks (i.e., quantitative easing). They also reduced short term interest rates to record lows. Already the U.S. central bank has ended its bond-buying program, started to increase interest rates, and started to discuss reducing its balance sheet. Although other central banks, like Japan (BOJ) and Europe (ECB), continue to stimulate their respective economies, discussions have started about reducing stimulus in the near term. If major central banks start to tighten their policies at the same time it could lead to higher rates, less liquidity, and lower overall economic activity.

2) Uncertainty related to the U.S. economy and policies:

Post U.S. presidential election, hopes have been high for new policies lowering taxes, increasing infrastructure spending, and reducing regulations. Investors have placed their bets based on the assumption that these policies would come to fruition creating the potential for disappointment. The recent failed attempt to pass revised healthcare legislation illustrates that there could be some bumps with moving forward with the new administration's agenda.

¹ Returns for real estate and private equity benchmarks are lagged one quarter due to the availability of data.

September 20, 2017

Page 4 of 6

3) Declining growth in China, along with uncertain fiscal and monetary policies:

The process of transitioning from a growth model based on fixed asset investment by the government, to a model of consumption-based growth will be difficult. Similar policies as China's decision to unexpectedly devalue their currency or to support stock prices could prove disruptive and decrease confidence in China's government. Capital outflows remain a key issue in China. They have made some efforts to tighten regulations to stem outflows, but higher rates and growth in the U.S., and elsewhere, could add to outflow pressures. China's abandonment of its support of the yuan, and a resulting major devaluation of the currency, could prove particularly disruptive to global markets and trade. The hot property market and the growing mountain of debt in the corporate sector remain other key risks.

4) Risks related to the U.K.'s exit from the European Union:

European imbalances are rooted in structural issues in the Eurozone related to the combination of a single currency combined with 17 fiscal authorities. In the broader European Union, tensions exist, as highlighted in the U.K. referendum (Brexit) last year, related to policies on immigration, laws, and budgetary contributions. Additional countries leaving either group, particularly the Eurozone, could set a dangerous precedent, especially if they ultimately experience growth. The massive influx of refugees into Europe from the Middle East and North Africa exacerbates economic stress. Furthermore, the votes last year in the U.S. presidential election and Brexit highlight a growing populist/antitrade sentiment. Stagnant wages, growing inequality, and the perception of jobs being lost abroad are key contributors. Reducing trade and imposing tariffs would likely lead to inflation, reduced efficiencies, and heightened tensions between countries.

Plan Investment Results and Asset Allocation for the Pension Trust¹

The San Jose Federated City Employees' Retirement System had \$1,998.5 million in assets at the end of the 2017 fiscal year. For the fiscal year, the Retirement System returned +7.5% net of fees, underperforming the Policy Benchmark (+8.1%), but outperforming the Custom Benchmark (+6.5%). The Retirement System's return exceeded the 6.875% assumed actuarial rate of return, and has now exceeded that rate in six of the past eight fiscal years. The Retirement System's standard deviation of returns was 2.2%, exhibiting lower volatility than the peer median (3.2%).

¹ Performance figures calculated by custodian bank.

Report of Investment Activity *(continued)*

September 20, 2017

Page 5 of 6

Key factors for the Retirement System's performance for the fiscal year, relative to the Policy Benchmark¹:

- *Allocation Differences:* The Retirement System's investment manager roster continued to expand throughout the fiscal year as new commitments were made in various asset classes. However, allocating assets requires a significant amount of time and due diligence, resulting in the actual allocation and composition of the Retirement System differing from Policy targets. For example, the Retirement System has targeted a 9% allocation target to Private Equity, but the actual allocation stands at less than a third of the target.
- *Absolute Return:* The absolute return allocation for the Retirement System returned +1.4% for the fiscal year, outperforming the HFRI Macro (Total) Index's return of -2.4%. Over the fiscal year, we estimate that absolute return added approximately 0.3% to the Retirement System's return, relative to the Policy Benchmark.
- *Global Fixed Income:* The Retirement System's fixed income allocation returned +2.2% for the fiscal year, outperforming the custom benchmark's return of -0.2% over the same period. Global fixed income relative return was boosted by its global core component (TIPS, securitized credit, government bonds). Global Core was slightly overweight (14.5% vs. 12% target) and significantly outperformed its benchmark (+0.7% vs. -2.2%). The combination of these factors boosted global fixed income's contribution to the Retirement System's return, relative to the Policy Benchmark.
- *Private Debt:* Private debt returned +2.7% for the fiscal year, underperforming the S&P Global Leveraged Loan +2% by 700 basis points. We estimate private debt detracted 0.3% from the Retirement System's return, relative to the Policy Benchmark.

Plan Investment Results and Asset Allocation for the Health Care Trust²

The San Jose Federated Retiree Health Care Trust had \$219.7 million in assets at the end of the 2017 fiscal year, up from \$159.6 million at the end of the previous fiscal year. For the 2017 fiscal year, the Health Care Trust returned +8.7% net of fees, underperforming the Policy Benchmark (+9.2%), but outperforming the Custom Benchmark (+7.5%). The Trust's underperformance was primarily driven by asset allocation variance from Policy targets. The Trust was generally underweight most asset class targets due to the heavy overweight allocation to cash. We estimate that the allocation effect of cash detracted 1.3% from the Health Care Trust's relative return.

¹ Attribution calculated with Brinson-Fachler Model using custodian data.

² Performance figures calculated by custodian bank.

Report of Investment Activity *(continued)*

September 20, 2017
Page 6 of 6

Summary

Performance for the San Jose Federated City Employees' Retirement System over the 2017 fiscal year exceeded the assumed actuarial rate of return, though it was mixed relative to the Policy and Custom benchmarks. We believe that the Retirement System's portfolio is well diversified and has a high probability of achieving the actuarial rate over the long-term, while exhibiting lower volatility than peers. We are looking forward to continuing our work with Staff and the Board of Administration to progress further toward the targeted asset allocation so that the Retirement System can continue to meet its obligations to participants.

Sincerely,



Laura Wirick, CFA, CAIA
Principal



Hannah Schriener
Consultant



Larry Witt, CFA
Consultant

LBW/PO/nca

Statement of Investment Policy

PENSION - INCLUDES THE 401(H) INVESTMENTS

- 1) This investment policy statement governs investments for the City of San José Federated City Employees' Retirement System. The System is a defined benefit retirement program for certain employees of the City of San José in the State of California. The terms of the System are described in the San José Municipal Code Chapter 3.28.1975 Federated Employees' Retirement System.
- 2) The System's fund (the Fund) will be managed as a going concern with a long-term investment time horizon, consistent with the demographic profile of the System's members and beneficiaries.

FIDUCIARY STANDARDS

- 3) The Board of Administration is subject to the following duties under law:
 - a) The assets of the System are trust funds and shall be held for the exclusive purposes of providing benefits to members of the System and their beneficiaries and defraying reasonable expenses of administering the System.
 - b) The Board shall discharge its duties with respect to the System solely in the interest of, and for the exclusive purposes of providing benefits to, members of the System and their beneficiaries, maintaining the actuarial soundness of the System, and defraying reasonable expenses of administering the System. The Board's duty to the members and their beneficiaries shall take precedence over any other duty.
 - c) The Board shall discharge its duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims.
- 4) Investment staff, investment consultants, investment managers, custodians and all other parties charged with handling the System's assets shall utilize the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims, and shall comply with all applicable laws, rules and regulations.

FUND GOVERNANCE

- 5) The governance structure of the Fund is described in the City Charter and in various governance policies established by the Board of Administration, including but not limited to:
 - a) Policy on the Role of the Board of Administration
 - b) Policy on the Role of the Investment Committee
 - c) Policy on the Role of the Director of Retirement Services
 - d) Policy on the Role of the Chief Investment Officer
 - e) Policy on Roles in Vendor Selection

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

INVESTMENT OBJECTIVES

- 6) The primary objective of the investment portfolio is to satisfy the System's obligations to pay benefits to members of the System and their beneficiaries. To do so, the Fund will seek to achieve long-term net returns in excess of the actuarial investment return assumption while maintaining a reasonable level of investment risk.
- 7) The investment portfolio also seeks to achieve a long-term net rate of return that exceeds the return of a composite benchmark of the respective long-term asset allocation targets. Please see Appendix A for the composition of the composite benchmark.
- 8) A range of risks will be managed in connection with the Fund with an emphasis on the following:
 - a) The impact of the investment program on the funded status of the System and the resulting volatility of contributions.
 - b) Risk of loss of System assets.
- 9) In developing the investment policies of the System, various factors will be considered including, but not limited to:
 - a) The structure and duration of the System's liabilities.
 - b) Modern Portfolio Theory.
 - c) The liquidity needs of the System.

INVESTMENT PHILOSOPHY

- 10) Markets are inefficient over various time frames and there are opportunities to capture excess returns ("alpha"). The Investment Program seeks to add value over time through careful selection of active and passive investment managers as well as tactically adjusting portfolio risk factor exposures.
- 11) The CIO shall prepare and present to the Board for approval an Annual Investment Work Plan to help ensure consistency among investment decisions and clarity of investment direction. The Work Plan should include capital market views, consensus economic environment views, and the subsequent Investment Program approach to asset classes in the coming year.

ASSET ALLOCATION

- 12) The long-term strategic asset allocation of the Fund will be determined based on the results of an asset allocation study.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

- 13) The current long-term strategic asset allocation of the Fund (at market value) is set out below:

Broad Asset Class	Minimum	Target	Maximum
Global equity	20 %	28 %	36 %
Private equity	4 %	9 %	14 %
Global fixed income	9 %	19 %	29 %
Private debt	- %	5 %	10 %
Real assets	15 %	23 %	30 %
Absolute return	6 %	11 %	16 %
GTAA/ Opportunistic	- %	5 %	8 %
Cash	- %	- %	10 %
Total		100 %	

- 14) The Board is committed to implementing and maintaining the above long-term strategic asset allocation policy, but also recognizes that circumstances may arise where it is not possible or practical to timely implement or maintain the policy, particularly with respect to illiquid asset classes such as private real estate, private equity, hedge funds, private real assets, and private debt. In such circumstance, the Board will monitor the status of the long-term strategic asset allocation and seek to comply with the policy when it is possible and prudent to do so. In addition, the Board may review the current asset allocation targets at any time in light of market conditions, and make changes as it deems necessary.
- 15) The long-term strategic asset allocation of the Fund will be reviewed at a minimum every five years based on the results of an asset liability study. However, since projected liability and risk/return expectations may change such studies may also be performed on an interim basis, as necessary.
- 16) The Board will also approve an Investment Structure, which provides additional detail as to the allocation of assets to categories of investment within the broad asset classes that comprise the long-term strategic asset allocation. The Investment Structure and any changes thereto do not require that an asset allocation study be performed.
- 17) The CIO may utilize the following portfolio components to fulfill the Boards strategic asset allocation and to diversify across risk factors and return sources.

Global Equity - Growth, Inflation, Currency

The purpose of Global Equity is to provide the System exposure to the total return due to equity capital owners, including exposure to capital appreciation from economic growth.

Private Equity - Growth, Other (liquidity)

The purpose of Private Equity is to provide similar exposures as Global Equity while systematically capturing an illiquidity premium.

Global Fixed Income - Rates, Credit, Inflation, Currency

The primary purpose of Global Fixed Income is to provide exposure to rates and credit risk, providing a combination of capital preservation and return-seeking assets.

Private Debt - Growth, Other (liquidity)

The purpose of Private Debt is to provide similar exposures as Global Fixed Income while opportunistically capturing an illiquidity premium.

Real Assets - Inflation, Rates, Currency, Other (liquidity)

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

The purpose of Real Assets is to provide a positive real rate of return in all environments, with an emphasis on maintaining purchasing power in periods of high or increasing inflation.

Absolute Return - *No traditional factor exposures*

The purpose of Absolute Return is to achieve consistent positive returns while reducing overall System volatility and increasing Sharpe ratio. This is accomplished by low correlation and beta to factor exposures, and producing alpha-based returns.

GTAA/Oppportunistic - *Variable exposure to Growth, Inflation, Rates, Credit, Currency, Other*

The purpose of the GTAA allocation is to provide diversification, while producing an asymmetric return profile and limiting coincident downside relative to equities and credit. The purpose of Opportunistic is to seek highly attractive risk adjusted returns.

Cash - *No traditional factor exposures*

The purpose of Cash is to maintain sufficient liquidity for System expenses and tactical portfolio positioning.

REBALANCING

- 18) The strategic asset allocation of the Fund will be monitored on a monthly basis and the assets of the Fund are to be rebalanced to within the target ranges when fluctuations in market values cause the portfolio to fall outside the guideline ranges set out above. Such re-balancing shall occur as soon as practical unless the approval of the Investment Committee is obtained.
- 19) When re-balancing, funds will generally be taken from accounts that are most significantly above their approved ranges and will be transferred to accounts that are most significantly below their approved ranges until allocation is within the guideline ranges, also taking into account market conditions, liquidity, transaction costs, as well as any other relevant factors. The Retirement System will be rebalanced to tactical rather than long-term target allocations in circumstances where the Board of Trustees have approved a tactical allocation. An asset allocation overlay service may be engaged to monitor allocation and to initiate rebalancing actions to maintain the portfolio in accordance with these guidelines.

DIVERSIFICATION

- 20) Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, geographies, issuers, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies.
- 21) Consistent with paragraph 20 above:
 - a) No single investment management firm shall be authorized to manage more than 10% of the System's assets without Board approval
 - i. with the exception of passive management where the System's assets are not held in the System's name at the System's custody bank
 - ii. in which cases can manage no more than 20% of the System's assets without Board approval.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

- b) As a general rule, System assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm, without Board approval.

LIQUIDITY MANAGEMENT

- 22) The projected cash flow needs of the System are to be reviewed at least quarterly, and the custodian and investment managers of the Fund are to be informed in writing in a timely manner of the liquidity needs of the Fund. If necessary, cash flow needs will be coordinated through the System's rebalancing provisions contained herein or through the liquidation of other assets.
- 23) The CIO is entrusted with ensuring that sufficient monies are available to meet pension benefits, member refunds, administrative payments, manager funding and other cash flow requirements. As of such liquidation of assets is required at times to meet these obligations. The CIO shall have the authority to determine the most appropriate asset class to liquidate to provide the cash needed. The CIO will present a quarterly written report to the Investment Committee which includes any liquidation action taken.

PROXY VOTING

- 24) The Board recognizes that the voting of proxies is important to the overall performance of the System. The Board has delegated the responsibility of voting all proxies to the investment managers or a third party service provider. The Board expects that the proxy voting service will execute all proxies in a timely fashion and in the best interest of system members and beneficiaries. Also, the Board expects the managers to provide a full accounting of all proxy votes, and upon request, a written explanation of individual voting decisions.
- 25) As of the date of this Policy, the Board has delegated its proxy voting authority on all domestic and international securities to the investment managers, as well as hedge fund managers.

HIRING & TERMINATING INVESTMENT MANAGERS

- 26) Investment managers should meet the following criteria in order to be considered to manage the assets of the System.
 - a) Be capable of providing adequate and satisfactory information on the history of the firm, key personnel, key clients, fee schedules, and support personnel. Such information must demonstrate acceptable financial and staff stability and longevity.
 - b) Be able to clearly articulate the investment strategy that will be followed and demonstrate that the strategy has been successfully adhered to over time.
 - c) Have no past or outstanding legal judgments against them, which reflect negatively upon the firm or call into question the ability of the firm to serve as a fiduciary of the System.
- 27) Staff-level procedures shall be prepared detailing the additional criteria and processes to be

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

used in conducting investment manager due diligence and in arriving at recommendations to select or terminate an investment manager. Such procedures shall be reviewed with the Investment Committee and the Board from time to time.

- 28) The procedures noted in paragraph 27 above shall require at a minimum that recommendations to appoint or terminate an investment manager shall be accompanied by a report, prepared by an external investment advisor and/or investment staff, containing investment staff's and/or the investment advisor's recommendations and summary analysis.
- 29) The CIO shall have the authority to terminate any manager prior to the next scheduled Investment Committee meeting when in his/her estimation imminent impairment to assets could occur. Termination may result from any unanticipated events including; changes in organizational structure or personnel, compliance issues, changes in strategy or style, uncharacteristic performance. The CIO will present a written report to the Investment Committee for any termination at the next scheduled Investment Committee meeting.
- 30) In addition to the aforementioned the Board has delegated authority to the Investment Committee to terminate any manager with System assets of less than \$50 million with a unanimous vote of the Investment Committee.

MONITORING INVESTMENT MANAGERS

- 31) The System's investment managers will be monitored on an ongoing basis and may be terminated by the System at any time due to performance or other developments that call into question the manager's ability to continue to effectively manage assets of the System.
- 32) The CIO shall have the authority to increase/decrease allocations to previously approved manager provided it is consistent with house views adopted in the Annual Investment Work Plan, or subsequent update, provided that no allocation be increased/decreased more than 50% from the initial manager funding amount without prior Investment Committee approval. The CIO will present a quarterly written report to the Investment Committee which includes any increase/decrease to manager allocations.
- 33) The CIO shall have the authority to reallocate among previously approved managers between sub-asset classes provided it is consistent with house views adopted in the Annual Investment Program Work Plan or subsequent update. The CIO will present a quarterly written report to the Investment Committee which includes any reallocations among managers between sub-asset classes.
- 34) Quarterly performance of investment managers will be measured and evaluated relative to appropriate long-term performance benchmark and objectives, though it is understood that investment managers will, from time to time, underperform their benchmarks and objectives. Persistent underperformance by an investment manager, however, will be viewed as the basis for an extraordinary review of that manager and the manager's potential termination.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

- 35) Certain other events may also trigger an extraordinary review, and possible termination, of an investment manager. These include, but are not limited to:
- a) Failure to adhere to the terms of the contract between the manager and the System.
 - b) Loss of an investment professional(s) directly responsible for managing the System's assets, or who is/are so significant to the firm's overall investment process as to call into question the future efficacy of that process.
 - c) The sale of the investment management firm to another entity, or other change in ownership.
 - d) The purchase of another entity by the investment management firm.
 - e) Significant account losses and/or extraordinary addition of new accounts.
 - f) Regulatory actions against the firm, particularly any that represent violations of securities laws and regulations.
 - g) Any other event which may impair the manager's ability to perform in a satisfactory manner or puts the System's assets at undue risk of loss.

DERIVATIVE SECURITIES

- 36) Derivative securities are financial instruments that "derive" their value from an underlying commodity, index or security. Examples include futures, options and forward contracts. Derivatives can provide a cost-effective means of managing portions of a portfolio and to manage risk through hedging activities. Examples of such uses include:
- a) Equitizing cash during portfolio transitions until "physical" securities are in place.
 - b) Managing asset allocation on a temporary basis.
 - c) Hedging foreign currency risk, subject to approved limits.
- 37) In general, the use of derivatives for the purposes noted above, and similar risk management purposes, is supported by the Investment Committee and the Board. Speculative positions in derivatives however are not authorized under any circumstances.
- 38) Additional derivatives strategies must be authorized by this Investment Policy Statement prior to being utilized within the Fund.
- 39) Given the nature of many investment managers' mandates, it is recognized and understood that investment managers retained by the Fund may use derivatives that are contrary to paragraphs 36 and 37 above.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

INVESTMENT RESTRICTIONS

- 40) Investment management agreements will be established for each investment manager retained by the System. Such agreements shall specify any policies, risk controls, portfolio characteristics, reporting requirements, and other requirements or restrictions that may be applicable to the manager.

INVESTMENT COSTS

- 41) The Board intends to monitor and control investment costs at every level of the System.
 - a) Professional fees will be negotiated whenever possible.
 - b) Where appropriate, passive portfolios will be used to minimize management fees and portfolio turnover.
 - c) If possible, assets will be transferred in-kind during manager transitions and Fund restructurings to eliminate unnecessary turnover expenses.
 - d) Managers will be instructed to minimize brokerage and execution costs.
- 42) The Board will be provided reports on investment costs of the Fund at least annually.

VALUATION OF INVESTMENTS

- 43) The Fund's investments shall be valued using market values or other suitable methods of valuation. The frequency of valuation shall be dependent upon the nature of the asset.
- 44) Where a public market price is not available for an investment, a suitable method of valuation shall be used including the use of: discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. Independent, qualified appraisers may be used to provide valuations or verify the reasonableness of internal valuations. Financial statements audited by qualified external auditors may be used as reasonableness of valuations.

OTHER

- 45) Appendix A contains the long-term Policy Benchmark.
- 46) Appendices B-H contain additional policy guidelines concerning each asset class.
- 47) Exceptions to this Investment Policy Statement must be approved by the Board.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

POLICY REVIEW & HISTORY

48) This policy will be reviewed at least annually.

Appendix A

LONG-TERM POLICY BENCHMARK

Asset Class	Benchmark	Target Allocation %
Equity		
Global equity	MSCI ACWI IMI	28 %
Private equity	Cambridge Associates Private Equity Index	9 %
Fixed income		
Global fixed income	80% Barclays Global Aggregate	19 %
	5% BAML Global High Yield	
	5% S&P Global Leveraged Loan Index	
	5% JP Morgan EMBI Global Diversified Index	
	5% JP Morgan Global Diversified Index EM-GD	
Private debt	S&P Global Leveraged Loan Index + 2%	5 %
Real assets		
Real estate	NCREIF Property Index	7 %
Commodities	Bloomberg Commodity Index	6 %
Infrastructure	Dow Jones Brookfield Global Infrastructure Index	5 %
Natural resources	S&P Global Natural Resources Index	5 %
Absolute return	HFRI All Macro Index	11 %
GTAA/ Opportunistic	60% MSCI ACWI IMI/40% Barclays Global Aggregate	5 %

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

Appendix B

PUBLIC EQUITY

ASSET CLASS PHILOSOPHY

The Public Equity asset class invests in publicly listed shares of companies to generate returns.

The asset class uses a combination of passive and active strategies to target drivers of return globally, with the ability to vary exposures across regions, market capitalizations, and styles. The performance of the constituent strategies must be primarily driven by price changes in equities.

The exposures of the asset class will be allocated across the aforementioned dimensions according to an assessment of the factor's relative risk-adjusted return potential in the context of the System's aggregate exposures. Most assessments rely upon the Program's belief that valuations mean revert over time. Some exposures may be more opportunistic, or not tied to the mean reversion of a risk premium; such exposures will be presented with a specific investment thesis and time horizon for re-evaluation.

The aggregate exposures of the Public Equity asset class must be aligned with the goals of the System at large, and correspondingly should be viewed in context of the exposures held across the System.

OBJECTIVES

- 1) The Public Equity asset class will be structured to help the System achieve its long-term risk-adjusted return objective.
- 2) The policy benchmark of the Public Equity asset class is MSCI ACWI IMI (Net Dividends). The benchmark is not currency hedged.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

CHARACTERISTICS AND CONSTRAINTS

- 3) The portfolio will be structured:
 - a) To be a diversified, global portfolio with superior risk return characteristics;
 - b) To maintain factor exposures consistent with the correlations and risk levels envisioned in the asset allocation;
- 4) The Public Equity asset class will be subject to the following constraints:
 - a) Diversification requirements as it relates to concentration of System assets with a single investment manager and as a percentage of assets under management for an investment manager, as described in the full Investment Policy Statement;
 - b) Adherence to the strategic asset allocation ranges described in the full Investment Policy statement;
 - c) Adherence to the tactical asset allocation ranges, discretionary ranges, and/or risk parameters that may be set by the Investment Committee or Board. The asset class will normally be fully invested in equity related strategies, although individual strategies may hold cash;
 - d) Strategies may hedge currency to manage risk-adjusted returns;
 - e) Strategies may have variable net exposures, including hedge fund strategies
- 5) Any breach of above target allocations or portfolio constraints requires notification to the Investment Committee to discuss appropriate action.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

Appendix C

PRIVATE EQUITY

Objective

The private equity portfolio seeks to achieve superior risk-adjusted returns and outperformance relative to a public equity benchmark plus an illiquidity premium, with a defensive risk profile achieved through diversification and bottom-up due diligence. The Federated City Employees' Retirement System ("System") seeks to invest in private equity funds that are expected to be in the top quartile of the private equity fund universe, opportunistically invest in private equity fund secondaries, and strategically co-invest alongside private equity funds, in order to achieve this objective.

The policy benchmark of the private equity portfolio is:

- a) Cambridge Associates Private Equity Index

Additional benchmarks that may be considered include the following:

- a) Burgiss Private iQ All Private Equity, All Regions
- b) MSCI ACWI IMI Public Market Equivalent +300 bps

Portfolio Characteristics

The asset class should include the following characteristics:

- a) Global core private equity program focused on investments across regions and diversification across vintage years and investment strategies;
- b) Portfolio of leading private equity managers seeking to generate superior performance through operational improvements within their portfolio companies;
- c) Active portfolio management through opportunistic direct co-investments and secondary purchases seeking to reduce the "J-curve", improve IRR performance, and the private equity portfolio's cash-flow profile.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

Target Allocation

Investment Type	Target
Primaries	0 - 80%
Director co-investments & secondaries	0 - 40%
Geography (Primaries Only)	Target
North America	40 - 55%
Europe	35 - 45%
Rest of world	0 - 15%
Strategy (Primaries Only)	Target
Buyout* (includes growth equity)	0 - 80%
Special situations	0 - 30%
Venture capitalist	0 - 20%

* Buyout includes growth and special situations includes natural resources/energy, and other strategies.

Pacing Plan

The Net Asset Value (“NAV”) of the private equity portfolio represents the actual allocation relative to the long-term policy target allocation. The NAV will be monitored and projected on a regular basis to confirm the trajectory is consistent with the target allocation. A cash flow model incorporating each investments’ characteristics (vintage, type, strategy, etc.) will be used to calibrate the NAV projection. This projection will reflect the “run-off” of mature investments, and the “ramp-up” of new investments.

A pacing plan will be conducted on an annual basis, providing a directional guideline for future commitments based on market conditions. In addition, the System may allocate to new investments more or less than the pacing plan implies, based on the attractiveness of market conditions and market opportunities.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

Appendix D

GLOBAL FIXED INCOME

ASSET CLASS PHILOSOPHY

The Global Fixed Income asset class invests in securities and portfolio management strategies that utilize contractual obligations of governments, corporations, and structured products globally. The Global Fixed Income asset class provides exposure to rates and credit risk factors across traditional and hedge fund investment vehicles.

Fixed income has historically been included in asset allocations because (i) it has historically exhibited low correlation with equity markets – enhancing expected risk-adjusted return in a diversified portfolio; and (ii) it has historically generated moderate current income as a component of total return – providing cash flow to meet liabilities and insulate against market value fluctuations. These traits – low correlation and current income as a component of total return – may not exhibit their historical tendencies in times of extremely high or extremely low interest rates, though over the long term they are expected to revert to their traditional characteristics.

The purpose of Global Fixed Income is to maintain the historical fixed income benefits of low correlation and total return across all market environments. To accomplish this objective across various market environments, exposure to rates, credit, and other risk factors can deviate materially from those of the benchmark according to asset allocation at the System level, phases in the economic/credit cycle, and tactical positioning informed by staff views on macroeconomic fundamentals, valuation, and market technicals. Implementation may be achieved predominantly through active management because benchmark construction can be sub-optimal and the over-the-counter nature of fixed income securities can create technical imbalances.

OBJECTIVES

- 1) The Global Fixed Income asset class will be managed to achieve the following long-term portfolio objectives:
 - a) Return: To earn an annualized return net of expenses that exceeds the annualized total rate of return of the blended benchmark over a market cycle;
 - b) Risk: To exhibit forecasted and realized annualized volatility over a market cycle similar to or less than the benchmark;
 - c) Income: To provide current coupon income similar to that of the Global Fixed Income policy benchmark;
 - d) Liquidity: To be a source of liquidity for rebalancing, changes in asset allocation, and operational liquidity requirements.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

2) The policy benchmark of the Global Fixed Income asset class is a blend of several indices:

- 80% Bloomberg Barclays Global Aggregate – unhedged
- 5% S&P Global Leveraged Loan
- 5% Bank of America Merrill Lynch Global High Yield
- 5% JP Morgan GBI-EM Global Diversified
- 5% JP Morgan EMBI Global Diversified

PORTFOLIO CHARACTERISTICS

3) The portfolio will be structured:

- a) To be a diversified, global portfolio with superior risk-adjusted return characteristics;
- b) To include multiple fixed income strategies;
- c) To maintain factor exposures consistent with the correlations and risk levels envisioned in the asset allocation;
- d) To exclude direct allocations to private fund structures.

TARGET ALLOCATION

Sub-Asset Class	Targeted Exposure (% of Net Asset Value)
Global core	25% - 100%
Non-investment grade credit	0% - 50%
Emerging market debt	0% - 50%

PORTFOLIO CONSTRAINTS

- 4) The Global Fixed Income asset class will be subject to the following constraints:
- a) Diversification requirements as it relates to concentration of System assets with a single investment manager and as a percentage of assets under management for an investment manager, as described in the full Investment Policy Statement;
 - b) Adherence to the strategic asset allocation ranges described in the full Investment Policy statement, and the sub-asset class ranges described in the target allocation section above;
 - c) Adherence to the tactical asset allocation ranges, discretionary ranges, and/or risk parameters that may be set by the Investment Committee or Board.
- 5) Any breach of the target allocations, above, or portfolio constraints requires notification to the Investment Committee to discuss appropriate action.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

Appendix E

PRIVATE DEBT

ASSET CLASS PHILOSOPHY

The Private Debt asset class invests in securities and portfolio management strategies that provide similar exposures and risk factors as the Global Fixed Income asset class, but have characteristics that make them suitable only for illiquid, private fund structures.

The Private Debt asset class is managed in a style reminiscent of private equity, with annual pacing plans to guide commitments to drawdown structures. Performance is evaluated on the basis of net-of-fees IRR and multiples on invested capital compared with public market equivalents.

Private Debt is an opportunistic asset class whose attractiveness varies significantly with changes in the liquidity of fixed income markets. Consequentially, the NAV and the aggregate commitments, as a percentage of System, may substantially deviate from target asset class weights.

OBJECTIVES

- 1) The private debt portfolio will be managed to achieve the following long-term portfolio objectives:
 - a) Return: To earn an annualized return that exceeds the annualized total rate of return of the S&P Global Leveraged Loan Index by 2%;
 - b) Risk: To exhibit a forecast and realized annualized volatility similar to the benchmark;
 - c) Income: To provide current coupon income in excess of that of the Global Fixed Income policy benchmark;
 - d) Liquidity: To generate annual income through realizations of portfolio investments that equal or exceed annual capital calls by managers to fund fees and investments once the program is fully mature.
- 2) The policy benchmark of the private debt portfolio is the S&P Global Leveraged Loan Index plus 2%.

PORTFOLIO CHARACTERISTICS

- 3) The portfolio will be structured:
 - a) To be a diversified, global portfolio with superior risk return characteristics;
 - b) To include multiple private debt strategies;

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

- c) To emphasize strategies that provide high levels of contractual income;
- d) To exclude direct allocations to private equity strategies, and target limited exposure on a look through basis, as defined by no more than 30% of return derived from equity securities.

TARGET ALLOCATION

Strategy	Targeted Exposures (% of Committed Capital)
Senior loans / direct lending	25% - 100%
Mezzanine / subordinated debt	0% - 25%
Distressed (for control and non-control)	0% - 25%
Niche strategies	0% - 75%

PORTFOLIO CONSTRAINTS

- 4) The private debt portfolio will be subject to the following constraints:
 - a) Aggregate commitments of funds in their investment period to any single investment manager should not represent more than 30% of the private debt portfolio;
 - b) Aggregate commitments of funds in their investment period to any single investment manager should not represent more than 4% of the total System;
 - c) Aggregate commitments (without regard to their investment period) should not represent more than 10% of investment manager's total capital commitments under management.
- 5) In such circumstance where it is not possible or practical to timely implement or maintain the policy, the Investment Committee will monitor the status of the Private Debt asset class and seek to comply with the policy when it is possible and prudent to do so.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

Appendix F

REAL ASSETS

ASSET CLASS PHILOSOPHY

The Real Asset allocation is intended to be a diversifier to the total investment portfolio. Real Assets have traditionally provided diversification benefits through low correlations to other asset classes. A secondary benefit of investing in real assets is that Real Assets are tangible assets, with intrinsic value, that often offer a reasonable expectation of inflation protection. The purpose of Real Assets is to maintain purchasing power in periods of high or increasing inflation.

Implementation of the Real Assets allocation is through the construction, over time, of a well-diversified portfolio of Real Assets utilizing public, private, passive and active managers dependent on market characteristics. Real Assets encompass an array of investment strategies and include commodities, commodities-linked stocks and bonds, commodities-oriented hedge funds and hedge funds of funds, and direct and/or fund investments in real estate, energy, farmland, timber, and infrastructure.

OBJECTIVES

The Real Assets asset class will be constructed in a manner to help the plan achieve its long-term risk-adjusted return objective. Exposure to Real Assets can be achieved through allocations to commodities, infrastructure, natural resources, and real estate.

Commodities sectors include, but are not limited to: agriculture, energy, livestock, industrial metals, and precious metals. The portfolio may gain exposure to commodities through long only beta managers, intermittent beta managers, and alpha managers. Beta exposure can be achieved via pure beta or risk parity portfolios. Intermittent beta and/or alpha mandates can be achieved via portfolios with exposure to long/short, directional, and/or relative value managers. Since delivery and storage of a physical commodity poses challenges, economic exposure is usually achieved for commodities through the use of derivatives including futures, total return swaps, options, and forward contracts.

The Infrastructure asset class consists of a wide range of physical assets and businesses that provide essential services to communities. Infrastructure asset class strategies include core, value-added, and opportunistic investment strategies. The infrastructure asset class shall be invested by purchasing interests in private funds/fund-of-funds that invest in infrastructure related assets or liquid securities of infrastructure related businesses. Infrastructure investments may consist of equity or debt investment in a single asset, business, or infrastructure projects.

Natural Resources include tangible commodities such as crude oil, copper, timber, and agricultural products. Natural Resources funds focus on opportunities among a wide array of relevant economic activities, from extraction to transportation to refining, that are tied to the underlying value of commodities. The Natural Resources asset class shall be invested by purchasing interests in private funds/fund-of-funds that invest in natural resources related assets, or liquid securities of natural resources related businesses. Natural Resources investments may consist of equity or debt investment in a single asset, business, or project.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

Real Estate assets are properties, including land and/or structures, designed for commercial or residential use. Core real estate investments include both private and public investments (i.e. REITs). Private core real estate funds can be either open-ended or closed-ended. Non-core strategies generally encompass greater risk, whether through increased use of leverage, greater reliance on renovation or development, focus on secondary markets, or a number of other factors. In return for taking on greater risk, investors in non-core real estate strategies expect to be compensated via higher returns. Non-core allocations can include strategies such as value-added, opportunistic, or real estate debt. Real Estate asset class shall be invested by purchasing interests in real estate funds/fund-of-funds that invest in real estate assets, direct property holdings, or publicly traded real estate securities.

POLICY BENCHMARKS

The policy benchmarks for the Real Assets asset class are as follows:

Commodities: Bloomberg Commodity Index

Infrastructure: Dow Jones Brookfield Global Infrastructure Index

Natural resources: S&P Global Natural Resources Index

Real estate: NCREIF Property Index

CHARACTERISTICS AND CONSTRAINTS

- 1) The Real Assets asset class will be subject to the following constraints:
 - a) Diversification requirements as it relates to concentration of plan assets with a single investment manager and as a percentage of assets under management for an investment manager, as described in the full Investment Policy Statement;
 - b) Adherence to the strategic asset allocation ranges described in the full Investment Policy Statement;
 - c) Adherence to the tactical asset allocation ranges, discretionary ranges, and/or risk parameters that may be set by the Investment Committee or the Board.
- 2) Any breach of the target allocations above, or portfolio constraints, requires notification to the Investment Committee to discuss appropriate action.
- 3) Private investments shall be structured with pacing plans to guide commitments to drawdown structures, and shall focus on net-of-fees internal rate of returns and multiples.
- 4) Due to the nature of drawdown private market structures, investments in liquid alternatives such as index funds or proxies of the sub-asset class may be used to gain interim exposures.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

Appendix G

ABSOLUTE RETURN

(for purposes of this Appendix the “Absolute Return” portfolio refers to the hedge fund strategies allocation within the Absolute Return asset class)

OBJECTIVES

- 1) The absolute return portfolio will be managed to achieve the following long-term portfolio objectives:
 - a) Return: To earn an annualized return that exceeds the annualized rate of return of the three-month *Libor* by 5%;
 - b) Risk: To exhibit a forecast and realized annualized volatility between 4% and 8%;
 - c) Beta: To achieve an absolute value Beta to the MSCI World ≤ 0.2
- 2) The policy benchmark of the absolute return portfolio is the *Hedge Fund Research, Inc. All Macro Index*

PORTFOLIO CHARACTERISTICS

- 3) The portfolio will be structured:
 - a) To be a diversified, global portfolio with superior risk return characteristics;
 - b) To include multiple absolute return strategies;
 - c) To exclude direct allocations to equity and credit strategy classified funds, and target limited exposure on a look through basis;
 - d) To have low correlation to traditional market indices, lowering overall portfolio risk; and.
 - e) To reduce downside participation in severe bear markets.

TARGET ALLOCATION

Strategy	Targeted Exposures
Relative value	25% - 50%
Macro / directional	35% - 75%
Residual Exposures via Multi- Strategy Funds	
Equity long / short	0% - 10%
Event driven	0% - 15%

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

PORTFOLIO CONSTRAINTS

- 4) The absolute return portfolio will be subject to the following constraints:
 - a) No aggregate investment with any single investment manager should represent more than 15% of the absolute return portfolio;
 - b) No initial investment with any single investment manager should represent more than 2.5% of the total plan;
 - c) No investment with any single investment manager should exceed 10% of the manager's total assets under management
 - d) No single fund should contribute more than 20% to the expected risk of the absolute return portfolio, as measured by the fund's contribution to the 3 year standard deviation of the Current Systematic series as generated by Albourne, and illustrated in their monthly reports. The Current Systematic Series represents "forecast risk" and is a return series constructed from the portfolio's aggregate systematic exposures at the end of the month held static while the factor performance is varied going back in time.

Any breach of paragraph 4 above requires notification to the Investment Committee to discuss appropriate action.

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS (continued)

Appendix H

GTAA/OPPORTUNISTIC

ASSET CLASS PHILOSOPHY

The GTAA/Opportunistic allocation seeks exposure to multi-asset strategies through investment managers. The allocation can gain exposure to a wide array of securities on and off exchange, in both long and short capacities, can use modest levels of leverage and can hedge or short market betas and/or undesirable market exposures.

Implementation of the GTAA/Opportunistic allocation is expected to be exclusively through active investment managers. The allocation can be tactically managed; rotating capital among strategies based on market views and strategy specific characteristics. Market views can be formed through third party research, proprietary research, and the investment program. The GTAA/Opportunistic allocation is benchmark unconstrained.

The Opportunistic portion of the allocation is a best ideas allocation that seeks highly attractive risk adjusted returns. Opportunistic investments are defined as tactical, short to intermediate term investments, generally a few months to a few years. Opportunistic investments consist of a broad, unconstrained opportunity set, but are expected to be implemented exclusively through active investment managers. Opportunistic investments should only expose the System to prudent levels of risk.

The asset class range for the GTAA/Opportunistic allocation is 0-8%, and may remain at 0% if the environment for GTAA is deemed as not appropriate, or if no Opportunistic investments have been identified.

The policy benchmark of the GTAA/Opportunistic allocation is a global 60/40 portfolio, consisting of 60% MSCI ACWI IMI and 40% Bloomberg Barclays Global Aggregate.

OBJECTIVES

- 1) GTAA strategies should provide diversification to the overall portfolio, positive asymmetry in returns, and attractive risk adjusted returns while reducing coincident downside relative to equities and credit
- 2) Opportunistic investments should seek highly attractive risk adjusted returns

Statement of Investment Policy *(continued)*

PENSION - INCLUDES THE 401(H) INVESTMENTS *(continued)*

CHARACTERISTICS AND CONSTRAINTS

- 3) The portfolio will be structured:
 - a) To be a diversified portfolio, which may be accomplished with one or more investment managers, with superior risk return characteristics;
 - b) To maintain risk levels that are consistent with the characteristics envisioned in the asset allocation
- 4) The GTAA/Opportunistic allocation will be subject to the following constraints:
 - a) Diversification requirements as it relates to concentration of System assets with a single investment manager and as a percentage of assets under management for an investment manager, as described in the full Investment Policy Statement;
 - b) Adherence to the strategic asset allocation ranges described in the full Investment Policy statement, and the sub-asset class ranges described in the target allocation section above;
 - c) Adherence to the tactical asset allocation ranges, discretionary ranges, and/or risk parameters that may be set by the Investment Committee or Board.

Statement of Investment Policy

HEALTHCARE

- 1) This investment policy statement governs investments for the City of San José Federated City Employees' Retiree Health Care Trust Fund (the Fund). The Fund is an Internal Revenue Code Section 115 trust which was established on June 24, 2011. The Fund is outside of the Federated City Employees' Retirement System (the System) for the payment of retiree healthcare benefits in order to provide an alternative to the existing 401(h) account, which is within the System.
- 2) Fund will be managed as an ongoing concern with a long-term investment time horizon, consistent with the demographic profile of the members and beneficiaries of the System.

INVESTMENT OBJECTIVES

- 3) The primary objective of the investment portfolio is to provide a funding source for the subsidizing of postretirement healthcare benefits to members of the San José Federated City Employees' Retirement System and their beneficiaries.
 - a) A range of risks will be monitored in connection with the Fund, with an emphasis on the risk of loss of Fund assets.
- 4) In developing the investment policies of the Fund, various factors will be considered including, but not limited to:
 - a) The structure and duration of the Fund's liabilities.
 - b) Modern Portfolio Theory.
 - c) The portfolio management practices followed by other institutional investors.
 - d) The liquidity needs of the Fund.

FIDUCIARY STANDARDS

- 5) The Trustees are subject to the following duties under law:
 - a) The assets of the Fund are trust funds and shall be held for the exclusive purposes of providing benefits to members of the System and their beneficiaries and defraying reasonable expenses of administering the Fund.
 - b) The Trustees shall discharge their duties with respect to the Fund solely in the interest of, and for the exclusive purposes of providing benefits to, members of the System and their beneficiaries, maintaining the actuarial soundness of the System, and defraying reasonable expenses of administering the Fund. The Trustees' duties to the members and their beneficiaries shall take precedence over any other duty.
 - c) The Trustees shall discharge their duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims.

Statement of Investment Policy *(continued)*

HEALTHCARE (continued)

- d) The Trustees shall diversify the investments of the Fund so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.
- 6) Investment staff, investment consultants, investment managers, custodians and all other parties charged with handling the Fund's assets shall utilize the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims, and shall comply with all applicable laws, rules and regulations.

FUND GOVERNANCE

- 7) The governance structure of the Fund is described in the City Charter and in various governance policies established by the Board of Administration, including but not limited to:
 - a) Policy on the Role of the Board of Administration
 - b) Policy on the Role of the Investment Committee
 - c) Policy on the Role of the Director of Retirement Services
 - d) Policy on the Role of the Chief Investment Officer
 - e) Policy on Roles in Vendor Selection

ASSET ALLOCATION

- 8) The current asset allocation policy of the Fund (at market value) as of 1/1/2015 is set out below:

Broad Asset Class	Minimum	Target	Maximum
Global equity	40%	47%	54%
Fixed income	20%	30%	40%
Real assets	15%	23%	30%
Total		100 %	

- 9) The Trustees are committed to implementing and maintaining the above asset allocation policy, but also recognizes that circumstances may arise where it is not possible or practical to timely implement or maintain the policy. In such circumstance, the Trustees will monitor the status of the asset allocation policy and seek to comply with the policy when it is possible and prudent to do so.
- 10) The asset allocation policy of the Fund will be reviewed at a minimum every five years.
- 11) The Trustees will also approve an Investment Structure, which provides additional detail as to the allocation of assets to categories of investment within the broad asset classes that comprise the asset allocation policy.

Statement of Investment Policy *(continued)*

HEALTHCARE (continued)

REBALANCING

- 12) The asset allocation of the Fund will be monitored on a monthly basis and the assets of the Fund are to be rebalanced, by Staff, to within the target ranges when fluctuations in market values cause the portfolio to fall outside the guideline ranges set out above. Such re-balancing shall occur as soon as practical unless the approval of the Investment Committee is obtained.
- 13) When re-balancing, funds will generally be taken from accounts that are most significantly above their approved ranges and will be transferred to accounts that are most significantly below their approved ranges until allocation is within the guideline ranges, also taking into account liquidity and transactional cost considerations. An asset allocation overlay service may be engaged to monitor allocation and to initiate rebalancing actions to maintain the portfolio in accordance with these guidelines. The Fund will be rebalanced to tactical rather than long-term target allocations in circumstances where the Trustees have approved a tactical allocation.

DIVERSIFICATION

- 14) Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies.

LIQUIDITY MANAGEMENT

- 15) The projected cash flow needs of the Fund are to be reviewed at least quarterly and the custodian and investment managers of the Fund are to be informed in writing in a timely manner of the liquidity needs of the Fund. If necessary, cash flow needs will be coordinated through the Fund's rebalancing provisions contained herein.

PROXY VOTING

- 16) The Trustees recognize that the voting of proxies is important to the overall performance of the System. The Trustees have delegated the responsibility of voting all proxies to the investment managers or a third party service provider. The Trustees expect that the proxy voting service will execute all proxies in a timely fashion and in the best interest of plan members and beneficiaries. Also, the Trustees expect the managers to provide a full accounting of all proxy votes, and upon request, a written explanation of individual voting decisions. The Trustees intend to review the managers' proxy voting on at least an annual basis.

HIRING & TERMINATING INVESTMENT MANAGERS

- 17) Investment managers should meet the following criteria in order to be considered to manage the assets of the Fund.

Statement of Investment Policy *(continued)*

HEALTHCARE (continued)

- a) Be capable of providing adequate and satisfactory information on the history of the firm, key personnel, key clients, fee schedules, and support personnel. Such information must demonstrate acceptable financial and staff stability and longevity.
 - b) Be able to clearly articulate the investment strategy that will be followed and demonstrate that the strategy has been successfully adhered to over time.
 - c) Have no past or outstanding legal judgments against them, which reflect negatively upon the firm or call into question the ability of the firm to serve as a fiduciary of the System.
- 18) As a general rule, Fund assets placed with an investment manager should not represent more than 10% of the total assets managed by that firm. Exceptions to this rule shall require the approval of the Trustees.

MONITORING INVESTMENT MANAGERS

- 19) The Fund's investment managers will be monitored on an ongoing basis and may be terminated by the Fund at any time due to performance or other developments that call into question the manager's ability to continue to effectively manage assets of the Fund.
- 20) The majority of the Fund's assets are currently passively managed, in which case the manager should be expected to produce long-term returns that are reasonably close to those of the relevant benchmark. For any active investment managers, quarterly performance will be measured and evaluated relative to appropriate long-term performance benchmark and objectives, though it is understood that investment managers will, from time to time, underperform their benchmarks and objectives. Persistent underperformance by an investment manager, however, will be viewed as the basis for an extraordinary review of that manager and the manager's potential termination.
- 21) Certain other events may also trigger an extraordinary review, and possible termination, of an investment manager. These include, but are not limited to:
- a) Failure to adhere to the terms of a contract between the manager and the Fund.
 - b) Loss of an investment professional(s) directly responsible for managing the Fund's assets, or who is/are so significant to the firm's overall investment process as to call into question the future efficacy of that process.
 - c) The sale of the investment management firm to another entity, or other change in ownership.
 - d) The purchase of another entity by the investment management firm.
 - e) Significant account losses and/or extraordinary addition of new accounts.
 - f) Regulatory actions against the firm, particularly any that represent violations of securities laws and regulations.

Statement of Investment Policy *(continued)*

HEALTHCARE (continued)

- g) Any other event which may impair the manager's ability to perform in a satisfactory manner or puts the Fund's assets at undue risk of loss.

DERIVATIVE SECURITIES

- 22) Derivative securities are financial instruments that "derive" their value from an underlying commodity, index, or security. Examples include futures, options and forward contracts. Derivatives can provide a cost-effective means of managing portions of a portfolio and to manage risk through hedging activities. Examples of such uses include:
 - a) Equitizing cash during portfolio transitions until "physical" securities are in place.
 - b) Managing asset allocation on a temporary basis.
 - c) Hedging foreign currency risk, subject to approved limits.
- 23) In general, the use of derivatives for the purposes noted above, and similar risk management purposes, is supported by the Investment Committee and the Trustees. Speculative positions in derivatives however are not authorized under any circumstances.
- 24) The Fund is currently authorized to use derivatives strategies to equitize cash during portfolio transitions until physical securities are in place, and to reproduce or replicate a physical holding that corresponds to a Board-approved policy benchmark. Additional derivatives strategies must similarly be authorized by this Investment Policy Statement prior to being utilized within the Fund.
- 25) Given the nature of many commodity manager mandates, it is recognized and understood that commodity managers retained by the Fund may use derivatives that are contrary to paragraphs 23 and 24 above.

INVESTMENT RESTRICTIONS

- 26) Fund assets are currently invested primarily in mutual fund investment vehicles, given the current asset size of the Fund. The type of investment vehicles utilized by the Fund will be revisited as the asset size of the Fund increases. In instances when the Fund invests through a commingled fund or separate account, investment management agreements will be established for each investment manager retained by the Fund. Such agreements shall specify any policies, risk controls, portfolio characteristics, reporting requirements, and other requirements or restrictions that may be applicable to the manager.

INVESTMENT COSTS

- 27) The Trustees intend to monitor and control investment costs at every level of the Fund.
 - a) Professional fees will be negotiated whenever possible.

Statement of Investment Policy *(continued)*

HEALTHCARE (continued)

- b) Where appropriate, passive portfolios will be used to minimize management fees and portfolio turnover.
- c) If possible, assets will be transferred in-kind during manager transitions and Fund restructurings to eliminate unnecessary turnover expenses.
- d) Managers will be instructed to minimize brokerage and execution costs.

VALUATION OF INVESTMENTS

- 28) The Fund's investments shall be valued using market values or other suitable methods of valuation. The frequency of valuation shall be dependent upon the nature of the asset.
- 29) Where a public market price is not available for an investment, a suitable method of valuation shall be used including the use of: discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. Independent, qualified appraisers may be used to provide valuations or verify the reasonableness of internal valuations.

OTHER

- 30) Appendix A contains the long-term Policy Benchmark.
- 31) Exceptions to this Investment Policy Statement must be approved by the Trustees.

POLICY REVIEW & HISTORY

- 32) This policy will be reviewed at least annually.

Appendix A

LONG-TERM POLICY BENCHMARK

Asset Class	Benchmark	Target (%)
Global equity		
	MSCI ACWI IMI	47%
Global fixed income		
	Barclays Global Aggregate	30%
Real assets		
Real estate	NCREIF ODCE Equal Weighted	7%
Commodities	Bloomberg Commodity Index	6%
Infrastructure	DJ Brookfield Global Infrastructure Index	5%
Natural resources	S&P Global Natural Resources	5%

Investment Professionals

As of June 30, 2017

GLOBAL EQUITY		
Aberdeen Asset Management	GQG Partners	Russell Investments
Artisan Partners	Horizon Portfolio Unlimited	Sandler Capital Management
Cove Street Capital	Marshall Wace LLC	Senator Investment Group
Comgest	Northern Trust	Vanguard Group
Dimensional Fund Advisors	Oberweis Asset Management	
PRIVATE EQUITY		
Great Hill Partners	Partners Group	Pathway Capital Management
Pantheon Ventures		
GLOBAL FIXED INCOME		
BlackRock	Northern Trust	Voya Investment Management
BlueBay Asset Management	Vanguard Group	
Claren Road Kempner Capital Management LLC	Davidson Kempner Capital Management LLC	
PRIVATE DEBT		
Cross Ocean	Medley Capital	White Oak Global Advisors
GSO Capital Partners		
REAL ASSETS		
American Realty Advisors	Global Infrastructure Partners	Prudential Real Estate Investors
Credit Suisse	Fidelity Long Wharf Real Estate Partners LLC	Rhumblin Advisors
DRA Advisors LLC	Pinnacle Asset Management, L.P.	Tristan Capital Partners
ABSOLUTE RETURN		
AHL Partners LLP	Dymon Asia Capital, Ltd	Systematica Investments, Ltd
Arrowgrass Capital Partners LLP	Kepos Capital LP	Tempo JD Capital
Brevan Howard Capital Management, LP	Pharo Management LLC	Wadhvani Asset Management LLP
D.E. Shaw & Co, LP	Pine River Capital Management LP	
CONSULTANTS		
Albourne America LLC (Absolute Return Advisors)	Meketa Investments Group (General Consultant)	Verus Advisory Inc. (Risk Advisory Services)
CUSTODIAN		
	State Street Bank & Trust Company	
PORTFOLIO OVERLAY SERVICES		
	Russell Investments	

Schedule of Investment Results for Pension Trust

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Period Ended June 30, 2017

	One Year	Three Years	Five Years	Ten Years
Total Fund (net of manager fees)	7.5%	1.9%	5.4%	3.2%
Policy Benchmark	8.1%	1.9%	6.1%	3.9%
Public Funds > \$1 Billion (Median)	12.7%	4.9%	8.6%	4.8%
Global Equity	17.7%	4.3%	10.4%	N/A
MSCI ACWI IMI	19.0%	4.9%	10.7%	N/A
Private Equity	10.3%	8.6%	10.8%	7.7%
Cambridge Associates Private Equity Composite	12.0%	8.2%	11.4%	8.8%
Absolute Return	1.4%	2.1%	N/A	N/A
HFRI Macro (Total) Index	-2.4%	1.1%	N/A	N/A
Real Assets	5.7%	-2.4%	-0.1%	N/A
Real Assets Benchmark	5.3%	-1.4%	2.9%	N/A
Global Fixed Income	2.2%	1.3%	2.4%	N/A
Fixed Income Custom Benchmark	-0.2%	0.5%	1.3%	N/A
Private Debt	2.7%	3.4%	6.3%	N/A
S&P Global Leveraged Loan	9.7%	4.1%	6.2%	N/A

Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Fund Evaluation Report Analysis dated June 30, 2017

Schedule of Investment Results for Healthcare Trust

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Period Ended June 30, 2017

	2Q2017	Calendar YTD	One Year	Three Years	Five Years
Total Fund (net of manager fees)	2.3%	5.9%	8.7%	0.9%	5.4%
Policy Benchmark	2.8%	7.1%	9.2%	2.0%	6.1%
Global Equity	5.1%	12.2%	20.3%	5.0%	11.2%
MSCI ACWI IMI	4.2%	11.3%	19.0%	4.9%	10.7%
Global Fixed Income	0.7%	1.5%	-0.2%	1.6%	1.2%
Barclays Global Aggregate	2.6%	4.4%	-2.2%	-0.4%	0.8%
Real Assets	0.6%	3.4%	5.3%	-8.8%	-5.0%
Real Assets Benchmark	-%	-%	5.6%	1.0%	3.3%

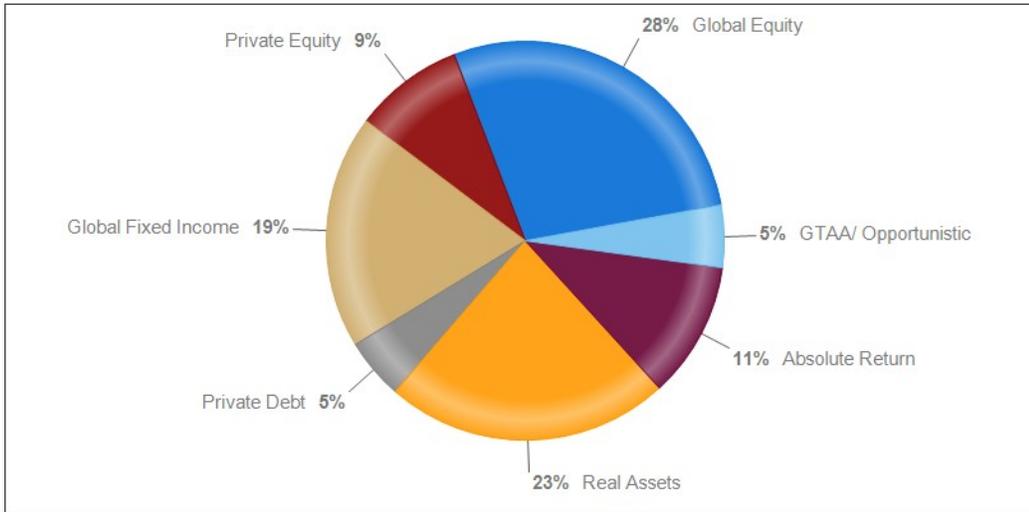
Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Fund Evaluation Report Analysis dated June 30, 2017

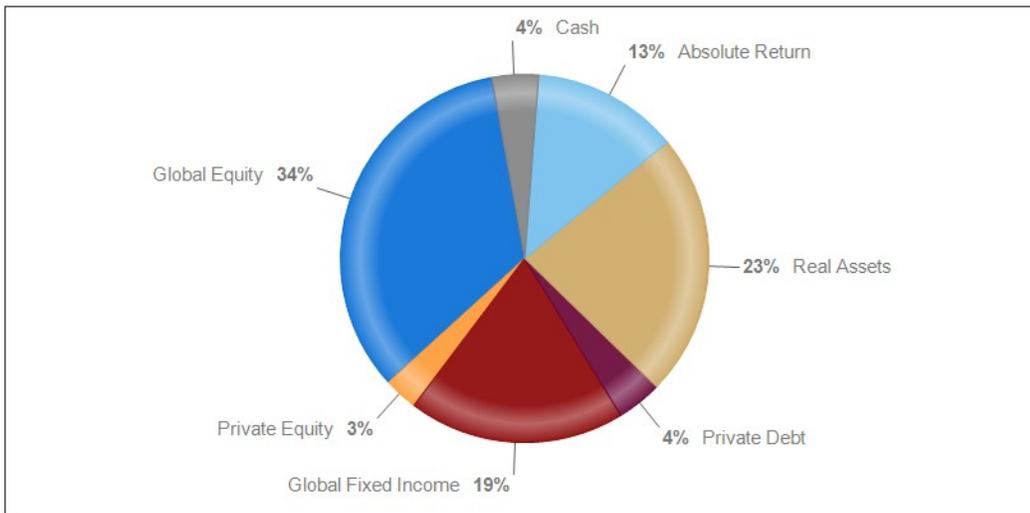
Pension Investment Review

INCLUDES THE 401(H) INVESTMENTS

TARGET ASSET ALLOCATION As of June 30, 2017



ACTUAL ASSET ALLOCATION As of June 30, 2017 Non-GAAP Basis



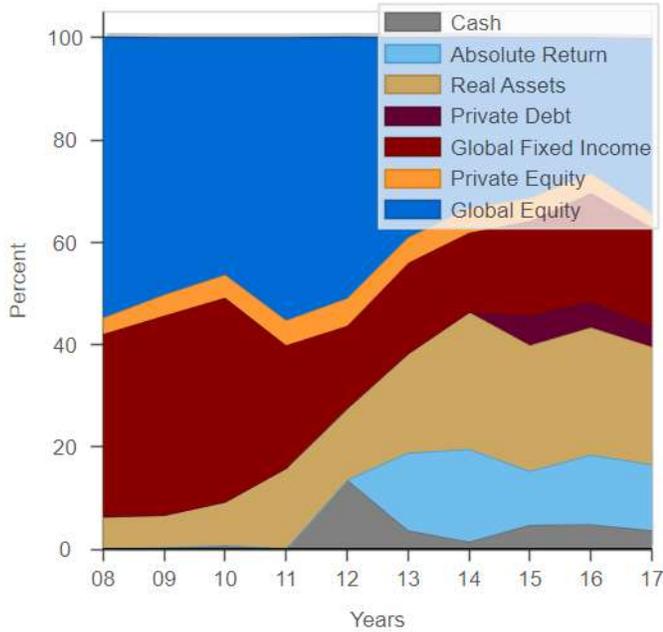
Asset Class	\$ In Millions
Global Equity	\$ 682.05
Private Equity	\$ 56.69
Global Fixed Income	\$ 386.38
Private Debt	\$ 80.23
Real Assets	\$ 460.63
Absolute Return	\$ 257.87
Cash	\$ 74.62
TOTAL	\$1,998.47

Pension Investment Review *(continued)*

INCLUDES THE 401(H) INVESTMENTS *(continued)*

HISTORICAL ASSET ALLOCATION *(Actual)*

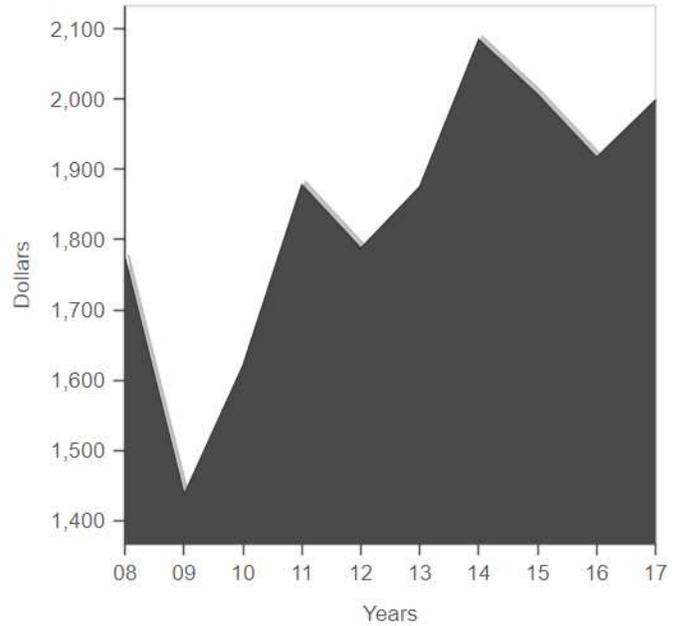
As of June 30, 2008 - June 30, 2017



MARKET VALUE GROWTH OF PLAN ASSETS

For Ten Years Ended June 30, 2017

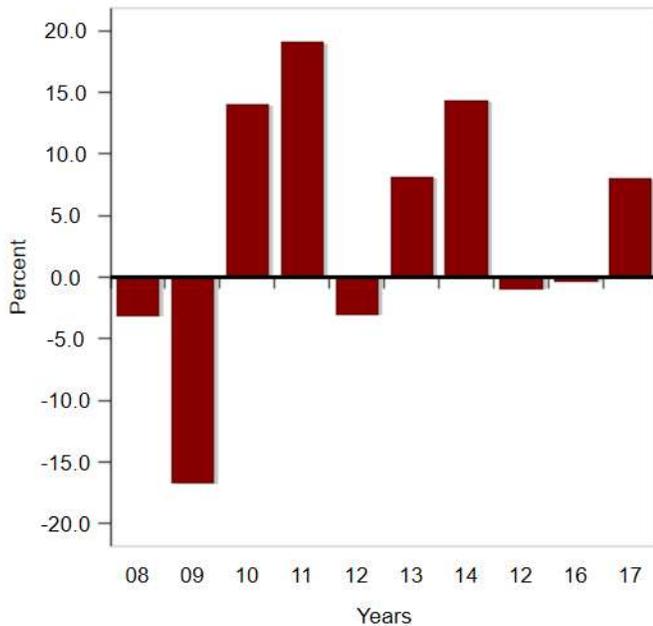
(Dollars in Millions)



HISTORY OF GROSS PERFORMANCE

For Fiscal Years 2008 - 2017

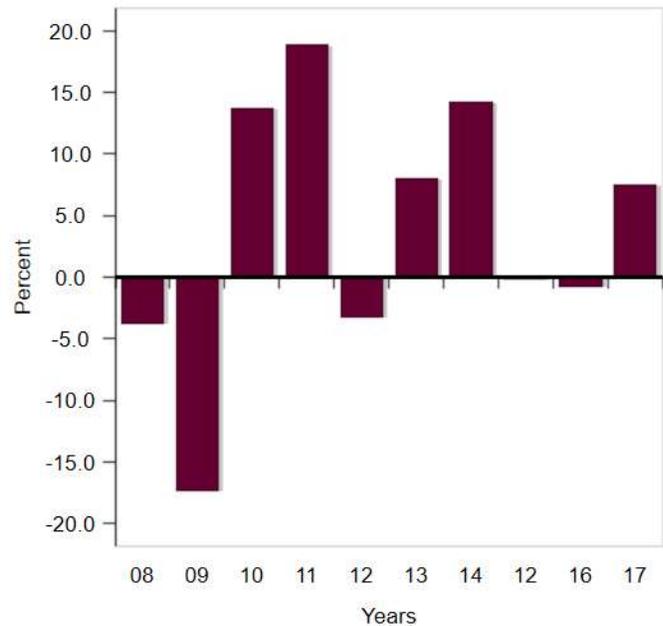
(Based on Fair Value)



HISTORY OF NET PERFORMANCE

For Fiscal Years 2008 - 2017

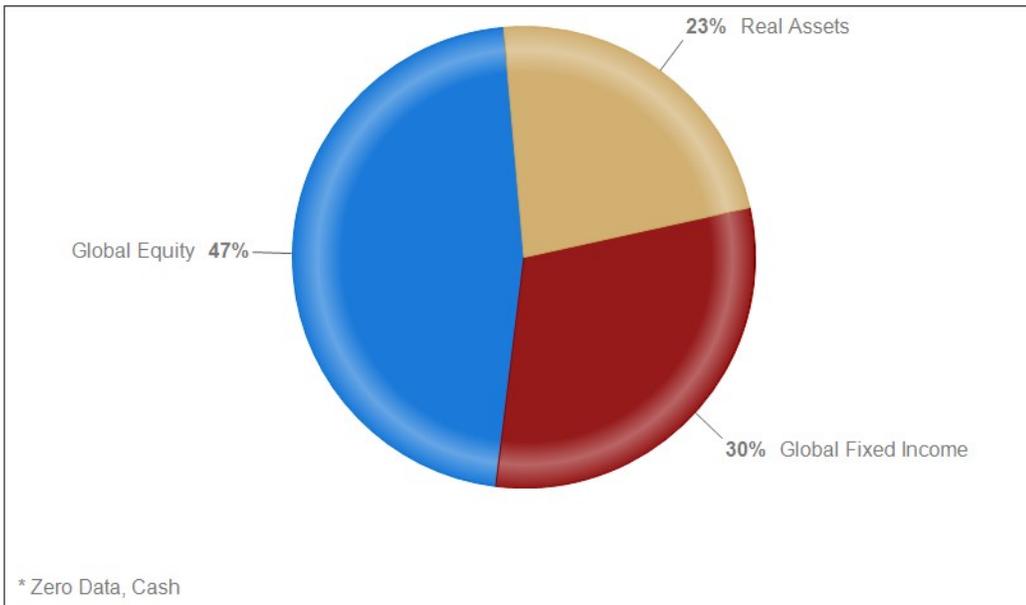
(Based on Fair Value)



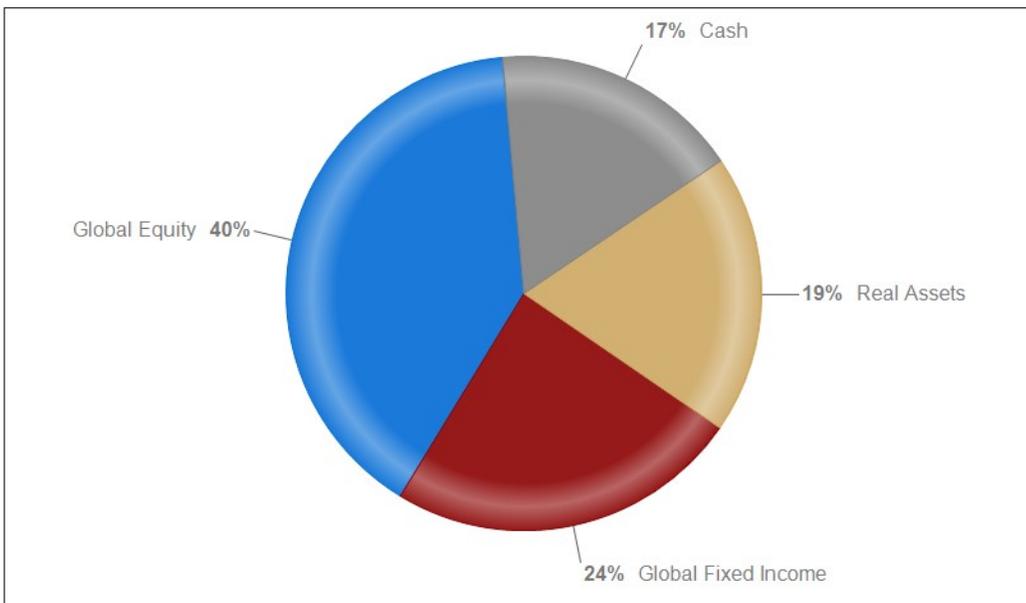
Pension Investment Review

HEALTHCARE

TARGET ASSET ALLOCATION As of June 30, 2017



ACTUAL ASSET ALLOCATION As of June 30, 2017 Non-GAAP Basis

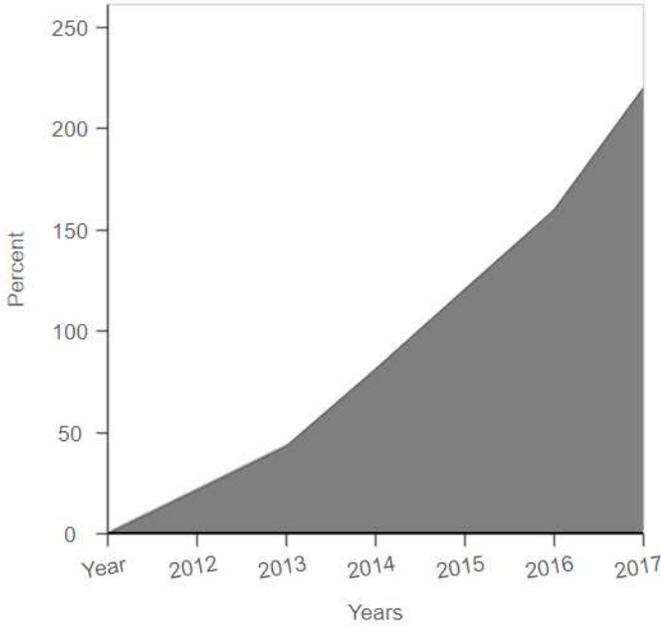


Asset Class	\$ In Millions
Global Equity	\$87.79
Global Fixed Income	\$53.06
Real Assets	\$41.56
Cash	\$37.29
TOTAL	\$219.70

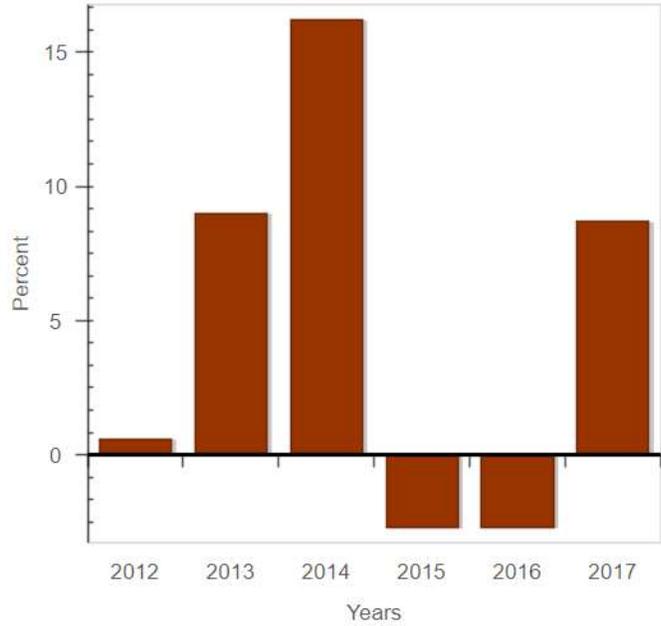
Pension Investment Review *(continued)*

HEALTHCARE *(continued)*

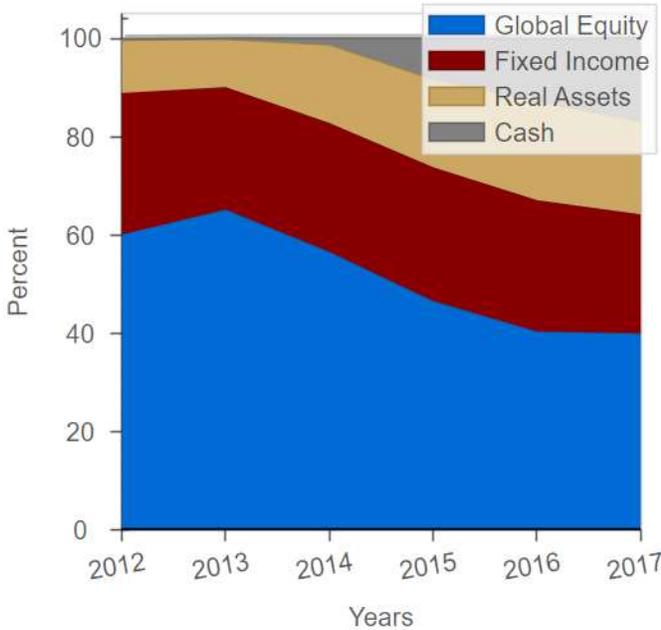
MARKET VALUE GROWTH OF PLAN ASSETS
For Six Years Ended June 30, 2017 (Dollars in Millions)



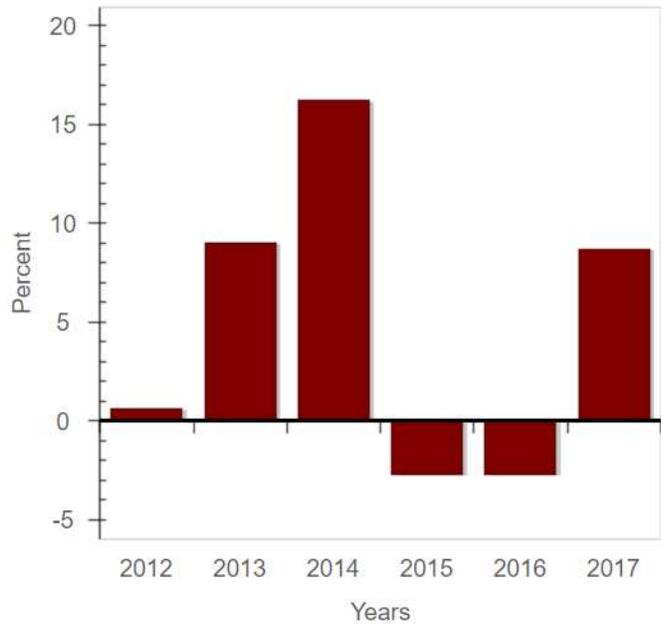
HISTORY OF NET PERFORMANCE
For Fiscal Years 2012 - 2017 (Based on Fair Value)



HISTORICAL ASSET ALLOCATION (Actual)
As of June 30, 2012 - June 30, 2017



HISTORY OF GROSS PERFORMANCE
For Fiscal Years 2012 - 2017 (Based on Fair Value)



List of Largest Assets Held

LARGEST DISCLOSABLE STOCK HOLDINGS (By Fair Value) For Pension

As of June 30, 2017

Description	Country	Shares	Fair Value (\$US)
MONSANTO CO	United States	83,368	\$ 9,867,436
EXXON MOBIL CORP	United States	83,156	\$ 6,713,184
SAMSUNG ELECTRONICS CO LTD	Korea, Republic of	2,744	\$ 5,700,728
NATIONAL GRID PLC	United Kingdom	391,720	\$ 4,842,991
VINCI SA	France	55,955	\$ 4,769,229
TRANSCANADA CORP	Canada	94,829	\$ 4,513,998
CITIGROUP INC	United States	67,455	\$ 4,511,390
ARCHER DANIELS MIDLAND CO	United States	108,394	\$ 4,485,344
BANK OF NEW YORK MELLON CORP	United States	83,190	\$ 4,244,354
ORACLE CORP	United States	83,030	\$ 4,163,124

A complete list of portfolio holdings is available upon request.

LARGEST DISCLOSABLE BOND HOLDINGS (By Fair Value) For Pension

As of June 30, 2017

Security Name	Country	Maturity Date	Interest Rate	Shares	Fair Value (\$US)
TSY INFL IX N/B	United States	4/15/2020	0.13%	10,701,718	\$ 10,718,198
TSY INFL IX N/B	United States	4/15/2019	0.13%	10,690,145	\$ 10,694,956
TSY INFL IX N/B	United States	4/15/2018	0.13%	10,444,886	\$ 10,406,971
TSY INFL IX N/B	United States	4/15/2021	0.13%	9,307,185	\$ 9,293,039
TSY INFL IX N/B	United States	1/15/2022	0.13%	8,588,067	\$ 8,575,185
TSY INFL IX N/B	United States	7/15/2021	0.63%	7,783,584	\$ 7,977,006
TSY INFL IX N/B	United States	1/15/2021	1.13%	7,332,112	\$ 7,613,665
TSY INFL IX N/B	United States	7/15/2020	1.25%	6,407,201	\$ 6,679,507
TSY INFL IX N/B	United States	1/15/2020	1.38%	3,912,084	\$ 4,054,601
TSY INFL IX N/B	United States	7/15/2019	1.88%	3,681,497	\$ 3,837,077

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

For Fiscal Year Ended June 30, 2017

Includes the 401(h) and 115 Trust

	Assets Under Management at Fair Value*	Fees	Basis Points
Investment Managers' Fees			
Global equity	\$ 769,837,945	\$ 2,475,968	32
Private equity	56,692,993	591,023	104
Global fixed income	439,439,471	716,145	16
Opportunistic/ Private debt	80,227,746	1,137,708	142
Real assets	502,195,240	3,097,920	62
Absolute return	257,871,313	3,064,854	119
Cash	111,906,619	-	-
TOTAL INVESTMENT MANAGERS' FEES	\$ 2,218,171,327	\$ 11,083,618	50

* Includes cash in managers' accounts; non-GAAP basis

	Fees
Other Investment Fees	
Investment consultants	\$ 595,000
Custodian bank	570,035
Investment legal fees	159,532
Other investment fees	124,296
TOTAL OTHER INVESTMENT FEES	\$ 1,448,863

Schedule of Commissions

For the Fiscal Year Ended June 30, 2017

Brokerage Firm	Shares/Par	Base Commissions	Base Comm Cost/Share
B			
B. RILEY & CO., LLC	12,225.000	\$ 366.75	0.0300
BAADER BANK AG	490,941.080	728.64	0.0015
BARCLAYS CAPITAL	1,404,358.690	1,956.39	0.0014
BARCLAYS CAPITAL INC. LE	4,853.000	228.10	0.0470
BLOOMBERG TRADEBOOK LLC	37,800.000	756.00	0.0200
BNP PARIBAS SECURITIES SERVICES	1,924,375.390	245.07	0.0001
BNP PARIBAS SECURITIES SERVICES AUSTR BR	213,510.650	143.62	0.0007
BNP PARIBAS SECURITIES SERVICES SA	84,307,296.000	713.27	0.0000
BTG LLC	1,000.000	20.00	0.0200
C			
CACEIS BANK DEUTSCHLAND GMBH	105,031.360	150.69	0.0014
CANACCORD ADAMS INC	653,768.630	661.86	0.0010
CANACCORD GENUITY INC	4,200.000	84.00	0.0200
CANTOR CLEARING SERVICES	1,300.000	26.00	0.0200
CANTOR FITZGERALD + CO.	59,655.000	1,836.65	0.0308
CARNEGIE A.S.	3,217,594.080	699.21	0.0002
CARNEGIE BANK A.S.	2,280,092.630	663.30	0.0003
CARNEGIE INVESTMENT BANK AB	6,619,752.700	1,273.34	0.0002
CARNEGIE SECURITIES FINLAND	939,493.680	1,535.64	0.0016
CHINA INTERNATIONAL CAPITAL CO	2,278,109.930	805.81	0.0004
CIBC WORLD MKTS INC	13,425,460.700	5,104.55	0.0004
CITIBANK CANADA	16,591.610	6.34	0.0004
CITIBANK OF COLOMBIA	31,213,757.760	10.33	0.0000
CITIGROUP GLBL MARKET KOERA SECS LTD	196,930,738.000	213.38	0.0000
CITIGROUP GLOBAL MARKETS INC.	11,652,209.900	169.01	0.0000
CITIGROUP GLOBAL MARKETS LIMITED	93,203.770	140.52	0.0015
CJS SECURITIES INC	11,600.000	348.00	0.0300
CLSA SECURITIES KOREA LTD.	1,107,803.000	2.26	0.0000
CLSA SINGAPORE PTE LTD.	1,050,218.000	7.66	0.0000
CONCORDIA SA CVMCC	1,018,131.530	234.04	0.0002
CONVERGEX EXECUTION SOLUTIONS LLC	3,391,070.780	694.32	0.0002
CREDIT LYONNAIS SECURITIES(ASIA)	1,944,072.820	601.29	0.0003
CREDIT LYONNAIS SECURITIES (USA) INC	15,053.000	752.65	0.0500
CREDIT SUISSE SECURITIES (EUROPE) LTD	716,089.330	441.26	0.0006
CREDIT SUISSE SECURITIES (USA) LLC	121,839,836.060	10,093.82	0.0001
D			
DAIWA SECURITIES (HK) LTD.	34,776,641.000	171.49	0.0000
DAIWA SECURITIES AMERICA INC	619,886,556.030	14,436.32	0.0000
DANSKE BANK AS	2,811,419.360	900.72	0.0003

Schedule of Commissions *(continued)*

For the Fiscal Year Ended June 30, 2017

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost/Share
DEUTSCHE BANK SECURITIES INC	54,237,689.080	2,130.87	0.0000
DOWLING & PARTNERS	43,718.000	2,185.90	0.0500
E			
ESN NORTHAMERICA, INC.	441,889.830	1,208.99	0.0027
F			
FOKUS BANK ASA	920,351.270	161.38	0.0002
G			
GABELLI & COMPANY	7,600.000	228.00	0.0300
GMP SECURITIES LTD.	413,613.740	167.52	0.0004
GOLDMAN SACHS & CO	1,966,575,060.660	14,221.45	0.0000
GOLDMAN SACHS EQUITY SECURITIES (UK) LTD	540,602.710	404.73	0.0007
H			
HSBC BANK PLC	126,871.990	228.41	0.0018
I			
ICHIYOSHI SECURITIES CO.,LTD.	121,143,185.000	3,650.46	0.0000
IM TRUST S.A. CORREDORES DE BOLSA	81,822,657.000	61.67	0.0000
ING BANK N V	395,646.570	600.62	0.0015
INSTINET	1,946,143.000	23,864.05	0.0123
INSTINET AUSTRALIA CLEARING SRVC PTY LTD	5,276,462.950	1,809.89	0.0003
INSTINET LLC	80,977,092.030	504.18	0.0000
INSTINET PACIFIC LIMITED	1,968,305,683.800	3,429.93	0.0000
INSTINET SINGAPORE SERVICES PT	1,623,866.300	470.70	0.0003
INSTINET U.K. LTD	574,433,260.830	16,389.20	0.0000
INTERFUND TRANSFER	100,223.060	205.47	0.0021
INVESTEC BANK PLC	120,473.040	69.94	0.0006
INVESTMENT TECHNOLOGY GROUP LTD	157,205.400	167.35	0.0011
ITAU USA SECURITIES INC	9,958.000	497.90	0.0500
J			
J.P. MORGAN SECURITIES INC	20,278,900.990	1,120.66	0.0001
J.P. MORGAN SECURITIES (FAR EAST) LTD SEOUL	82,456,920.000	719.71	0.0000
JEFFERIES & COMPANY INC	231,126,358.260	14,032.03	0.0001
JEFFERIES HONG KONG LIMITED	6,603,290.340	1,295.84	0.0002
JOH BERENBERG GOSSLER AND CO	995,324.450	1,633.33	0.0016
JONES & ASSOCIATES INC	571,486.670	279.77	0.0005
JONESTRADING INSTITUTIONAL SERVICES LLC	881,648.140	2,297.27	0.0026
JP MORGAN SECURITIES PLC	8,208,411.480	16,010.38	0.0020
JP MORGAN CHASE BANK N.A. LONDON	64,299.230	36.30	0.0006

Schedule of Commissions *(continued)*

For the Fiscal Year Ended June 30, 2017

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost/Share
K			
KEPLER EQUITIES PARIS	782,836.030	2,258.10	0.0029
L			
LIQUIDNET CANADA INC	951,334.640	909.29	0.0010
LIQUIDNET EUROPE LIMITED	659,488.720	436.62	0.0007
LIQUIDNET INC	134,300.000	2,456.50	0.0183
LOOP CAPITAL MARKETS	18,500.000	289.65	0.0157
M			
MACQUARIE BANK LIMITED	2,248,633.560	1,400.66	0.0006
MERRILL LYNCH & CO INC	49,880.960	37.19	0.0007
MERRILL LYNCH PIERCE FENNER + SMITH INC	81,017,630.210	41,741.10	0.0005
MITSUBISHI UFJ SECURITIES (USA)	70,124,958.000	1,709.53	0.0000
MIZUHO SECURITIES USA INC	595,164,034.000	8,920.92	0.0000
MORGAN STANLEY AND CO INTERNATIONAL	174,519,737.000	525.19	0.0000
MORGAN STANLEY CO INCORPORATED	129,071,080.400	11,882.46	0.0001
N			
NEEDHAM & COMPANY LLC	400.000	8.00	0.0200
NEWEDGE USA LLC	194.000	233.14	1.2018
NOMURA SECURITIES CO LTD	403,423.200	80.88	0.0002
NORTHERN TRUST BROKERAGE INSTITUTION	51,630.000	387.23	0.0075
NUMIS SECURITIES INC	1,354,499.370	3,665.17	0.0027
O			
OPPENHEIMER & COMPANY	369.000	7.38	0.0200
P			
PAREL	572,676.150	1,081.75	0.0019
PEEL HUNT LLP	509,940.290	672.22	0.0013
PERSHING SECURITIES LIMITED	789,263.710	620.02	0.0008
PIPER JAFFRAY & HOPWOOD	8,680.000	434.00	0.0500
R			
RAYMOND JAMES AND ASSOCIATES LLC	5,741.000	287.05	0.0500
RAYMOND JAMES LTD	367,170.510	551.41	0.0015
RBC DOMINION SECURITIES INC	2,870,348.590	291.55	0.0001
REDBURN PARTNERS LLP	579,994.900	890.36	0.0015
ROBERT W BAIRD CO INCORPORATE	772,928.000	664.56	0.0009
ROTH CAPITAL PARTNERS LLC	22,300.000	46.00	0.0021
ROYAL BANK OF CANADA EUROPE LTD	395,067.150	223.72	0.0006
S			
SANFORD C BERNSTEIN CO LLC	86,467.000	2,665.35	0.0308
SANFORD C BERNSTEIN LTD	278,002.630	427.77	0.0015
SANTANDER SECURITIES SERVICES, S.A	141,866.520	77.59	0.0005
SCOTIA CAPITAL (USA) INC	102,937.000	5,146.85	0.0500

Schedule of Commissions *(continued)*

For the Fiscal Year Ended June 30, 2017

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost/Share
SCOTIA CAPITAL INC	19,334.470	18.20	0.0009
SIDOTI & COMPANY LLC	32,100.000	963.00	0.0300
SKANDINAVISKA ENSKILDA BANKEN	5,526,065.610	1,110.54	0.0002
SKANDINAVISKA ENSKILDA BANKEN LONDON	9,647,594.680	3,226.55	0.0003
SOCIETE GENERALE LONDON BRANCH	26,325,213.900	10,534.47	0.0004
STIFEL NICOLAUS & CO INC	542,810.370	690.23	0.0013
SUNTRUST CAPITAL MARKETS INC	300.000	6.00	0.0200
T			
THE HONGKONG AND SHANGHAI BANK	1,204.000	1,011.65	0.8402
TORONTO DOMINION SECURITIES INC	1,779,556.550	873.80	0.0005
U			
UBS LIMITED	401,712.370	845.41	0.0021
UBS SECURITIES ASIA LTD	281,965.000	282.87	0.0010
UBS SECURITIES CANADA INC	51,426.410	9.63	0.0002
W			
WELLS FARGO SECURITIES LLC	1,992,336.780	1,332.00	0.0007
TOTAL	7,467,919,636.970	\$ 269,239.76	\$ 27,737.0610

Investment Summary

PENSION - INCLUDES THE 401(H) INVESTMENTS

As of June 30, 2017 (Dollars in Thousands)

Type of Investments	Fair Value	% of Portfolio
Global equity	\$ 682,047	26.5 %
Private equity	56,693	3.8
Global fixed income	386,379	21.3
Real assets	460,630	24.9
Private debt	80,228	5.0
Absolute return	257,871	13.6
Collective short-term investments*	74,621	4.9
TOTAL FAIR VALUE	\$ 1,998,469	100.0 %

The amounts presented above may vary from the amounts presented in the financial statements due to the investment summary presenting amounts at the manager level and the financial statements presenting amounts at the security level.

* Includes cash to support synthetic exposure.

HEALTHCARE - 115 TRUST

As of June 30, 2017 (Dollars in Thousands)

Type of Investments	Fair Value	% of Portfolio
Global equity	\$ 87,790	40.5 %
Global fixed income	53,061	26.7
Real assets	41,565	20.1
Collective short-term investments	37,286	12.7
TOTAL FAIR VALUE	\$ 219,702	100.0 %

The amounts presented above may vary from the amounts presented in the financial statements due to the investment summary presenting amounts at the manager level and the financial statements presenting amounts at the security level.

Actuarial Section



Pension Trust and Postemployment Healthcare
Trust Funds of the City of San José, California

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2017
and June 30, 2016



September 20, 2017

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

Dear Members of the Board:

The purpose of this letter is to provide the certification for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the City of San José Federated City Employees' Retirement System (System) with respect to pension benefits.

Actuarial Valuation Used for Funding Purposes

Actuarial valuations are performed annually, but prior to June 30, 2009, actuarial valuations were performed every other year. The most recent actuarial valuation was performed as of June 30, 2016. Please refer to that report for additional information related to the funding of the System.

We prepared the following schedules for inclusion in the Actuarial Section of the CAFR based on the June 30, 2016 actuarial valuation. All historical information prior to the June 30, 2010 actuarial valuation shown in these schedules is based on information reported by the prior actuary, Gabriel, Roeder, Smith and Company.

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

The funding ratios shown in the solvency test and the schedule of funding progress are ratios compared to the funding target and are for the purpose of evaluating funding progress in a budgeting context. These ratios are not appropriate for measuring or assessing the solvency of the System or the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligations.

The Board of Administration is responsible for establishing and maintaining the contribution policy for the System. The actuarial methods and assumptions used in the actuarial valuation are adopted by the Board of Administration with advice from the actuary. The actuarial cost method and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes.

Actuary's Certification Letter - Pension *(continued)*

Board of Administration
September 20, 2017
Page 2

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2016 actuarial valuation updated to the measurement date of June 30, 2017. The Board changed its assumption for the long-term expected return on assets for the June 30, 2016 actuarial valuation from 7.0 percent to 6.875 percent. This change is reflected effective July 1, 2016 for financial reporting purposes. In addition, voters approved Measure F on November 8, 2016, and the City Council has adopted implementing ordinances. Consequently, the update was based upon the Total Pension Liability as of the valuation date reflecting the new discount rate, and projected to the measurement date with the addition of service cost and interest cost offset by actual benefit payments, as well as the changes in pension benefit provisions under Measure F that became effective on or before June 30, 2017.

Please refer to our GASB 67/68 report as of June 30, 2017 for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2017, GASB 67/68 report.

- Change in Net Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate
- Schedule of Changes in Net Pension Liability and Related Ratios
- Notes to the Schedule of Employer Contributions

Reliance on the Information Provided by the System and Compliance with ASOPs and GAAP

In preparing our valuations and the schedules for the CAFR, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future actuarial measurements for funding and financial reporting purposes may differ significantly from the current measurements presented in this CAFR due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and, changes in plan provisions or applicable law.

To the best of our knowledge, this letter and the schedules named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. The schedules provided for financial reporting purposes have been prepared in accordance with our understanding of generally accepted accounting principles as promulgated by the GASB. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.



Actuary's Certification Letter - Pension *(continued)*

Board of Administration
September 20, 2017
Page 3

This letter and the schedules named above were prepared for the System for the purposes described herein. Other users of this information are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

Sincerely,
Cheiron



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



Jacqueline R. King, ASA, EA, MAAA
Associate Actuary



Actuarial Assumptions and Methods

DEFINED BENEFIT PENSION

Actuarial Assumptions

The discount rate assumption was adopted by the Board of Administration with our input at the December 15, 2016 Board meeting. All other assumptions were adopted at the November 19, 2015 Board meeting based on recommendations from our Experience Study covering plan experience during the period from July 1, 2010 through June 30, 2015.

1) Discount Rate

6.875%. The Board expects a long-term rate of return of 7.21% based on Meketa's 20-year capital market assumptions and the System's current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate.

2) Wage Inflation and Payroll Growth

2.85%, compounded annually.

3) Price Inflation

2.50%, compounded annually

4) Administrative Expenses

1.0% of payroll is added to the normal cost of the system for expected administrative expenses.

5) Salary Increase Rate

In addition to the wage inflation component of 2.85% shown above, the following merit component is added based on an individual member's years of service:

Years of Service	Merit/ Longevity	Years of Service	Merit/ Longevity
0	4.50 %	8	0.60 %
1	3.50	9	0.50
2	2.50	10	0.45
3	1.85	11	0.40
4	1.40	12	0.35
5	1.15	13	0.30
6	0.95	14	0.25
7	0.75	15 +	0.25

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

6) Family Composition

Percentage married is shown in the following Table B-2. Male retirees are assumed to be three years older than their partner, and female retirees are assumed to be two years younger than their partner.

Table B-2	
Percentage Married	
Gender	Percentage
Males	80%
Females	60%

7) Rates of Termination

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

Table B-3			
Rates of Termination			
Age	0 Years of Service	1-4 Years of Service	5 or more Years of Service
20	18.00 %	17.50 %	9.00 %
25	18.00	15.50	9.00
30	18.00	13.50	7.00
35	18.00	11.50	5.50
40	18.00	9.50	4.50
45	18.00	8.00	3.50
50	18.00	7.00	3.00
55	18.00	6.00	3.00
60	18.00	5.00	0.00
65	0.00	0.00	0.00

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

25% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 2.85% pay increases per year.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

8) Rates of Refund

Tier 1:

Sample rates of vested terminated employees electing a refund of contributions are shown in the following Table B-4.

Table B-4	
Rates of Refund	
Age	Refund
20	40.0 %
25	40.0
30	27.5
35	17.0
40	8.0
45	3.0
50	1.0
55	0.0

Tier 2:

Vested terminated employees are expected to take a refund if it exceeds the actuarial present value of their deferred benefit payment.

9) Rates of Disability

Sample disability rates of active members are provided in Table B-5.

Table B-5	
Rates of Disability at Selected Ages	
Age	Disability
20	0.014%
25	0.014
30	0.021
35	0.063
40	0.136
45	0.201
50	0.218
55	0.200
60	0.181
65	0.167
70	0.149

40% of disabilities are assumed to be duty-related, and 60% are assumed to be non-duty.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

10) Rates of Mortality

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the sex-distinct employee and annuitant CalPERS mortality tables as described below. The CalPERS tables are from their 2014 experience study with a central experience year of 2009 and prior to the 20-year projection of those rates using Scale BB. Future mortality improvements are reflected by applying the SOA MP-2015 projection scale on a generational basis from the base year of 2009.

Base Mortality Tables		
Category	Male	Female
Healthy Annuitant	0.952 times the CalPERS 2009 Healthy Annuitant Mortality Table (Male)	0.921 times the CalPERS 2009 Healthy Annuitant Mortality Table (Female)
Healthy Non-Annuitant	0.919 times the CalPERS 2009 Employee Mortality Table (Male)	0.918 times the CalPERS 2009 Employee Mortality Table (Female)
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table (Male)	1.002 times the CalPERS 2009 Ordinary Disability Mortality Table (Female)

100% of Tier 1 active member deaths and 99% of Tier 2 active member deaths are assumed to be non-service connected.

11) Rates of Retirement

Rates of retirement for Tier 1 members are based on age according to the following Table B-6 – Tier 1.

Table B-6 Tier 1			
Rates of Retirement by Age and Service			
Age	15 or more Years of Service and less than 30 years of Service		
	Less than 15 Years of Service	15 or more Years of Service and less than 30 years of Service	30 or more Years of Service
50	0.0%	0.0%	70.0%
51	0.0	0.0	70.0
52	0.0	0.0	70.0
53	0.0	0.0	70.0
54	0.0	0.0	70.0
55	8.0	35.0	50.0
56	8.0	22.5	50.0
57	8.0	22.5	50.0
58	8.0	22.5	50.0
59	8.0	22.5	50.0
60	8.0	22.5	45.0
61	8.0	30.0	45.0
62	9.0	30.0	45.0
63	10.0	30.0	45.0
64	15.0	35.0	45.0
65	20.0	40.0	45.0
66	20.0	40.0	45.0
67	20.0	40.0	45.0
68	20.0	40.0	45.0
69	20.0	40.0	45.0
70 & over	100.0	100.0	100.0

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

Rates of retirement for Tier 2 members are based on age according to the following Table B-6 – Tier 2.

Table B-6 Tier 2		
Rates of Retirement by Age and Service		
Age	Less than 32.5 Years of Service	32.5 or more Years of Service
55	4.0%	7.0%
56	3.0	6.0
57	3.0	6.0
58	3.0	6.0
59	5.0	10.0
60	7.5	15.0
61	10.0	25.0
62	10.0	25.0
63	10.0	25.0
64	10.0	25.0
65	40.0	70.0
66	25.0	50.0
67	25.0	50.0
68	25.0	50.0
69	25.0	50.0
70 & over	100.0	100.0

For GASB 67 reporting as of June 30, 2017, Tier 2 retirement rates were changed to the rates shown in Table B-7 below to value the changes made by Measure F.

Table B-7					
Tier 2 Rates of Retirement by Age and Service					
Age	Years of Service				
	5 - 10	11 - 20	21 - 25	26 - 34	35 +
55	3.0%	5.0%	7.0%	10.0%	15.0%
56	2.0%	3.5%	4.0%	7.0%	10.5%
57	2.5%	4.5%	5.0%	8.5%	12.75%
58	3.0%	5.5%	7.0%	11.0%	16.5%
59	3.5%	7.0%	9.0%	13.5%	20.25%
60 - 61	4.0%	8.5%	10.0%	14.5%	21.75%
62	7.5%	12.5%	17.5%	25.0%	100.0%
63 - 69	5.0%	10.0%	15.0%	25.0%	100.0%
70 & over	100.0%	100.0%	100.0%	100.0%	100.0%

12) Deferred Member Benefit

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

Tier 1 terminated vested members are assumed to retire at age 57 and Tier 2 terminated vested members are assumed to retire at age 65.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

13) Changes Since Last Valuation

The discount rate was reduced from 7.00% to 6.875%.

Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below. All components of the contribution allocation procedure were established prior to the June 30, 2010 actuarial valuation except as specifically noted below.

1) Actuarial Cost Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund all benefits between each member's date of hire and last assumed date of employment. The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs. Or, equivalently, it is the accumulation of normal costs for all periods prior to the valuation date. The normal cost and actuarial liability are calculated on an individual basis. The sum of the individual amounts is the normal cost and actuarial liability for the System. The actuarial liability for the System represents the target amount of assets the System should have as of the valuation date according to the actuarial cost method.

2) Asset Valuation Method

For the purpose of determining contribution rates and amounts, an actuarial value of assets is used that dampens the volatility in the market value of assets, resulting in a smoother pattern of contribution rates.

The actuarial value of assets is calculated by recognizing 20% of the difference in each of the prior four years of actual investment returns compared to the expected return on the market value of assets.

3) Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2009 is amortized as a level percentage of Tier 1 pay over a closed 30-year period commencing June 30, 2009. Actuarial gains and losses, assumption changes, and plan changes are amortized as a level percentage of Tier 1 and Tier 2 pay over 20-year periods beginning with the valuation date in which they first arise. The amortization payment for the 2015 assumption changes is phased in over a 3-year period. The phase-in is calculated by multiplying the first year amortization payment by one third. For the second year, the amortization schedule is recalculated reflecting the one-third payment in the first year and the remaining 19-year period, and the calculated amortization payment is then multiplied by two-thirds. For the third year, the amortization schedule is again recalculated reflecting the prior payments and the remaining 18-year period. To remain a level percentage of expected future payroll, each annual amortization payment increases by 2.85%.

4) Contributions

The Board adopted a policy in 2010 and modified it in 2015 setting the City's contribution to be the UAL contribution amount reported in the actuarial valuation plus the greater of the normal cost dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the normal cost as a percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. The City and Member contributions determined by a valuation become effective for the fiscal year commencing one year after the valuation date. For Tier 1, City contributions are normally made on the first day of the fiscal year. All other contributions are made on a payroll-by-payroll basis.

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

The total contribution rate is the sum of the normal cost rate (including assumed administrative expenses) and the UAL rate. The normal cost rate is determined by dividing the total normal cost determined under the actuarial cost method by the payroll expected for members active on the valuation date. The UAL payments are adjusted for interest from the valuation date to the date of expected payment in the following fiscal year. The UAL rate is determined by dividing the UAL payments by the total expected payroll for the year (including members active on the valuation date and new entrants expected to replace active members who are expected to leave employment).

For Tier 1, members contribute 3/11ths of the normal cost rate (including administrative expenses, but excluding reciprocity), and the City pays the remainder of the total contribution rate. For Tier 2, the members and the City each pay half of the total contribution rate.

5) Changes Since Last Valuation

The Board modified its contribution policy to fix the UAL contribution based on the dollar amount shown in the actuarial valuation report.

Member Valuation Data

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Date	Active Count	Annual Payroll	Average Annual Pay	Percent Change in Average Pay
2016	3,297	\$ 266,823,375	\$ 80,929	4.2%
2015	3,236	251,429,722	77,698	3.3
2014	3,121	234,677,131	75,193	3.0
2013	3,094	225,779,216	72,973	-0.6
2012	3,076	225,859,144	73,426	5.0
2011	3,274	228,936,398	69,926	-11.2
2010	3,818	300,811,165	78,788	-0.5
2009	4,079	323,020,387	79,191	7.1
2007	3,942	291,404,606	73,923	7.0
2005	4,148	286,445,861	69,056	5.6
2003	4,479	292,961,371	65,408	15.6
2001	4,466	252,696,000	56,582	7.9
1999	3,694	193,650,000	52,423	8.3
1997	3,642	176,284,000	48,403	6.8
1995	3,397	153,918,000	45,310	4.4

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

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

Changes in Retirees and Beneficiaries

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
Period	Beginning of Period		Added to Rols		Removed from Rols		End of Period		% Increase in Annual Allowances	Average Annual Allowances
	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances	Count	Annual Allowances		
2015-2016	3,901	\$ 168,917,000	212	\$ 7,907,000	110	\$ 3,904,000	4,003	\$ 177,751,000	5.2	% \$ 44,404
2014-2015	3,800	159,124,000	200	8,266,000	99	3,122,000	3,901	168,917,000	6.2	43,301
2013-2014	3,711	150,934,000	194	7,274,000	105	3,405,000	3,800	159,124,000	5.4	41,875
2012-2013	3,602	142,063,000	198	7,036,000	89	2,360,000	3,711	150,934,000	6.2	40,672
2011-2012	3,428	129,869,000	250	14,158,000	76	1,964,000	3,602	142,063,000	9.4	39,440
2010-2011	3,111	112,660,000	398	19,615,000	81	2,406,000	3,428	129,869,000	15.3	37,885
2008-2010	2,930	101,194,000	206	10,700,373	79	2,203,960	3,111	112,660,000	11.3	36,213
2006-2008	2,691	84,723,000	376	14,890,021	137	3,450,015	2,930	101,194,000	19.4	34,537
2004-2006	2,426	69,466,000	389	13,818,131	124	2,721,303	2,691	84,723,000	27.0	31,484
2002-2004	2,172	54,687,000	398	16,679,642	144	2,070,047	2,426	69,466,000	21.0	28,634
2000-2002	2,030	45,208,000	313	10,151,748	171	503,802	2,172	54,687,000	20.7	25,178
1998-2000	1,824	37,137,000	230	6,655,000	24	268,000	2,030	45,208,000	21.7	22,270
1997-1999	1,745	32,630,000	202	4,642,000	123	1,514,000	1,824	37,137,000	13.8	20,360

Actuarial Analysis of Financial Experience

ANALYSIS OF FINANCIAL EXPERIENCE					
Gain or (Loss) for Year Ending on Valuation Date Due To:					
Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
June 30, 2016	\$ (81,539)	\$ (29,989)	\$ (111,528)	\$ (60,233)	\$ (171,761)
June 30, 2015	(3,641)	(45,998)	(49,639)	(191,527)	(241,166)
June 30, 2014	39,675	(13,600)	26,075	(103,404)	(77,329)
June 30, 2013	(76,502)	2,899	(73,603)	(63,668)	(137,271)
June 30, 2012	(119,331)	2,023	(117,308)	43,109	(74,199)
June 30, 2011	(82,166)	83,403	1,237	(187,548)	(186,311)
June 30, 2010	(124,137)	45,785	(78,352)	(18,467)	(96,819)

Dollar amounts in thousands

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

Actuarial Analysis of Financial Experience *(continued)*

ALTERNATE ANALYSIS OF FINANCIAL EXPERIENCE TIER 1 For Plan Year Ended June 30, 2017			
Type of Activity	Change in Employee Rate %	Change in Employer Rate %	Total Change in Contribution Rate %
Investment Performance	0.00	1.51	1.51
Liability Experience	-0.06	-0.75	-0.81
Change in Assumptions	0.19	2.54	2.73
Change in Benefit Provisions	0.00	0.00	0.00
TOTAL	0.13	3.30	3.43

ALTERNATE ANALYSIS OF FINANCIAL EXPERIENCE TIER 2 For Plan Year Ended June 30, 2017			
Type of Activity	Change in Employee Rate %	Change in Employer Rate %	Total Change in Contribution Rate %
Investment Performance	-0.06	-0.06	-0.12
Liability Experience	0.08	0.08	0.16
Change in Assumptions	0.16	0.16	0.32
Change in Benefit Provisions	0.00	0.00	0.00
TOTAL	0.18	0.18	0.36

Solvency Test

GASB SOLVENCY TEST Actuarial Liability for:							
Valuation Date	Active Member Contributions	Retirees, Beneficiaries and Other Inactives	Remaining Active Members' Liabilities	Reported Assets	Portion of Actuarial Liability Covered by Reported Assets		
					(A)	(B)	(C)
June 30, **	(A)	(B)	(C)		(A)	(B)	(C)
2016	240,872	2,722,224	823,634	2,034,741	100 %	66 %	0 %
2015	243,828	2,553,892	772,178	2,004,481	100	69	0
2014	233,289	2,331,656	670,120	1,911,773	100	72	0
2013	234,217	2,164,253	615,393	1,783,270	100	72	0
2012	234,619	2,001,498	604,883	1,762,973	100	76	0
2011	234,574	1,848,254	687,400	1,788,660	100	84	0
2010	242,944	1,504,698	762,716	1,729,413	100	99	0
2009	228,967	1,393,114	864,074	1,756,588	100	100	16
2007	214,527	1,003,001	743,415	1,622,851	100	100	55
2005	230,027	824,043	657,300	1,384,454	100 %	100 %	50 %

** Results prior to June 30, 2010 were calculated by the prior actuary.

Amounts in thousands

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION

Schedule of Funding Progress

The funding ratios shown in the Schedule of Funding Progress are ratios compared to the actuarial liability that is intended to be a funding target and are for the purpose of evaluating funding progress in a budgeting context. These ratios are not appropriate for measuring or assessing the solvency of the System or the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligations.

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL (UAL)	Funded Ratio	Covered Payroll	UAL as a % of Covered Payroll
June 30, 2016 ⁸	\$ 2,034,741	\$ 3,786,730	\$ 1,751,989	53.7 %	\$ 266,823	657 %
June 30, 2015 ⁷	2,004,481	3,569,898	1,565,417	56.0	251,430	623
June 30, 2014 ⁶	1,911,773	3,235,065	1,323,292	59.0	234,677	564
June 30, 2013 ⁵	1,783,270	3,013,763	1,230,493	59.0	225,779	545
June 30, 2012 ⁴	1,762,973	2,841,000	1,078,027	62.0	225,859	477
June 30, 2011 ³	1,788,660	2,770,227	981,567	65.0	228,936	429
June 30, 2010 ²	1,729,414	2,510,358	780,944	69.0	300,811	260
June 30, 2009 ¹	1,756,588	2,486,155	729,567	71.0	323,020	226
June 30, 2007	1,622,851	1,960,943	338,092	83.0	291,405	116
June 30, 2005	1,384,454	1,711,370	326,916	81.0	286,446	114
June 30, 2003	1,280,719	1,311,691	30,972	98.0	292,961	11

Amounts prior to June 30, 2010 were calculated by the prior actuary

Amounts in thousands

¹ Demographic assumption changes increased AL by \$83 million.

² Demographic and economic assumption changes, including reducing the discount rate from 8.25% to 7.75% increased the AL by \$229 Million.

³ Increasing the discount rate from 7.75% to 7.95% decreased the AL by \$59 million.

⁴ Demographic and economic assumption changes, including reducing the discount rate from 7.95% to 7.5% increased the AL by \$188 million.

⁵ Elimination of the Supplemental Retirement Benefit Reserve reduced the AL by \$43 million.

⁶ Reducing the discount rate from 7.5% to 7.25% and wage inflation to 2% for 5 years and 2.85% thereafter increased the AL by \$64 million..

⁷ Reducing the discount rate from 7.25% to 7.0% and eliminating the temporary 2% wage inflation increased the AL by \$103 million.

⁸ Demographic and economic assumption changes decreased the AL by \$192 million.

Summary of Pension Plan Provisions - Tier 1

1) Membership Requirement

Participation in the System is immediate upon the first day of full-time employment for members hired before September 30, 2012.

For GASB reporting as of June 30, 2017, the Measure F change allowing members who originally participated in Tier 1 to return to Tier 1 upon rehire was valued, resulting in movement of 35 members from Tier 2 to Tier 1.

2) Final Compensation

Members who separated from city service prior to June 30, 2001

The highest average annual compensation earnable during any period of three consecutive years.

Members who separated from city service on or after June 30, 2001

The highest average annual compensation earnable during any period of twelve consecutive months.

3) Credited Service

One year of service credit is given for 1,739 or more hours of Federated City service rendered in any calendar year. A partial year (fraction with the numerator equal to the hours worked, and the denominator equal to 1,739) is given for each calendar year with less than 1,739 hours worked.

4) Member Contributions

Member:

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

Employer:

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

5) Service Retirement

Eligibility:

Age 55 with five years of service, or any age with 30 years of service.

Benefit – Member:

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

Benefit - Survivor:

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

Summary of Pension Plan Provisions - Tier 1 *(continued)*

6) Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. Workers' Compensation benefits are generally offset from the service-connected benefits under this system.

Benefit - Survivor:

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

7) Non-Service Connected Disability Retirement

Eligibility:

Five years of service.

Benefit - Member:

Members who were hired prior to September 1, 1998:

The amount of the service-connected benefit reduced by 0.5% for each year that the disability age preceded 55.

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

20% of Final Compensation, plus 2% of Final Compensation for each year of credited service between six and 16 years, plus 2.5% of Final Compensation for each year of credited service in excess of 16 years, subject to a maximum of 75% of Final Compensation.

Benefit - Survivor:

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

Summary of Pension Plan Provisions - Tier 1 *(continued)*

8) Death While an Active Employee

Less than five years of service, or no qualified survivor:

Lump sum benefit equal to the accumulated refund of all employee contributions with interest, plus one month of salary for each year of service, up to a maximum of six years.

Five or more years of service:

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. The benefit is payable until the spouse or registered domestic partner marries or establishes a domestic partnership. If the member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the member's spouse or registered domestic partner.

9) Withdrawal Benefits

Less than five years of service:

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

Five or more years of credited service:

The amount of the service retirement benefit, payable at age 55.

10) Additional Post-retirement Death Benefit

A death benefit payable as a lump sum equal to \$500 will be paid to a qualified survivor upon the member's death.

11) Post-retirement Cost-of-Living Benefit

Benefits are increased every April 1 by 3.0%, regardless of actual inflation.

12) Changes Since the Last Valuation

None.

Summary of Pension Plan Provisions - Tier 2

1) Membership Requirement

Any person who is hired, rehired or reinstated by the City on or after September 30, 2012.

For GASB reporting as of June 30, 2017, the Measure F change allowing members who originally participated in Tier 1 to return to Tier 1 upon rehire was valued, resulting in movement of 35 members from Tier 2 to Tier 1.

2) Final Compensation

The average annual compensation earnable during the highest three consecutive years of service. Final compensation only includes base pay, excluding premium pay and any other additional compensation.

3) Credited Service

One year of service credit is given for 2,080 or more hours of Federated City service rendered in any calendar year. A partial year (fraction with the numerator equal to the hours worked, and the denominator equal to 2,080) is given for each calendar year with less than 2,080 hours worked.

4) Member Contributions

50% of total Tier 2 contributions to the pension plan, including, but not limited to administrative expenses, normal cost and unfunded actuarial liability.

5) Unreduced Service Retirement

Eligibility:

Age 65 with five years of service. For GASB 67 reporting as of June 30, 2017, eligibility is changed under Measure F to age 62 with five years of service.

Benefit – Member:

2.0% of Final Compensation for each year of credited service attributable to Tier 2 and 2.5% of Final Compensation for each year of credited service attributable to Tier 1, subject to a maximum of 65% of Final Compensation. For GASB 67 reporting as of June 30, 2017, the maximum is changed under Measure F to a 50% joint and survivor annuity.

Benefit - Survivor:

Single life annuity. For GASB 67 reporting as of June 30, 2017, the automatic form of payment is changed under Measure F to a 50% joint and survivor annuity.

6) Early Service Retirement

Eligibility:

Age 55 with five years of service.

Summary of Pension Plan Provisions - Tier 2 *(continued)*

Benefit - Member:

Reduced benefit actuarially equivalent to the unreduced service retirement benefits commencing at age 65. The early retirement reduction is applied to the benefit after the application of the maximum of 65% of final compensation. For GASB 67 reporting as of June 30, 2017, the reduction is changed under Measure F from actuarial equivalence to 5% for each year before age 62.

7) Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

Monthly benefit equivalent to 50% of Final Compensation less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

For GASB 67 reporting as of June 30, 2017, the benefit is changed under Measure F to 2.0% of Final Compensation for each year of service, subject to a minimum of 40% and a maximum of 70% of Final Compensation, less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

8) Non-Service Connected Disability Retirement

Eligibility:

Five years of service.

Benefit - Member:

2.0% of Final Compensation for each year of credited service attributable to Tier 2 and 2.5% of Final Compensation for each year of credited service attributable to Tier 1, subject to a minimum of 20% of Final Compensation and a maximum of 50% of Final Compensation less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

For GASB 67 reporting as of June 30, 2017, the maximum is changed under Measure F to 70% of Final Compensation.

9) Death Before Retirement

If death occurs before retirement eligibility is reached:

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

If death occurs after retirement eligibility is reached:

Benefit equivalent to what the employee would have received if retired at the time of death.

Employees killed in the line of duty:

Monthly benefit equivalent to 50% of Final Compensation.

For GASB 67 reporting as of June 30, 2017, the death benefit is changed under Measure F to 70% to be equal to the death benefits under Tier 1.

Summary of Pension Plan Provisions - Tier 2 *(continued)*

10) Withdrawal Benefits

Less than five years of service:

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

Five or more years of credited service:

The amount of the service retirement benefit, actuarially reduced for early retirement, and payable when retirement eligibility is reached.

11) Benefit Forms

Annuity benefits are paid in the form of a life annuity or an actuarially equivalent annuity with 50%, 75% or 100% continuance to a survivor.

12) Post-retirement Cost-of-Living Benefit

Benefits are increased every April 1 by the change in the December CPI-U for San José-San Francisco-Oakland, subject to a cap of 1.5%. The first COLA after retirement shall be prorated based on the number of months retired.

For GASB 67 reporting as of June 30, 2017, the maximum COLA is changed under Measure F to the following:

Years of Service	Maximum COLA
At least 1, but less than 11	1.25%*
At least 11, but less than 21	1.50%
At least 21, but less than 26	1.75%
At least 26	2.00%

* 1.5% for members hired before Measure F effective date



September 21, 2017

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

Dear Members of the Board:

The purpose of this letter is to provide the certification for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the City of San José Federated City Employees' Retirement System (System) with respect to Other Postemployment Benefits (OPEB) provided through the City of San José Federated Postemployment Healthcare Plan ("Plan").

Actuarial Valuation Used for Funding Purposes

Actuarial valuations are performed annually, but prior to June 30, 2009, actuarial valuations were performed every other year. The most recent actuarial valuation was performed as of June 30, 2016. Please refer to that report for additional information related to the funding of the Plan.

We prepared the following schedules for inclusion in the Actuarial Section of the CAFR based on the June 30, 2016 actuarial valuation. All historical information prior to the June 30, 2010 actuarial valuation shown in these schedules is based on information reported by the prior actuary, Gabriel, Roeder, Smith and Company.

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

The funding ratios shown in the solvency test and the schedule of funding progress are ratios compared to the funding target and are for the purpose of evaluating funding progress in a budgeting context. These ratios are not appropriate for measuring or assessing the solvency of the System or the sufficiency of System assets to cover the estimated cost of settling the System's benefit obligations.

Employees hired on or after September 1, 2013 are not eligible to enter the Plan.

The City and the bargaining units have historically negotiated the contributions to the plan. Voters approved Measure F on November 8, 2016, and the City Council has enacted

Members of the Board
September 21, 2017
Page ii

implementation ordinances. However, the effective dates for provisions affecting the OPEB plan depend on the receipt of IRS approval for the changes. Once Measure F is fully implemented, the members who remain under the Plan will contribute a fixed percentage of pay and the City will pay a contribution determined by the Board, subject to a cap. Prior to the time that Measure F is implemented, we understand the City and members will continue paying the current contributions rates. We understand that none of the changes have been implemented as of June 30, 2017, and consequently, none of the changes are reflected in our reports.

The actuarial methods and assumptions used in the actuarial valuation are adopted by the Board of Administration with advice from the actuary. The actuarial cost method and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes.

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total OPEB Liability is based on the June 30, 2016 actuarial valuation updated to the measurement date of June 30, 2017. There were no significant events between the valuation date and the measurement date so the update procedures only included the addition of service cost and interest cost offset by actual benefit payments.

Please refer to our GASB 74/75 report as of June 30, 2017 for additional information related to the financial reporting of the Plan. We prepared the following schedules for inclusion in the Financial Section of the CAFR as shown in the June 30, 2017, GASB 74/75 report.

- Change in Net OPEB Liability
- Sensitivity of Net OPEB Liability to Changes in Discount Rate and Healthcare Cost Trend Rates
- Schedule of Changes in Net OPEB Liability and Related Ratios
- Schedule of Employer Contributions

Reliance on the Information Provided by the System and Compliance with GAAP

In preparing our valuations and the schedules for the CAFR, we relied on information (some oral and some written) supplied by the City of San José Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future actuarial measurements for funding and financial reporting purposes may differ significantly from the current measurements presented in this CAFR due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and, changes in plan provisions or applicable law.



Actuary's Certification Letter OPEB *(continued)*

Members of the Board
September 21, 2017
Page iii

To the best of our knowledge, this letter and the schedules named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter and the schedules named above were prepared for the Plan for the purposes described herein. Other users of this information are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

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

Sincerely,
Cheiron



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



Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

Attachments



Actuarial Assumptions and Methods

POSTEMPLOYMENT HEALTHCARE

Economic Assumptions:

The expected return on plan assets, expected return on employer assets, and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the December 15, 2016 Board meeting.

1) Expected Return on Plan Assets:

6.875% per year. The Board expects a long-term rate of return of 7.20% for the 401(h) account and 7.00% for the 115 trust based on Meketa's 20-year capital market assumptions and the System's current investment policy. A margin for adverse deviation was used to improve the probability of achieving the discount rate.

2) Per Person Cost Trends:

To Calendar Year	Annual Increase		
	Pre-Medicare	Medicare Eligible	Dental
2018	8.50%	6.50%	4.00%
2019	8.20	6.34	4.00
2020	7.89	6.18	4.00
2021	7.59	6.02	4.00
2022	7.29	5.86	4.00
2023	6.98	5.70	4.00
2024	6.68	5.54	4.00
2025	6.38	5.38	4.00
2026	6.07	5.21	4.00
2027	5.77	5.05	4.00
2028	5.46	4.89	4.00
2029	5.16	4.73	4.00
2030	4.86	4.57	4.00
2031	4.55	4.41	4.00
2032+	4.25	4.25	4.00

Actual premium increases for 2017 were reflected with the above rates applying after Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

3) Changes Since Last Valuation:

The funding discount rate decreased from 7.00% to 6.875%. Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans. The per person cost trends were moved forward one year.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

Demographic Assumptions:

The plan election assumptions were adopted by the Board of Administration at the December 15, 2016 Board meeting based on our recommendations. The other demographic assumptions shown below were adopted at the November 19, 2015 Board meeting based on recommendations from our experience study covering plan experience during the period from July 1, 2010 through June 30, 2015.

1) Retirement Rates:

Rates of retirement for Tier 1 members are based on age according to the following Table Tier 1.

TIER 1			
Rates of Retirement by Age and Service			
Age	Less than 15 years of service	15 or more years of service and less than 30 years of service	30 or more years of service
50	0.0%	0.0%	70.0%
51	0.0	0.0	70.0
52	0.0	0.0	70.0
53	0.0	0.0	70.0
54	0.0	0.0	70.0
55	8.0	35.0	50.0
56	8.0	22.5	50.0
57	8.0	22.5	50.0
58	8.0	22.5	50.0
59	8.0	22.5	50.0
60	8.0	22.5	45.0
61	8.0	30.0	45.0
62	9.0	30.0	45.0
63	10.0	30.0	45.0
64	15.0	35.0	45.0
65	20.0	40.0	45.0
66	20.0	40.0	45.0
67	20.0	40.0	45.0
68	20.0	40.0	45.0
69	20.0	40.0	45.0
70 & over	100.0	100.0	100.0

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

Rates of retirement for Tier 2 members are based on age according to the following Table Tier 2.

TIER 2 Rates of Retirement by Age and Service		
Age	Less than 32.5 Years of Service	32.5 or More Years of Service
55	4.0%	7.0%
56	3.0	6.0
57	3.0	6.0
58	3.0	6.0
59	5.0	10.0
60	7.5	15.0
61	10.0	25.0
62	10.0	25.0
63	10.0	25.0
64	10.0	25.0
65	40.0	70.0
66	25.0	50.0
67	25.0	50.0
68	25.0	50.0
69	25.0	50.0
70 & over	100.0	100.0

Tier 1 terminated vested members are assumed to retire at age 57 and Tier 2 terminated vested members are assumed to retire at age 65.

2) Rates of Termination:

Sample rates of refund/termination are shown in the following tables.

Rates of Termination			
Age	0 Years of Service	1-4 Years of Service	5 or More Years of Service
20	18.00%	17.50%	9.00%
25	18.00	15.50	9.00
30	18.00	13.50	7.00
35	18.00	11.50	5.50
40	18.00	9.50	4.50
45	18.00	8.00	3.50
50	18.00	7.00	3.00
55	18.00	6.00	3.00
60	18.00	5.00	0.00
65	0.00	0.00	0.00

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

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

3) Rates of Refund:

Tier 1:

Sample rates of vested terminated employees electing a refund of contributions are shown in the following Table.

Rates of Refund	
Age	Refund
20	40.00 %
25	40.00
30	27.50
35	17.00
40	8.00
45	3.00
50	1.00
55	0.00

Tier 2:

Vested terminated employees are expected to take a refund if it exceeds the actuarial present value of their deferred benefit payment.

4) Rate of Mortality:

Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex-distinct employee and annuitant CalPERS mortality tables as described below. The CalPERS tables are from their 2014 experience study with a central experience year of 2009 and prior to the 20-year projection of those rates using Scale BB. Future mortality improvements are reflected by applying the SOA MP-2015 projection scale on a generational basis from the base year of 2009.

Base Mortality Tables		
Category	Male	Female
Healthy Annuitant	0.952 times the CalPERS 2009 Healthy Annuitant Mortality Table (Male)	0.921 times the CalPERS 2009 Healthy Annuitant Mortality Table (Female)
Healthy Non-Annuitant	0.919 times the CalPERS 2009 Employee Mortality Table (Male)	0.918 times the CalPERS 2009 Employee Mortality Table (Female)
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table (Male)	1.002 times the CalPERS 2009 Ordinary Disability Mortality Table (Female)

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

5) Disability Rates:

Sample rates of disability are shown in the following table.

Rates of Disability at Selected Ages	
Age	Disability
20	0.014%
25	0.014
30	0.021
35	0.063
40	0.136
45	0.201
50	0.218
55	0.200
60	0.181
65	0.167
70	0.149

40% of disabilities are assumed to be duty related, and 60% are assumed to be non-duty.

6) Salary Increase Rate:

Wage inflation component: 2.85%

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

Salary Merit Increases	
Years of Service	Merit/Longevity
0	4.50%
1	3.50
2	2.50
3	1.85
4	1.40
5	1.15
6	0.95
7	0.75
8	0.60
9	0.50
10	0.45
11	0.40
12	0.35
13	0.30
14	0.25
15+	0.25

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

7) Percent of Retirees Electing Coverage

100% of active members are assumed to elect coverage at retirement. 60% of term vested members are assumed to elect coverage at retirement. Retirees are assumed to continue in their current plan.

The HMO \$25 Co-pay, HMO \$45 Co-pay, HMO \$25 SaveNet, and HMO \$45 SaveNet plans will discontinue as of 1/1/2017. Sutter Health Plus \$20 Co-pay and Sutter Health Plus \$1,500 Deductible plans will be offered as of 1/1/2017.

Retirees who are not yet age 65 are assumed to be eligible for Medicare when they reach age 65 and are assumed to enroll in the Medicare-eligible plan corresponding to their current Pre-Medicare plan election. Future retirees are assumed to elect plans in the proportion shown in the table below.

ASSUMED PLAN ELECTIONS FOR FUTURE RETIREES	
Plan	% Electing
Pre-Medicare Medical Plans	
Kaiser DHMO	18 %
Kaiser \$25 Co-pay	60
HMO \$45 Co-pay	1
PPO \$25 Co-pay	16
Medicare-Eligible Medical Plans	
Kaiser Senior Advantage	58
BS Medicare HMO	8
BS Medicare PPO	34
Dental Plans (All Retirees)	
Delta Dental PPO	97
DeltaCare HMO	3

8) Family Composition:

85% of married males and 70% of married females will elect spouse coverage in a medical plan at retirement. 100% of employees with a spouse will elect spouse coverage in a dental plan at retirement. Pre-Medicare, 35% of males and 22% of females will cover children.

9) Dependent Age:

For current retirees, actual spouse date of birth was used when available. For future retirees, male retirees are assumed to be three years older than their partner, and female retirees are assumed to be two years younger than their partner.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

10) Married Percentage:

Percentage Married	
Gender	Percentage
Males	80%
Females	60%

11) Administrative Expenses:

Included in the average monthly premiums

Changes Since Last Valuation

Plan enrollment assumptions were updated based on recent experience and the expected impact of added and dropped plans.

Claim and Expense Assumptions:

The claim and expense assumptions shown below were adopted by the Board of Administration at the December 15, 2016 Board meeting based upon our recommendations.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population in 2016 and 2017. For non-Medicare adults, the premiums for each coverage tier (retiree only, retiree plus spouse, retiree plus child(ren) and retiree plus family) were blended based on enrollment data for the 2016 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. Individuals on the HMO \$25 Co-pay, HMO \$45 Co-pay, HMO \$25 SaveNet, and HMO \$45 SaveNet plans were assumed to transition to the SutterPlus \$20 Co-pay and Sutter Health Plus \$1,500 Deductible plans based on the actual 1/1/2017 elections. The resulting per person per month (PPPM) cost was then adjusted using age curves. The pre-Medicare adult claims curves were then loaded for the cost of children; the load for children decreased by retiree age since older retirees have fewer children. The impact of children on Medicare costs was assumed to be de minimis. All claims costs are developed jointly for the Federated, Police, and Fire Postemployment Healthcare Plans of the City of San José.

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

1) Average Annual Claims and Expense Assumptions:

The following claim and expense assumptions were developed as of July 1, 2016 based on the premiums for 2016 and 2017. The explicit subsidy amount (100% of the premium for the lowest cost health plan available to active City employees) is assumed to grow based on the Pre-Medicare cost trend rates.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

The following tables show the claims costs for each medical plan as of the valuation date:

SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE						
Age	Kaiser DHMO		Kaiser \$25 Co-Pay		PPO \$25 Co-pay	
	Male	Female	Male	Female	Male	Female
40	\$ 5,125	\$ 7,213	\$ 6,467	\$ 9,242	\$ 7,585	\$ 11,311
45	5,311	7,001	6,783	9,031	8,231	11,247
50	5,909	7,449	7,649	9,696	9,614	12,361
55	6,816	8,105	8,925	10,639	11,547	13,848
60	8,078	8,997	10,673	11,894	14,114	15,754
64	9,428	9,857	12,523	13,095	16,774	17,541

SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE				
Age	Sutter DHMO		Sutter \$20 Co-pay	
	Male	Female	Male	Female
40	\$ 6,750	\$ 9,485	\$ 7,783	\$ 10,903
45	6,986	9,200	8,035	10,562
50	7,763	9,779	8,905	11,206
55	8,942	10,632	10,236	12,163
60	10,588	11,792	12,097	13,471
64	12,350	12,913	14,095	14,737

SAMPLE CLAIMS COSTS - MEDICARE ELIGIBLE						
Age	Kaiser Senior Adv		BS Med HMO		BS Med PPO	
	Male	Female	Male	Female	Male	Female
65	\$ 2,831	\$ 3,020	\$ 6,567	\$ 7,004	\$ 5,924	\$ 6,318
70	3,324	3,334	7,711	7,735	6,956	6,977
75	3,717	3,595	8,623	8,340	7,778	7,523
80	3,950	3,711	9,162	8,609	8,264	7,765
85	4,003	3,673	9,284	8,519	8,375	7,685

SAMPLE CLAIMS COSTS - DENTAL					
Age	Delta Dental PPO		DeltaCare HMO		
	Male	Female	Male	Female	
All	\$ 717	\$ 717	\$ 311	\$ 311	

2) Medicare Part D Subsidy:

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

3) Medicare Part B:

All Medicare eligible retirees are assumed to participate in Medicare Part B.

4) Medicare Eligibility:

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

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

5) Annual Limits:

Assumed to increase at the same rate as trend.

6) Lifetime Maximums:

Are not assumed to have any financial impact.

7) Geography:

Implicitly assumed to remain the same as current retirees.

8) Retiree Contributions:

Retirees pay the difference between the actual premium for the elected medical plan and the lowest cost medical plan available to active members, if the retiree is eligible to receive the explicit subsidy. No retiree contributions are required for dental.

9) Changes Since Last Valuation:

There was no change to the claims costs process.

Contribution Allocation Procedure

The contribution allocation procedure primarily consists of an actuarial cost method, an asset smoothing method, and an amortization method as described below.

1) Actuarial Cost Method

The Entry Age actuarial cost method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs. Or, equivalently, it is the accumulation of normal costs for all periods prior to the valuation date. The normal cost and actuarial liability are calculated on an individual basis. The sum of the individual amounts is the normal cost and actuarial liability for the System. The actuarial liability for the System represents the target amount of assets the System should have as of the valuation date according to the actuarial cost method.

2) Asset Valuation Method

The actuarial value of assets equals the market value of assets.

3) Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2016 is amortized as a level dollar amount over an open 30-year period.

4) Contributions

The City negotiates contracts with its labor unions that require both employee and City contributions to fund the System.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of 8 to 3 with the City contributing 8/11ths of the total contribution. In addition, the City contributes the unfunded actuarial liability (UAL) rate on payroll for employees hired after September 2013 who are not eligible to participate in the plan. For employees who are rehired after September 2013, who have vested right to dental benefits, the City contributes the full UAL rate for medical benefits in addition to the 8/11ths of the total dental contribution rate.

Changes Since Last Valuation:

The amortization method changed from a layered amortization method to a 30-year open amortization method.

POSTEMPLOYMENT HEALTHCARE - DATA SCHEDULES

SCHEDULE OF ACTIVE MEMBER DATA						
Active Member Counts						
Valuation Date As of June 30,	Under Age 65	Age 65+	Total	Annual Payroll	Average Annual Pay	Percentage Change in Average Pay
2016*	2,310	77	2,387	\$202,911,153	\$ 85,007	-2.9 %
2015*	2,527	74	2,601	208,957,370	80,337	5.9
2014*	2,800	64	2,864	217,167,654	75,827	3.7
2013	3,028	65	3,093	226,097,882	73,100	-0.4
2012	3,017	59	3,076	225,859,144	73,426	5.0
2011	3,201	73	3,274	228,936,398	69,926	11.2
2010	3,721	97	3,818	300,811,165	78,788	-0.5
2009	3,988	91	4,079	323,020,387	79,191	N/A
2007	3,853	66	3,919	N/A	N/A	N/A
2006	3,734	75	3,809	N/A	N/A	N/A

* Does not include Tier 2B active employees.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
	Beginning of Period		Added to Rolls	Removed from Rolls	End of Period		Net Change		% Change	Average
Period	Count	Annual Subsidy	Count	Count	Count	Annual Subsidy	Count	Annual Subsidy	Annual Subsidy	Annual Subsidy
Medical										
2015-16	2,769	\$ 21,341,423	183	131	2,821	\$ 21,844,128	52	\$ 502,705	2.4 %	\$ 7,743
2014-15	2,737	21,940,885	152	120	2,769	21,341,423	32	(599,462)	-2.7	7,707
2013-14	2,718	22,656,997	151	132	2,737	21,940,885	19	(716,112)	-3.2	8,016
2012-13	2,680	25,223,474	158	120	2,718	22,656,997	38	(2,566,477)	-10.2	8,336
2011-12	2,557	25,518,761	203	80	2,680	25,223,474	123	(295,287)	-1.2	9,412
2010-11	2,245	20,520,530	429	117	2,557	25,518,761	312	4,998,231	24.4	9,980
2009-10	2,078	17,710,949	243	76	2,245	20,520,530	167	2,809,581	15.9	9,141
2007-09	1,976	14,970,264	N/A	N/A	2,078	17,710,949	102	2,740,685	18.3	8,523
2006-07	1,891	10,864,081	N/A	N/A	1,976	14,970,264	85	4,106,183	37.8	7,576
Dental										
2015-16	3,206	\$ 3,212,072	159	101	3,264	\$ 3,224,133	58	\$ 12,061	0.4 %	\$ 988
2014-15	3,133	3,130,058	160	87	3,206	3,212,072	73	82,014	2.6	1,002
2013-14	3,103	3,742,351	138	108	3,133	3,130,058	30	(612,293)	-16.4	999
2012-13	3,044	3,924,332	144	85	3,103	3,742,351	59	3,739,307	-4.6	1,206
2011-12	2,906	3,744,833	203	65	3,044	3,924,332	138	3,921,426	4.8	1,289
2010-11	2,588	3,017,473	413	95	2,906	3,744,833	318	3,742,245	24.1	1,289
2009-10	2,375	2,410,561	291	78	2,588	3,017,473	213	3,015,098	25.2	1,166
2007-09	2,248	2,346,934	N/A	N/A	2,375	2,410,561	127	2,408,313	2.7	1,015
2006-07	2,220	1,955,377	N/A	N/A	2,248	2,346,934	28	2,344,714	20.0	1,044

Annual subsidies are explicit amounts

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE

SOLVENCY TEST					
Actuarial Valuation Date	Actuarial Liability		Reported Assets	Portion of Liability Covered by Reported Assets	
	Retirees, Beneficiaries and Other Inactives	Active Members		(A)	(B)
	(A)	(B)		(A)	(B)
6/30/2016	\$ 450,793	\$ 313,468	\$ 225,845	50 %	0 %
6/30/2015	469,903	347,770	209,761	45	0
6/30/2014	435,826	293,580	199,776	46	0
6/30/2013	495,967	374,905	157,695	32	0
6/30/2012	611,267	485,353	137,798	23	0
6/30/2011	652,157	493,203	135,454	21	0
6/30/2010	515,284	411,087	108,011	21	0
6/30/2009	421,367	375,081	85,564	20	0
6/30/2007	335,798	280,951	96,601	29	0

Amounts in thousands

ANALYSIS OF FINANCIAL EXPERIENCE					
Gain (or Loss) for Year Ending on Valuation Date Due to:					
Actuarial Valuation Date	Investment Income	Combined Liability Experience	Total Financial Experience	Non-Recurring Items	Total Experience
6/30/2015	(19,264)	6,948	(12,316)	(64,155)	(76,471)
6/30/2014	19,767	31,177	50,944	148,417	199,361
6/30/2013	6,847	5,834	12,681	114,786	127,467
6/30/2012	(14,897)	(27,919)	(42,816)	136,154	93,338
6/30/2011	10,131	(35,166)	(25,035)	(131,557)	(156,592)
6/30/2010	6,705	(43,746)	(37,041)	(36,785)	(73,826)

Dollar amounts in thousands

POSTEMPLOYMENT HEALTHCARE - SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
6/30/2016	\$ 225,845	\$ 764,261	\$ 538,416	29.6 %	\$ 266,823	202 %
6/30/2015	209,761	817,673	607,912	25.7	251,430	242
6/30/2014	199,776	729,406	529,630	27.4	234,677	226
6/30/2013	157,695	870,872	713,177	18.1	226,098	315
6/30/2012	137,798	1,096,620	958,822	12.6	225,859	425
6/30/2011	135,454	1,145,360	1,009,906	11.8	228,936	441
6/30/2010	108,011	926,371	818,360	11.7	300,069	273
6/30/2009	85,564	796,448	710,884	10.7	308,697	230
6/30/2007	96,601	616,749	520,148	15.7	271,833	191

Summary of Key Substantive Plan Provisions

POSTEMPLOYMENT HEALTHCARE

Eligibility (for employees hired before September 2013):

Medical:

Employees who retire (include deferred vested members) with at least 15 years of service with the City (“OPEB benefit service”), or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement. Tier 1 employees (hired before September 30, 2012) are eligible for retirement at age 55 with five years of service or at any age with 30 years of service. Tier 2 employees (hired on or after September 30, 2012) are eligible for unreduced service retirement at age 65 with five years of service or reduced service retirement at age 55 with five years of service. Service credited through reciprocity agreements counts towards an employee’s required service to retire, but only service with the City counts towards the required years of service to receive OPEB benefits. Employees who retire with less than 15 years of service can elect coverage, but receive no explicit subsidy.

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

Spouses or domestic partners of retired members are allowed to participate if they were enrolled in the City’s medical plan at the time of the member’s retirement. Dependent children are eligible to receive coverage until the age of 26.

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

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

Dental:

Employees who retire or become disabled directly from City service with at least five years of service or with a monthly pension equal to at least 37.5% of final compensation, and are enrolled in a City dental plan at retirement, are eligible to elect dental coverage upon retirement. Spouses, domestic partners, or children of retired members are allowed to participate if they were enrolled in the City’s dental plan at the time of the member’s retirement.

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

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

Summary of Key Substantive Plan Provisions *(continued)*

POSTEMPLOYMENT HEALTHCARE

Benefits for Retirees:

Medical: The System, through either the 401(h) account or 115 trust, pays 100% of the premium for the lowest cost health plan available to active City employees. The member pays the difference, if another plan is elected.

Dental: The System, through either the 401(h) account or 115 trust, pays 100% of the dental insurance premiums.

Premiums: Monthly premiums before adjustments for 2016 and 2017 are as follows.

2016 MONTHLY PREMIUMS				
Plan	Single	Employee /Spouse	Employee / Child	Family
Non-Medicare Monthly Rates				
Kaiser DHMO	\$ 466.92	\$ 933.84	\$ 817.12	\$ 1,400.78
Kaiser \$25 Co-pay	570.24	1,140.48	997.88	1,710.66
Blue Shield HMO \$45 Co-pay	722.04	1,444.06	1,263.54	2,166.06
Blue Shield HMO \$45 SaveNet	628.34	1,256.64	1,099.56	1,884.96
Blue Shield HMO \$25 Co-pay	811.48	1,622.94	1,420.10	2,434.42
Blue Shield HMO \$25 SaveNet	706.18	1,412.34	1,235.82	2,118.52
Blue Shield PPO \$25 Co-pay	945.26	1,890.50	1,654.20	2,835.74
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	\$ 272.34	\$ 544.68	\$ 544.68	\$ 817.02
Blue Shield Medicare PPO / POS	707.14	1,414.28	1,414.28	2,123.24
Blue Shield Medicare HMO	673.36	1,346.72	1,346.72	1,955.36
Dental				
Delta Dental PPO	\$ 48.92	\$ 107.62	\$ 117.42	\$ 151.66
DeltaCareHMO	24.44	48.86	42.74	73.30

Blue Shield Medicare family rates assume the children are on the Non-Medicare \$25 Co-pay HMO or PPO

2017 MONTHLY PREMIUMS				
Plan	Single	Employee /Spouse	Employee / Child	Family
Non-Medicare Monthly Rates				
Kaiser DHMO	\$ 490.20	\$ 980.40	\$ 857.86	\$ 1,470.62
Kaiser \$25 Co-pay	598.66	1,197.32	1,047.62	1,795.94
Sutter Health DHMO	513.62	1,027.22	898.84	1,540.86
Sutter Health \$20 Co-pay	627.26	1,254.52	1,097.66	1,881.72
Blue Shield PPO \$25 Co-pay	1,003.76	2,007.50	1,756.60	3,011.26
Medicare-Eligible Monthly Rates				
Kaiser Senior Advantage	\$ 289.12	\$ 578.24	\$ 578.24	\$ 867.36
Blue Shield Medicare HMO	598.82	1,197.64	1,197.64	1,824.90
Blue Shield Medicare PPO	509.21	1,018.42	1,018.42	1,771.26
Dental				
Delta Dental PPO	\$ 50.88	\$ 111.92	\$ 122.12	\$ 157.72
DeltaCare HMO	24.44	48.86	42.74	73.30

Blue Shield Medicare family rates assume the children are on the Non-Medicare \$25 Co-pay HMP or PPO

Summary of Key Substantive Plan Provisions *(continued)*

POSTEMPLOYMENT HEALTHCARE

SUMMARY OF 2017 BENEFIT PLANS					
Non-Medicare Plans:	Kaiser \$25 Co-Pay	Kaiser DHMO	Sutter Health Plus \$20 Co- pay HMO	Sutter Health Plus \$1,500 Deductible	Blue Shield PPO \$25 Co- pay (In Network)
Annual out-of-pocket maximum	\$1,500/\$3,000	\$4,000/\$8,000	\$1,500/\$3,000	\$4,000/\$8,000	\$2,100/\$4,200
Annual deductible	None	\$1,500/\$3,000	None	\$1,500/\$3,000	\$100/\$200
Office visit co-pay	\$25	\$40	\$20	\$20	\$25
Emergency room co-pay	\$100	30%*	\$100	30%*	\$100
Hospital care co-pay	\$100	30%*	\$100	30%*	\$100
Prescription Drug (30-day supply):					
Generic	\$10	\$10	\$10	\$10	\$10
Brand	\$25	\$30	\$30	\$30	\$25
Non-formulary	N/A	N/A	\$60	\$60	\$40

*After deductible is paid.

Medicare-Eligible Plans:	Kaiser	BS HMO	BS PPO
Annual out-of-pocket maximum	\$1,500/\$3,000	\$1,000/\$2,000	\$2,000/\$4,000
Annual deductible	None	None	\$100/\$200
Office visit co-pay	\$25	\$25	\$25
Emergency room co-pay	\$50	\$100	\$100
Hospital care co-pay	\$250	\$100	\$100 + 10%
Prescription Drug (30-day supply)			
Generic	\$10	\$10	\$10
Brand	\$10	\$25	\$25
Non-formulary	N/A	\$40	\$40

Cost Sharing Provisions:

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

Statistical Section

The Statistical Section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this fiscal year's financial statements, note disclosures, and supplementary information, which cover Pension Plan, and Postemployment Healthcare Plans, including 401 (h) and 115. This section also provides a multi-year trend of financial and operating information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for the System's net assets, benefits, refunds, contribution rates, and different types of retirement benefits. The financial and operating trend information is located on the following pages.



Pension Trust and Postemployment Healthcare
Trust Funds of the City of San José, California

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Years ended June 30, 2017
and June 30, 2016

Statistical Review

CHANGES IN PLAN NET POSITION FOR FISCAL YEARS 2008-2017 (In Thousands)

PENSION BENEFITS (Schedule 1a)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Additions										
Employee contributions	\$ 17,227	\$ 15,920	\$ 13,621	\$ 13,596	\$ 12,652	\$ 10,555	\$ 24,602	\$ 13,396	\$ 13,848	\$ 13,366
Employer contributions	138,483	129,456	114,751	107,544	103,109	87,082	59,180	54,566	57,020	54,958
Investment income/(loss)*	146,010	(35,010)	(16,642)	263,688	146,367	(68,903)	287,179	197,755	(295,773)	(60,101)
Total additions to plan net position	301,720	110,366	111,730	384,828	262,128	28,734	370,961	265,717	(224,905)	8,223
Deductions										
Benefit payments	169,756	160,499	152,119	143,921	136,075	126,001	110,415	98,110	89,767	83,291
Death benefits	12,411	11,530	10,724	9,845	9,187	8,601	7,883	7,583	6,923	6,263
Refunds	1,263	1,289	1,719	2,170	1,545	2,195	1,980	1,219	1,395	972
Administrative expenses and other	4,380	3,940	3,898	3,201	3,024	3,306	2,867	2,641	2,108	2,358
Total deductions from plan net position	187,810	177,258	168,460	159,137	149,831	140,103	123,145	109,553	100,193	92,884
Changes in Plan Net Position	\$ 113,910	\$ (66,892)	\$ (56,730)	\$ 225,691	\$ 112,297	\$ (111,369)	\$ 247,816	\$ 156,164	\$ (325,098)	\$ (84,661)

* Net of expenses

POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 1b)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Additions										
Employee contributions	\$ 16,827	\$ 17,881	\$ 18,645	\$ 17,494	\$ 15,979	\$ 14,995	\$ 16,041	\$ 15,815	\$ 15,076	\$ 10,403
Employer contributions	31,905	30,465	26,959	19,298	21,251	25,834	17,146	17,027	16,368	11,560
Investment income/(loss)*	17,041	(2,447)	(5,922)	28,737	13,817	(5,140)	21,842	13,852	(18,485)	(3,715)
Total additions to plan net position	65,773	45,899	39,682	65,529	51,047	35,689	55,029	46,694	12,959	18,248
Deductions										
Healthcare insurance premiums	31,007	29,577	29,443	27,924	30,943	33,077	27,370	24,066	21,725	20,195
Administrative expenses and other	242	237	254	257	207	268	216	181	132	134
Total deductions from plan net position	(31,249)	29,814	29,697	28,181	31,150	33,345	27,586	24,247	21,857	20,329
Changes in Plan Net Position	\$ 34,524	\$ 16,085	\$ 9,985	\$ 37,348	\$ 19,897	\$ 2,344	\$ 27,443	\$ 22,447	\$ (8,898)	\$ (2,081)

* Net of expenses

Source: Pension Administration System

Statistical Review *(continued)*

BENEFIT AND REFUND DEDUCTIONS FROM PLAN NET POSITION BY TYPE *(In Thousands)*

PENSION BENEFITS (Schedule 2a)

Type of Benefit	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Age and Service Benefits										
Retirees - service	\$144,863	\$137,392	\$130,512	\$ 124,399	\$118,178	\$ 109,662	\$ 95,562	\$ 84,606	\$ 77,444	\$ 71,849
Retirees - deferred vested	16,486	14,961	13,507	12,017	10,692	9,261	8,047	6,996	6,219	5,730
Survivors - service	7,281	6,697	6,079	5,376	5,089	4,791	4,425	4,207	3,867	3,561
Survivors - deferred vested	284	287	279	272	232	161	130	138	126	122
Deaths in Service										
Benefits	2,878	2,776	2,702	2,610	2,413	2,349	2,202	2,161	2,032	1,815
Disability Benefits										
Retirees - duty	4,241	4,017	3,980	3,624	3,505	3,609	3,493	3,498	3,256	3,102
Retirees - non-duty	2,246	2,258	2,336	2,278	2,164	2,011	2,039	1,899	1,884	1,835
Survivors - duty	508	456	444	448	437	402	356	338	263	218
Survivors - non-duty	1,168	1,132	1,072	945	903	827	770	739	635	547
Ex-Spouse Benefits										
Ex-Spouse Benefits	2,212	2,053	1,932	1,797	1,649	1,529	1,274	1,111	964	775
Total Benefits	\$182,167	\$172,029	\$162,843	\$ 153,766	\$145,262	\$ 134,602	\$118,298	\$105,693	\$ 96,690	\$ 89,554
Type of Refund										
Separation	\$ 1,263	\$ 1,289	\$ 1,719	\$ 2,170	\$ 1,545	\$ 2,195	\$ 1,980	\$ 1,219	\$ 1,395	\$ 972
Total Refunds	\$ 1,263	\$ 1,289	\$ 1,719	\$ 2,170	\$ 1,545	\$ 2,195	\$ 1,980	\$ 1,219	\$ 1,395	\$ 972

Source: Pension Administration System

Statistical Review *(continued)*

BENEFIT AND REFUND DEDUCTIONS FROM PLAN NET POSITION BY TYPE *(In Thousands)*

POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 2b)

Type of Benefit	2017	2016	2014	2014	2013	2012	2011	2010	2009	2008
Age and Service Benefits										
Retirees - Service										
Medical	\$ 18,668	\$ 17,734	\$ 18,061	\$ 16,002	\$ 19,493	\$ 20,262	\$ 18,971	\$ 16,344	\$ 14,772	\$ 13,524
Dental	2,923	2,799	2,521	2,850	3,089	3,083	2,840	2,474	2,150	2,148
Retirees - Deferred Vested										
Medical	1,641	1,477	1,455	1,243	1,436	1,418	1,241	1,180	1,063	949
Dental	10	10	12	18	21	23	24	27	26	29
Survivors - Service										
Medical	949	890	921	737	874	954	1,024	938	862	800
Dental	174	167	148	227	333	339	329	308	268	269
Survivors - Deferred Vested*										
Medical	26	33	31	28	32	24	18	16	11	10
Dental	1	2	2	3	5	2	-	-	1	-
Death in Service Benefits										
Medical	274	272	302	281	361	389	412	366	335	327
Dental	46	45	38	59	78	78	79	74	67	69
Disability Benefits										
Retirees - Duty										
Medical	957	938	981	920	1,133	1,217	1,253	1,241	1,166	1,113
Dental	116	115	109	130	146	157	162	161	142	143
Retirees - Non-Duty										
Medical	268	281	340	321	413	462	530	513	510	483
Dental	55	59	58	77	89	87	92	84	79	81
Survivors - Duty										
Medical	105	100	111	97	124	125	125	100	80	75
Dental	17	16	15	22	33	32	30	27	20	19
Survivors - Non-Duty										
Medical	172	179	177	142	178	192	195	171	139	123
Dental	26	26	23	32	44	45	45	42	34	33
Ex-Spouse Benefits										
Medical	3	3	3	3	3	4	-	-	-	-
Dental	1	1	1	1	1	1	-	-	-	-
Implicit Subsidy Medical										
Tier 1	4,577	4,430	3,811	4,165	3,057	4,383	-	-	-	-
Tier 2	-	-	323	415	-	-	-	-	-	-
Tier 2B	-	-	-	151	-	-	-	-	-	-
Total Benefits	\$ 31,009	\$ 29,577	\$ 29,443	\$ 27,924	\$ 30,943	\$ 33,277*	\$ 27,370	\$ 24,066	\$ 21,725	\$ 20,195

* Total corrected in current year, prior year amount shown was \$33,077, which was incorrect.

Statistical Review *(continued)*

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2008-2017 (Schedule 3)

Fiscal Year	Fed Tier 1		Fed Tier 2		Fed Tier 2B	
	Employee Rate	Employer Rate	Employee Rate	Employer Rate	Employee Rate	Employer Rate
	%	%	%	%	%	%
2017	15.23	87.47	14.80	15.45	6.04	18.70
2016	15.09	75.57	14.46	15.11	5.70	18.36
2015	14.40	69.66	14.29	14.94	5.53	18.19
2014	13.98	59.51	14.69	15.34	6.68	17.27
2013	13.00	52.36	13.94	14.59	N/A	N/A
2012	11.20*	35.50	N/A	N/A	N/A	N/A
2011	10.30*	29.59 **	N/A	N/A	N/A	N/A
2010	9.35	24.01	N/A	N/A	N/A	N/A
2009	8.93	23.56	N/A	N/A	N/A	N/A
2008	7.58	21.98	N/A	N/A	N/A	N/A

* Some bargaining units negotiated temporary higher rates.

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

Retired Members by Type of Benefit

PENSION BENEFITS

As of June 30, 2017

Monthly Benefit Amount	Number of Retirees & Beneficiaries	Type of Retirement*							Option Selected **			
		1	2	3	4	5	6	7	A	B	C	Total
\$1-500	114	20	1	0	2	22	44	25	60	20	34	114
\$501-1,000	239	59	4	1	0	53	99	23	149	23	67	239
\$1,001-1,500	359	123	5	6	8	81	110	26	212	43	104	359
\$1,501-\$2,000	371	129	11	22	16	86	89	18	222	55	94	371
\$2,001-\$2,500	376	213	6	22	11	51	57	16	214	46	116	376
\$2,501-\$3,000	364	219	15	22	10	42	45	11	206	47	111	364
\$3,001-\$4,000	346	234	2	19	14	40	32	5	203	34	109	346
\$3,501-\$4,000	329	258	5	13	6	10	34	3	183	44	102	329
\$4,001-\$4,500	300	254	5	8	3	7	23	0	167	41	92	300
\$4,501-\$5,000	295	244	4	5	2	11	28	1	173	28	94	295
\$5,001-\$5,500	235	212	4	1	1	3	13	1	156	22	57	235
\$5,501-\$6,000	207	186	1	1	0	4	15	0	120	28	59	207
\$6,001-\$6,500	146	133	1	1	1	4	6	0	85	16	45	146
\$6,501-\$7,000	173	165	1	1	0	0	6	0	109	19	45	173
Over \$7,000	361	340	1	1	0	1	18	0	257	28	76	361
TOTAL	4,215	2,789	66	123	74	415	619	129	2,516	494	1,205	4,215

* Retirement Codes

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

** Option Descriptions

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

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2017

Amount Monthly Benefit	Type of Subsidy	
	Health	Dental
Ineligible/Deferred	1,343	893
\$1 - 60	0	1,562
\$61 - 250	0	1,760
\$251 - 500	1,429	0
\$501 - 750	360	0
\$751 - 1000	811	0
Over \$1,000	272	0
TOTAL	4,215	4,215

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

As of June 30, 2017

Time Periods	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2017							
Average monthly benefit*	\$ 1,024	\$ 1,588	\$ 2,605	\$ 3,488	\$ 4,870	\$ 6,039	\$ 6,730
Average final average salary	\$ 6,171	\$ 5,737	\$ 5,817	\$ 5,780	\$ 6,370	\$ 6,334	\$ 6,403
Number of retired members**	160	473	545	702	642	945	138
As of June 30, 2016							
Average monthly benefit*	\$ 1,031	\$ 1,544	\$ 2,534	\$ 3,393	\$ 4,725	\$ 5,966	\$ 6,630
Average final average salary	\$ 6,009	\$ 5,602	\$ 5,714	\$ 5,617	\$ 6,313	\$ 6,243	\$ 6,329
Number of retired members**	154	459	525	667	637	914	136
As of June 30, 2015							
Average monthly benefit*	\$ 1,005	\$ 1,506	\$ 2,459	\$ 3,291	\$ 4,591	\$ 5,801	\$ 6,464
Average final average salary	\$ 5,609	\$ 5,492	\$ 5,583	\$ 5,497	\$ 6,253	\$ 6,134	\$ 6,378
Number of retired members**	153	443	503	664	631	878	136
As of June 30, 2014							
Average monthly benefit*	\$ 965	\$ 1,444	\$ 2,379	\$ 3,202	\$ 4,459	\$ 5,649	\$ 6,284
Average final average salary	\$ 5,464	\$ 5,313	\$ 5,438	\$ 5,394	\$ 6,171	\$ 6,011	\$ 6,346
Number of retired members**	146	435	499	639	615	844	136
As of June 30, 2013							
Average monthly benefit*	\$ 948	\$ 1,366	\$ 2,232	\$ 3,070	\$ 4,213	\$ 5,420	\$ 5,895
Average final average salary	\$ 3,724	\$ 5,000	\$ 5,189	\$ 5,343	\$ 6,127	\$ 6,019	\$ 6,638
Number of retired members**	117	413	454	629	608	854	159
Period 7/1/2011 to 6/30/2012							
Average monthly benefit*	\$ 914	\$ 1,329	\$ 2,140	\$ 2,982	\$ 4,080	\$ 5,255	\$ 5,722
Average final average salary	\$ 3,516	\$ 4,803	\$ 4,975	\$ 5,280	\$ 5,975	\$ 5,920	\$ 6,513
Number of retired members**	113	402	433	619	586	831	159
Period 7/1/2010 to 6/30/2011							
Average monthly benefit	\$ 842	\$ 1,267	\$ 2,036	\$ 2,835	\$ 3,851	\$ 5,036	\$ 5,577
Average final average salary	\$ 4,303	\$ 4,570	\$ 4,580	\$ 4,991	\$ 5,360	\$ 5,544	\$ 6,056
Number of retired members**	131	371	388	566	465	726	139
Period 7/1/2009 to 6/30/2010							
Average monthly benefit*	\$ 838	\$ 1,179	\$ 1,980	\$ 2,700	\$ 3,714	\$ 4,852	\$ 5,410
Average final average salary	\$ 4,203	\$ 4,221	\$ 4,393	\$ 4,778	\$ 5,129	\$ 5,311	\$ 5,929
Number of retired members**	124	343	367	537	417	664	130
Period 7/1/2008 to 6/30/2009							
Average monthly benefit*	\$ 778	\$ 1,139	\$ 1,899	\$ 2,585	\$ 3,545	\$ 4,671	\$ 5,281
Average final average salary	\$ 3,898	\$ 4,045	\$ 4,201	\$ 4,629	\$ 4,898	\$ 5,151	\$ 5,807
Number of retired members**	120	329	359	529	392	624	123
Period 7/1/2007 to 6/30/2008							
Average monthly benefit*	\$ 765	\$ 1,133	\$ 1,856	\$ 2,550	\$ 3,470	\$ 4,600	\$ 5,231
Average final average salary	\$ 3,828	\$ 3,963	\$ 4,144	\$ 4,585	\$ 4,796	\$ 5,099	\$ 5,761
Number of retired members**	119	325	355	524	382	611	120

* Includes cost of living increases

** Does not include survivors and ex-spouses

Source: Pension Administration System

Average Benefit Payment Amounts *(continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2017

Time Periods	Years of Service Credit						
	0-5	6-10	11-15	16-20	21-25	26-30	31+
As of June 30, 2017							
Average health subsidy	\$ 785	\$ 569	\$ 666	\$ 667	\$ 726	\$ 776	\$ 633
Number of health participants*	18	24	260	634	595	906	131
Average dental subsidy	\$ 83	\$ 84	\$ 88	\$ 89	\$ 92	\$ 94	\$ 86
Number of dental participants*	59	250	394	593	574	908	138
As of June 30, 2016							
Average health subsidy	\$ 605	\$ 354	\$ 589	\$ 629	\$ 707	\$ 741	\$ 593
Number of health participants	24	44	260	595	594	874	130
Average dental subsidy	\$ 79	\$ 80	\$ 84	\$ 86	\$ 89	\$ 90	\$ 83
Number of dental participants	64	250	390	572	576	877	137
As of June 30, 2015							
Average health subsidy	\$ 587	\$ 337	\$ 586	\$ 635	\$ 719	\$ 725	\$ 616
Number of health participants*	26	50	241	594	584	839	133
Average dental subsidy	\$ 82	\$ 84	\$ 87	\$ 86	\$ 91	\$ 90	\$ 84
Number of dental participants	66	249	375	569	571	845	137
As of June 30, 2014							
Average health subsidy	\$ 614	\$ 338	\$ 592	\$ 666	\$ 755	\$ 760	\$ 635
Number of health participants*	24	55	247	587	580	807	130
Average dental subsidy	\$ 85	\$ 84	\$ 86	\$ 86	\$ 91	\$ 90	\$ 83
Number of dental participants	63	244	372	548	565	811	135
Period 7/1/2012 to 6/30/2013							
Average health subsidy	\$ 582	\$ 380	\$ 589	\$ 712	\$ 778	\$ 790	\$ 680
Number of health participants*	27	64	226	576	562	817	148
Average dental subsidy	\$ 100	\$ 101	\$ 101	\$ 102	\$ 100	\$ 101	\$ 100
Number of dental participants	65	243	341	544	558	818	151
Period 7/1/2011 to 6/30/2012							
Average health subsidy	\$ 698	\$ 426	\$ 645	\$ 797	\$ 873	\$ 902	\$ 768
Number of health participants*	27	66	218	580	547	800	150
Average dental subsidy	\$ 107	\$ 107	\$ 107	\$ 108	\$ 107	\$ 107	\$ 106
Number of dental participants*	63	245	325	540	542	800	151
Period 7/1/2010 to 6/30/2011							
Average health subsidy	\$ 866	\$ 773	\$ 764	\$ 855	\$ 898	\$ 928	\$ 848
Number of health participants*	21	39	191	544	448	711	138
Average dental subsidy	\$ 108	\$ 110	\$ 109	\$ 110	\$ 110	\$ 109	\$ 108
Number of dental participants*	64	233	300	500	430	708	139
Period 7/1/2009 to 6/30/2010							
Average health subsidy	\$ 587	\$ 461	\$ 650	\$ 797	\$ 828	\$ 867	\$ 816
Number of health subsidy*	28	65	212	515	402	649	128
Average dental subsidy	\$ 103	\$ 104	\$ 103	\$ 103	\$ 103	\$ 103	\$ 103
Number of dental participants*	61	218	289	474	384	646	130
Period 7/1/2008 to 6/30/2009							
Average health subsidy	\$ 596	\$ 449	\$ 636	\$ 757	\$ 779	\$ 817	\$ 764
Number of health subsidy*	26	65	209	505	377	608	121
Average dental subsidy	\$ 94	\$ 93	\$ 93	\$ 94	\$ 93	\$ 93	\$ 93
Number of dental participants*	61	212	286	467	360	608	122

Source: Pension Administration System

Average Benefit Payment Amounts *(continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2017

Years of Service Credit							
Time Periods	0-5	6-10	11-15	16-20	21-25	26-30	31+
Period 7/1/2007 to 6/30/2008							
Average health subsidy	\$ 761	\$ 674	\$ 681	\$ 727	\$ 738	\$ 785	\$ 738
Number of health participants*	20	42	192	492	356	582	114
Average dental subsidy	\$ 98	\$ 98	\$ 98	\$ 98	\$ 98	\$ 98	\$ 98
Number of dental participants*	59	206	286	456	339	580	115

* Does not include survivors and ex-spouses

Source: Pension Administration System

Retirements During Fiscal Year 2016-2017

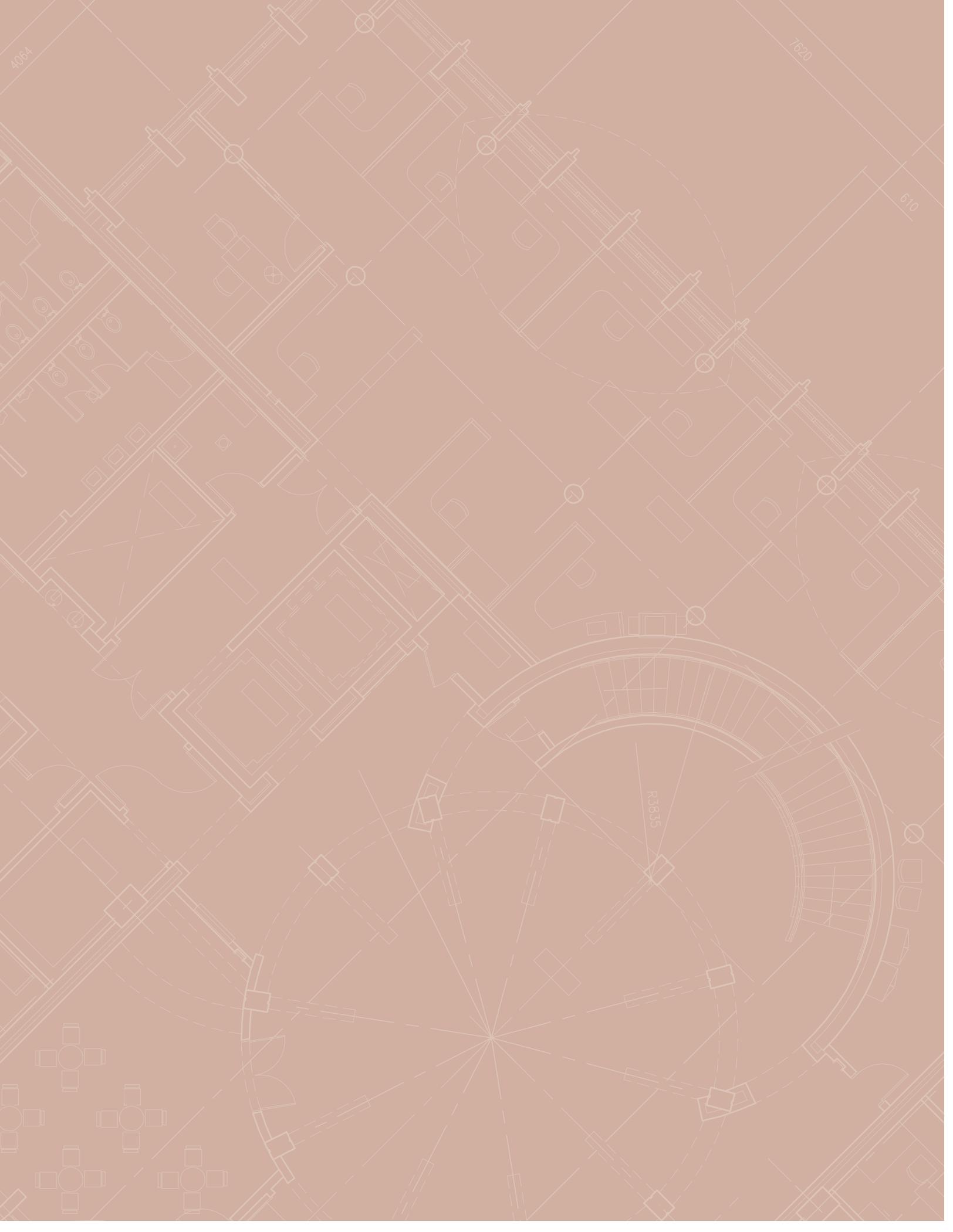
SERVICE RETIREMENTS		
ABEYTA, DOROTHY	GUTIERREZ, DARRELL	ORDUNEZ, JOE
ADAIR, PAMELA J	GUZMAN, ERNEST	PALAJAC, JAN
ALIIFUA, FAIA	HAMMACK, STEVE S	PEREZ, JANE
ALLSUP, DANIEL	HAUSLER, KATHY M	PRESS, HOMI
ANDREWS, ARN CHRISTOPHER	HAYES, WAYNE A	PRESTOSA, LANIE N
AREVALO, LUIS E	HAYES, JANET	QUIROZ, DAVID G
AREVALO, ALICE	HEIDLER, MARY C	REED, VESNA C
BILLINGS, GINA	HO, RAYMOND	REYES, YOLANDA A
BUTT, RAHIL	HUERTA, DAVID J	RIBBS, VICTORIA
CABRERA-KAVANAUGH, MONICA	IBANEZ, JORGE J	RICH, WILLIAM A
CACAL, RAYMUNDO A	JACKSON, KORT V	RIVERA, CESAR H
CARTER, WILLIAM P	JARAMILLO, ROSE I	ROBERTS, DIANA J
CASTRO, RICHARD A	KEY, RICHARD	RODRIGUEZ, MAX
CHAVEZ, FRANCISCA P	KIM, ANDREW	ROLLINS, ANDREW J
COMBS, ROSALIEN M	KRAHN, DORIS A	ROMANDIA, ERNEST J
COOK, ROXANNE L	KRAUS, KENNETH	RUIZ, JAIME A
CORPUZ, ALOHALINDO D	KUEBLER, MARK	SALVAIL, KENNETH L
CORREA, GARY J	LACY, SUSAN E	SANTOS, JESS
COVARRUBIAS, SHARON	LAMBERT, JERRY D	SAWICKI, PATRICK J
CRIDER, PAMELA M	LARSON, MARTIN D	SCHINDLER, RONALD H
CRUZ, YOLANDA A	LAWSON, CECIL W	SEDAGHATPOUR, ZAHRA
DAHL, STEPHEN E	LEATH, LILA M	SERIO, NICHOLAS
DE CARO, NANCY R	LEDESMA, PAUL E	SILVA, JAMES
DE SA, JOANNA L	LEE, JULIE	SINGH, SHEELA
DELLINGER, ROGER	LESLIE, MARION VIRGINIA	SMITH, JANET
DIEHL, SUE	LEUNG, TONY K	SORIA, SERGIO
DONNELLY, CHRISTOPHER J	LIPARI, MARK F	STRAND, SHEILA L
DOWGIALO, JAMES J	LIPPERT, J PAUL	THOMAS, SUZANNE
DUNCAN, STEVE C	LOMELI, SCOTT A	THURMAN, KENNETH L
ENOS, EDWARD J	LUCERO, PAUL R	TOKUNAGA, TRACI A
FAUMUINA, SIFA M	LUN, MONICA	TOLLER, MARY E
FERNANDEZ, GLORIA	MALDONADO, FRANK	TOWNE, DENNIS P
FINLEY, TOM	MARTINEZ, MICHAEL	TUAZON, SONNY
FLORES, JOHN G	MARYL	UNDERWOOD, KAREN S
FLOREZ, MONICA E	MEYER, JEANNETTE	URBANO, ROBERT A
FORESEE, MICHAEL	MISQUEZ, DORA	VAN DER ZON, DARLENE
GALLAGHER, MAUREEN T	MULLEN, MARGARET	VASQUEZ, YOLANDE T
GARCIA, JANICE	NGUYEN, KIM	VERMA, RAJESH
GLASPER, ANITA D	NGUYEN, MINH	WANG, LU HUA
GOMEZ, ISIDRO A	NORLING, DEBORAH	WAPPLER, EDWIN E
GUERRERO, SANDRA A	NUNES, SARAH H	WILLIAMS, YVONNE M
GUEVARRA, FRANCIS	NUNEZ, MARY G	WILSON, DAVID L
GUIMMOND II, RICHARD A	OLAGUE, JOHN A	
GUTIERREZ, MARIA NORMA	ONG, SIM	

Retirements During Fiscal Year 2016-2017 *(continued)*

DEFERRED VESTED RETIREMENTS		
AKIEL, MAROUN F	DUPRAW, KATHLEEN ANN	KONDOS, PAULETTE R
ARBALLO, ESMA TRINIDAD	ESCH, THOMAS L	LOMELI, RAQUEL
AREIKAT, SAMI S	ESTRADA, BENJAMIN J	LONGORIA, DIANE M
BASMA, TAHER K	FONTAINE, ALAN	LUCAS, KATHRYN A
BATRA, RAJEEV	GONZALES, NELSON S	MA, PO-LIANG P
BAUTISTA, MARIO B	GRAVES, FAWN M	MOODY, CHARLES D
BETTAGLIO, BRENDA	GREGG, JUDITH W	NAGATA, SHERYL A
BURCHFIEL, JOHN E	GROEN, JEANNE	NEW, SONIA C
CARRILLO, JACLIN A	GUBBER, STEVEN M	NICHOLS TOLMAN, MICHELE E
CHRISTEY, JAMES	GURZA, ALEJANDRO	ROBINSON, ANTHONY
CHU, NAJON	HANSON, RICHARD V	SEPULVEDA, RODOLFO L
CRESCINI, ROZZANO M	HARBIN, JAMES E	WERNICKE, RICHARD G
CROFTS, BRYAN W	HEARN, DWAYNE	WHALEY-COLLINS, TWILYNN
DE LA CRUZ, ROGER	HEFNER, CARL J	WILLIAMS, SANDRA D
DEVLIN, TOD O	HERRERA, ENRIQUETA M	WILSON, SHIRLEY
DEWIN, NICHOLAS J	JARRETT, JAMES C	WITSOE, MARK
DI BLASI, MICHAEL P	JOHNSON, ALTONIA F	ZEISBRICH, DEAN
SERVICE CONNECTED DISABILITY RETIREMENTS		
	REYES, JODY	
NON-SERVICE CONNECTED DISABILITY RETIREMENTS		
	NONE	
EARLY RETIREMENTS		
	ALVAREZ, ARMIDA	

Deaths During Fiscal Year 2016-2017

DEATHS AFTER RETIREMENT		
ALDERE, JIM	HERNANDEZ, FRED	RAY, JESS
ALFORD, NANCY	HOWSMON, WILLIAM	RHODES, HAROLD
ALLSUP, DANIEL	HUSA, SONIA	ROMICH, RICHARD
BARRON, ARTURO G	KNIGHT, BEVERLE	ROSENDIN, HENRY A
BEYER, ROBERT	LEDESMA, STEPHEN	ROSSI, ANGELO
BOARDMAN, THOMAS	LOWE, DOROTHY	SAFFARIAN, JALIL
BONHAM, LOREN	LUDLOW, RICHARD	SANCHEZ, RAYMOND
BRUHL, TERRY	LUJAN, FELIX	SCHELL, ECKHARD
CAVAZOS, GLORIA O	MAAS, BARBARA	SEWARD, STEVEN J
COLEMAN, PATRICIA	MAHER, WILLIAM	SMITH, WILLIAM
COOK, THOMAS	MANN, DONALD	SNELL, ROBERT M
CORBISIERO, SAMUEL A	MARTIN, JAMES	SPRUCK, WALTER
COTE, VIVIAN	MARTINEZ, RAY	SU, CHUNG
CROSBY, PATRICIA A	MCNABB, LOIS	SWAN, HELEN
DABANIAN, DIMITRIOS	MERITT, ROBERT L	SZETO, CONNIE M
DAULTON, SHASTA	MILLEN, MARY	THOMAS, WILLIAM
ELLISON, JOYCE	MORALES, MARIA A	UNA'DIA ALICE F
FERREIRA, TRUDIE R	MORENO, HECTOR	VIERRA, JONNIE B
FISCHLER, BOBBIE	NASELLO, THELMA M	WALLACE, DONALD R
FOWLER, MARILYN	OWENS, FRANK M	WANG, JAMES
FRAUSTO, JUAN S	PARLEE, MAY	WEAR, CHARLES T
GARDNER, MARILYN I	PEREZ, JOE	WORTHEY, RICHARD J
GREENE, ROBERT	POPOVICH, JOHN	ZELMER, KENNETH
HAE, SHALAH A	POSTON, CHARLES	
DEATHS BEFORE RETIREMENT		
ABORDO, NATHANIEL	CARRASCO, DAVID L	FLORES, CRISANTOS
ALDANA, ARTURO	D'ACCIOLI, RONALD	RIVERA, BELINDA
ANDREEN, DOUGLAS	DAVIS, SUSAN	TAYLOR, MARY

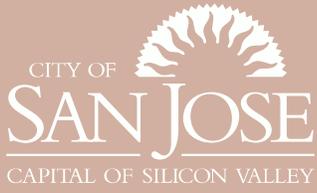


4064

7620

610

R3635



Office of Retirement Services
1737 North First Street, Suite 600
San José, California 95112-4505
Phone 408-794-1000 Fax 408-392-6732
www.sjretirement.com