

**CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY
ASSOCIATION PLANS**

Independent Auditor's Report,
Management's Discussion and Analysis, and
Basic Financial Statements

For the Years Ended June 30, 2020 and 2019



Certified
Public
Accountants

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS
For the Years Ended June 30, 2020 and 2019

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Independent Auditor's Report

VEBA Advisory Committee
City of San José VEBA Plans
San José, California

Report on the Financial Statements

We have audited the accompanying financial statements of the two Voluntary Employee Beneficiary Association (VEBA) Plans of the City of San José, California (City), the City of San José Federated VEBA Health Savings Plan and the City of San José Police and Fire VEBA Health Savings Plan (collectively "the VEBA Plans"), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the VEBA Plans' 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 entity'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 entity'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the VEBA Plans as of June 30, 2020 and 2019, and the respective changes in financial positions 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 VEBA Plans' management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the 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.

Macias Gini & O'Connell LLP

Walnut Creek, California

October 9, 2020

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS

Management's Discussion and Analysis
For the Years Ended June 30, 2020 and 2019
(Unaudited)

The following discussion and analysis of the City of San José's (City) Police and Fire VEBA Health Savings Plan (PFD Plan) and Federated VEBA Health Savings Plan (FED Plan) (collectively as Plans) financial performance provides an overview of their basic financial activities for the fiscal years ended June 30, 2020 and 2019. Please read it in conjunction with the Plans' financial statements, which begin on page 7. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rest solely with the management of the Plans. To the best of our actual knowledge and belief, the financial statements, as presented, are accurate in all material respects.

Financial Highlights – 2020

PFD Plan

- At the close of the fiscal year, June 30, 2020, the net position due to PFD Plan participants was \$13.4 million. This represents an increase of \$2.9 million from the prior year ending balance.
- Investment earnings and contributions exceeding the payments to participants and for administrative fees were the primary reasons for an increase to net position.

FED Plan

- At the close of the fiscal year, June 30, 2020, the net position due to FED Plan participants was \$20.4 million. This represents an increase of \$3.3 million from the prior year ending balance.
- Investment earnings and contributions exceeding the payments to participants and for administrative fees were the primary reasons for an increase to net position.

Financial Highlights – 2019

PFD Plan

- At the close of the fiscal year, June 30, 2019, the net position due to PFD Plan participants was \$10.5 million. This represents an increase of \$2.3 million from the prior year ending balance.
- Investment earnings and contributions exceeding the payments to participants and for administrative fees were the primary reasons for an increase to net position.

FED Plan

- At the close of the fiscal year, June 30, 2019, the net position due to FED Plan participants was \$17.1 million. This represents an increase of \$3.0 million from the prior year ending balance.
- Investment earnings and contributions exceeding the payments to participants and for administrative fees were the primary reasons for an increase to net position.

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS
Management's Discussion and Analysis
For the Years Ended June 30, 2020 and 2019
(Unaudited)

Financial Statements

The financial reports for the Plans include management's discussion and analysis (MD&A), a statement of net position due to participants, a statement of changes in net position due to participants, and notes to financial statements. These financial statements are prepared on the economic resources measurement focus and the accrual basis of accounting.

The following table indicates the net position due to participants as of June 30, 2020, 2019 and 2018:

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|----------------------------------|----------------------|----------------------|----------------------|
| <i>PFD Plan</i> | | | |
| Invesmtents at fair value | \$ 13,415,638 | \$ 10,535,089 | \$ 8,282,017 |
| Net position due to participants | <u>\$ 13,415,638</u> | <u>\$ 10,535,089</u> | <u>\$ 8,282,017</u> |
| <i>FED Plan</i> | | | |
| Invesmtents at fair value | \$ 20,366,432 | \$ 17,061,177 | \$ 14,102,770 |
| Net position due to participants | <u>\$ 20,366,432</u> | <u>\$ 17,061,177</u> | <u>\$ 14,102,770</u> |

The following table indicates the changes in net position for the fiscal year ended June 30, 2020, 2019 and the period from inception through June 30, 2018:

| | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---------------------------------|----------------------|----------------------|----------------------|
| <i>PFD Plan</i> | | | |
| Additions | \$ 2,966,442 | \$ 2,279,531 | \$ 8,283,735 |
| Deductions | (85,893) | (26,459) | (1,718) |
| Net increase | 2,880,549 | 2,253,072 | 8,282,017 |
| Net position, beginning of year | <u>10,535,089</u> | <u>8,282,017</u> | <u>-</u> |
| Net position, end of year | <u>\$ 13,415,638</u> | <u>\$ 10,535,089</u> | <u>\$ 8,282,017</u> |
| <i>FED Plan</i> | | | |
| Additions | \$ 3,567,080 | \$ 3,098,329 | \$ 14,111,692 |
| Deductions | (261,825) | (139,922) | (8,922) |
| Net increase | 3,305,255 | 2,958,407 | 14,102,770 |
| Net position, beginning of year | <u>17,061,177</u> | <u>14,102,770</u> | <u>-</u> |
| Net position, end of year | <u>\$ 20,366,432</u> | <u>\$ 17,061,177</u> | <u>\$ 14,102,770</u> |

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS
Management's Discussion and Analysis
For the Years Ended June 30, 2020 and 2019
(Unaudited)

2020 Analysis

PFD Plan

The net position due to participants increased by \$2.9 million, or 27.3 percent, in fiscal year 2019-2020. This change in net position is mainly due to investment income and contributions exceeding the administration fees.

The total additions to net position of \$3.0 million in fiscal year 2019-2020 increased by \$0.7 million from \$2.3 million in fiscal year 2018-2019. The increase is mainly due to new participants' contributions during the first full year of operations, which was during 2019-2020. Total deductions from net position of \$85.9 thousand in fiscal year 2019-2020 increased by \$59.4 thousand from \$26.5 thousand in fiscal year 2018-2019. The change is mainly due to the increase in payments to participants.

FED Plan

The net position due to participants increased by \$3.3 million, or 19.4 percent, in fiscal year 2019-2020. This change in net position is mainly due to investment income and contributions exceeding the administration fees.

The total additions to net position of \$3.6 million in fiscal year 2019-2020 increased by \$0.5 million from \$3.1 million in fiscal year 2018-2019. The increase is mainly due to new participants' contributions during the first full year of operations, which was during 2019-2020. Total deductions from net position of \$261.8 thousand in fiscal year 2019-2020 increased by \$121.9 thousand from \$139.9 thousand in fiscal year 2018-2019. The change is mainly due to the increase in payments to participants.

2019 Analysis

PFD Plan

The net position due to participants increased by \$2.3 million, or 27.2 percent, in fiscal year 2018-2019. This change in net position is mainly due to investment income and contributions exceeding the administration fees.

The total additions to net position of \$2.3 million in fiscal year 2018-2019 decreased by \$6.0 million from \$8.3 million in fiscal year 2017-2018. The decrease is mainly due to the one-time transfer of funds from the San Jose Police & Fire Retirement Plan in the prior year, offset by an increase in employee contributions. Total deductions from net position of \$26.5 thousand in fiscal year 2018-2019 increased by \$24.7 thousand from \$1.8 thousand in fiscal year 2017-2018. The change is mainly due to the increase in administrative fees.

FED Plan

The net position due to participants increased by \$3.0 million, or 21.0 percent, in fiscal year 2018-2019. This change in net position is mainly due to investment income and contributions exceeding the administration fees.

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS
Management's Discussion and Analysis
For the Years Ended June 30, 2020 and 2019
(Unaudited)

2019 Analysis (Continued)

FED Plan (Continued)

The total additions to net position of \$3.1 million in fiscal year 2018-2019 decreased by \$11.0 million from \$14.1 million in fiscal year 2017-2018. The decrease is mainly due to the one-time transfer of funds from the San Jose Federated Employees' Retirement System in the prior year, offset by an increase in employee contributions. Total deductions from net position of \$139.9 thousand in fiscal year 2018-2019 increased by \$131.0 thousand from \$8.9 thousand in fiscal year 2017-2018. The change is mainly due to the increase in administrative fees.

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS
Statements of Net Position Due to Participants
June 30, 2020 and 2019

| <i>PFD Plan</i> | <u>2020</u> | <u>2019</u> |
|----------------------------------|----------------------|----------------------|
| Assets | | |
| Investments at fair value | | |
| Short Term Funds | \$ 8,578,382 | \$ 8,132,691 |
| Bonds Funds | 32,614 | 2,116 |
| Global International Funds | 115,289 | 64,972 |
| Assets Allocation Funds | 3,391,523 | 1,647,128 |
| Large Cap Growth Funds | 401,019 | 242,222 |
| Large Cap Value Funds | 584,736 | 294,579 |
| Small- Cap/Mid-Cap Funds | 250,531 | 141,940 |
| Specialty Fund- Real Estate | <u>61,544</u> | <u>9,441</u> |
| Total investments at fair value | <u>13,415,638</u> | <u>10,535,089</u> |
| Net position due to participants | <u>\$ 13,415,638</u> | <u>\$ 10,535,089</u> |
| | | |
| <i>FED Plan</i> | <u>2020</u> | <u>2019</u> |
| Assets | | |
| Investments at fair value | | |
| Short Term Funds | \$ 15,935,183 | \$ 14,259,755 |
| Bonds Funds | 189,238 | 167,258 |
| Global International Funds | 143,185 | 295,037 |
| Assets Allocation Funds | 2,679,975 | 1,745,740 |
| Large Cap Growth Funds | 260,320 | 135,827 |
| Large Cap Value Funds | 869,263 | 231,064 |
| Small- Cap/Mid-Cap Funds | 266,879 | 212,445 |
| Specialty Fund- Real Estate | <u>22,389</u> | <u>14,051</u> |
| Total investments at fair value | <u>20,366,432</u> | <u>17,061,177</u> |
| Net position due to participants | <u>\$ 20,366,432</u> | <u>\$ 17,061,177</u> |

See accompanying notes to the financial statements.

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS

Statements of Changes in Net Position Due to Participants
For the Years Ended June 30, 2020 and 2019

| <i>PFD Plan</i> | <u>2020</u> | <u>2019</u> |
|----------------------------------|----------------------|----------------------|
| Additions | | |
| Employee contributions | \$ 2,736,228 | \$ 2,062,768 |
| Investment income | 230,214 | 216,763 |
| Total additions | 2,966,442 | 2,279,531 |
| Deductions | | |
| Payments to participants | (69,997) | (14,231) |
| Administration fees | (15,896) | (12,228) |
| Total deductions | (85,893) | (26,459) |
| Change in net position | 2,880,549 | 2,253,072 |
| Net position due to participants | | |
| Beginning of year | 10,535,089 | 8,282,017 |
| End of year | <u>\$ 13,415,638</u> | <u>\$ 10,535,089</u> |
| | | |
| <i>FED Plan</i> | <u>2020</u> | <u>2019</u> |
| Additions | | |
| Employee contributions | \$ 3,303,806 | \$ 2,832,395 |
| Investment income | 263,274 | 265,934 |
| Total additions | 3,567,080 | 3,098,329 |
| Deductions | | |
| Payments to participants | (202,941) | (47,745) |
| Administration fees | (58,884) | (92,177) |
| Total deductions | (261,825) | (139,922) |
| Change in net position | 3,305,255 | 2,958,407 |
| Net position due to participants | | |
| Beginning of year | 17,061,177 | 14,102,770 |
| End of year | <u>\$ 20,366,432</u> | <u>\$ 17,061,177</u> |

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS

Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

NOTE 1 – PLANS DESCRIPTION

The following description of the City of San José's (City's) Voluntary Employee Beneficiary Association Plans (VEBA Plans) provides only general information. Participants should refer to the VEBA Plans' agreement and the Municipal Codes for a more complete description of the VEBA Plans provisions.

A VEBA is a tax-exempt trust instrument authorized by Internal Revenue Code 501(c)(9) through which eligible healthcare benefits, such as post-retirement healthcare premiums, prescriptions, co-pays, and other healthcare related expenses, can be reimbursed. Members of the VEBA Plans can use their account assets after retirement to pay for premiums in the City's healthcare and dental plans. These assets may also be used for any other expenses permitted by the plan, including paying premiums for other plans nationwide or internationally.

As a part of the City's Alternative Pension Reform Frameworks, employees who are a part of the current Defined Benefit Retiree Healthcare plan were provided with a one-time irrevocable opportunity to voluntarily choose to opt-in to the VEBA Plans or stay in the Defined Benefit Retiree Healthcare plan. This was an irrevocable election. Employees who elected to opt-in to the VEBA Plans are no longer eligible for and have waived any entitlement to receive any Defined Benefit Retiree Healthcare plan benefits to which he/she might have been entitled. Employees who do not sign the VEBA Election Form remain covered by the Defined Benefit Retiree Healthcare plan under the currently applicable collective bargaining agreement or compensation plan.

Effective November 1, 2017, the City maintains two VEBA Plans: City of San Jose Federated VEBA Health Savings Plan (FED Plan) and the City of San Jose Police and Fire VEBA Health Savings Plan (PFD Plan). The following is a brief description of the City's two VEBA Plans:

- FED Plan is described in Chapter 3.58 of the San José Municipal Code. All full-time Federated Tier 2B are mandated to join the VEBA, with the exception of Unit 99. Unit 99 employees had a one-time option to receive the one-time contribution of funds into an individual VEBA account from the Retiree Healthcare 115 Trust, but are not eligible to contribute a percentage of pay into the VEBA on an ongoing basis. VEBA contribution rate is 2.5% for mandated Federated Tier 2B employees, such as CAMP, AEA, AMSP, and ALP, and 3.5% for opted-in Federated Tier 1 and 2A employees such as MEF, CEO, IBEW, OE#3, and ABMEI. Federated VEBA Plan currently utilizes Voya Retirement Insurance and Annuity Company (VRIAC) as its investment administrator.
- PFD Plan is described in Chapter 3.57 of the San José Municipal Code. All full-time Police and Fire Tier 2 employees are mandated to join the VEBA. VEBA contribution rate is 4.0% for Police and Fire Tier 2 employees. The Sworn VEBA Plan currently utilizes VRIAC as its investment administrator.

The assets of the VEBA Plans are held in trust and administered by the VEBA Advisory Committee (VAC). The VAC consists of five members – one active member of the San Jose Firefighters, one active member of the San Jose Police Officers' Association, two active members of the Federated Unions, and one active member of unrepresented employees. The VAC uses Conduent Consultants as their investment consultant. Conduent Consultants performs tasks such as helping formulate an Investment Policy, provide investment performance reports, conduct manager searches, and attend VAC meetings.

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS

Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

NOTE 1 – PLANS DESCRIPTION (Continued)

Contributions – Members in the VEBA Plans are mandated to contribute a specific percentage of their base pay into the VEBA Plans as stated in the brief descriptions of the plans above. The eligible employees can contribute only the above stated percentages into the VEBA Plans. There are no required contributions by the City to the VEBA Plans.

Participant Accounts – Separate accounts are established for each participants. As VEBA Plans are provided by VRIAC and TASC/Genesis, the third-party administrator of the program, VRIAC provides investment management services and TASC/Genesis provides individual account management and claims processing services.

Payment of Benefits – The VEBA Plans reimburse eligible medical expenses for individuals who have either 1) terminated City service and have reached the required retirement age based on their retirement tier and system or 2) retired for service, service-connected disability, or non-service connected disability. If an employee becomes a member of a reciprocal retirement system, the VEBA funds can be accessed after retirement from that system. The VEBA Plans reimburse out-of-pocket healthcare costs (including but not limited to insurance premiums, co-pays and deductibles, prescription costs, Medicare Part B premiums, supplemental insurance premiums, and most over-the-counter medications and supplies, etc.) incurred by employees, their spouses and qualifying dependents. As a defined contribution plan, the only funds available in the VEBA Plans are the contributions made while employed and any investment returns on those funds. Once the funds in the VEBA Plans are exhausted, the employee will no longer be able to reimburse their eligible healthcare expenses. If an employee or former employee passes away prior to using all of the funds, eligible survivors can use the funds in accordance with IRS rules. VEBA funds may only be used for eligible medical expenses for the employee and/or eligible dependents.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying statements of net position due to participants and changes in net position due to participants present only the VEBA Plans and are not intended to present the financial position of the City and the changes in its financial position in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting – The financial statements of the VEBA Plans are reported using the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized as additions when due (at the end of each pay period). Payments to participants are recognized as deductions when due and payable under the provisions of the VEBA Plans.

Investment Valuation – The Plans' investments are stated at fair value. Investments valued at the net asset value are investments in the VRIAC separate accounts and pooled separate accounts. For Fiscal Year 2019-2020, the VRIAC pooled separate accounts are also valued at the net asset value. For Fiscal Year 2018-2019, the VRIAC pooled separate accounts are valued by "units". The unit value takes into account the underlying funds' daily net asset value, less the separate account expenses for the insurance, administration and services provided by VRIAC. The VRIAC separate accounts are valued based on fair value of the underlying investments without an expense adjustment.

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS

Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the VEBA Plans’ administrators to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 3 – TRANSFERS FROM THE CITY OF SAN JOSE PENSION PLANS

Prior to the effective date of the VEBA plans and the opt-in election, the healthcare contributions of members who opted into the VEBA plans were held by the San José Police & Fire Retirement Plan and the San José Federated Employees’ Retirement System (collectively “pension plans”). The contributions for the members who opted in to the VEBA and opted out of the defined benefit healthcare plan were transferred from the respective pension plans in March 2018.

NOTE 4 – INVESTMENTS

VEBA Plans’ participants may direct contributions into any of the investment options offered by the VEBA Plans’ investment administrator, which include various VRIAC separate and pooled separate accounts. It is the Plans’ policy to permit participants to establish different investment strategies, which have varying return and volatility characteristics to meet each participant’s long-term retirement savings strategy.

The VEBA Plans categorize their fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The following levels indicate the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 - Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
- Level 2 - Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 - Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

All investments are valued at net asset value (NAV). Descriptions for each fund type are listed on page 14 and 15.

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS

Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

NOTE 4 – INVESTMENTS (Continued)

The following presents investments at June 30, 2020 with the information related to interest rate risk, credit risk, concentration of credit risk and fair value measurement within the fair value hierarchy established by generally accepted accounting principles on its investments:

| <u>Investments</u> | <u>Average Effective Maturity</u> | <u>Credit Rating</u> | <u>PFD Plan June 30, 2020</u> | <u>FED Plan June 30, 2020</u> | |
|--|---|----------------------|-----------------------------------|-----------------------------------|----|
| Investments measured at the net asset value (NAV) | | | | | |
| Short-Term Funds | | | | | |
| Vanguard Federal Money Market | n/a | Not Rated | \$ 5,128 | \$ 107,128 | |
| Voya Fixed Account | n/a | n/a | 8,572,560 * | 15,826,979 * | |
| Voya Holding Account | n/a | n/a | 694 | 1,076 | |
| Bonds Funds | | | | | |
| Loomis Sayles Core Plus Bd FN | 10.15 years | BBB | 27,994 | 118,219 | ** |
| BlkRck InPrtdBnd - Inst sh | 9.68 years | AA | 3,771 | 37,893 | ** |
| Templeton Global Bond VIP Fd 1 | 2.35years | BBB | 849 | 33,126 | ** |
| Global International Funds | | | | | |
| American Funds EuroPacific R5 | n/a | n/a | 25,626 | 12,205 | ** |
| Oppenheimer Developing Mkts FY | n/a | n/a | 60,346 | 19,935 | ** |
| DFA Int'l Small CO - Class | n/a | n/a | 1,274 | 788 | ** |
| Vanguard Tot Intl St Indx Fd Sig | n/a | n/a | 28,043 | 110,257 | ** |
| Asset Allocation Funds | | | | | |
| Moderate Custom Lifestyle Port | n/a | n/a | 613,285 | 541,322 | ** |
| Aggressive Custom Lifestyle Port | n/a | n/a | 739,239 | 390,574 | ** |
| Conservative Custom Lifestyle Port | n/a | n/a | 317,330 | 178,359 | ** |
| Vanguard T Retirement 2025 | 8.61 years | AA | 45,715 | 258,585 | ** |
| Vanguard Tgt Ret 2020 - Inv | 7.69 years | AA | 95,498 | 96,759 | ** |
| Vanguard T Retirement 2035 | 8.64 years | A | 346,522 | 268,241 | ** |
| Vanguard T Retirement 2015 | 7.31 years | A | - | 58,854 | ** |
| Vanguard T Retirement 2045 | 8.65 years | A | 309,234 | 164,075 | ** |
| Vanguard Tgt Ret 2055 - Inv | 8.67 years | A | 230,027 | 158,845 | ** |
| Vanguard Tgt Ret 2030 - Inv | 8.64 years | A | 172,387 | 262,271 | ** |
| Vanguard T Retirement Income | 7.20 years | A | 422 | 1,500 | ** |
| Vanguard Tgt Ret 2050 - Inv | 8.67 years | A | 320,948 | 168,442 | ** |
| Vanguard Tgt Ret 2040 - Inv | 8.62 years | A | 179,253 | 105,786 | ** |
| Vanguard Tgt Ret 2060 - Inv | 8.63 years | A | 19,082 | 15,708 | ** |
| Vanguard Tgt Ret 2065 - Inv | 7.22 years | AA | 2,581 | 10,654 | |
| Large Cap Growth Funds | | | | | |
| American Funds Growth End R5 | n/a | n/a | 304,709 | 206,004 | ** |
| Fidelity Adv New Insights I | n/a | n/a | 96,310 | 54,316 | ** |
| Large Cap Value Funds | | | | | |
| Vanguard Tot Stok mrkt Ind-Instl | n/a | n/a | 351,453 | 574,984 | ** |
| Vanguard Institutl Index (Inst) | n/a | n/a | 21,167 | 79,217 | ** |
| The Yackman Fund Sr | n/a | n/a | 65,530 | 93,853 | ** |
| Vanguard Equity Income Fund Adm | n/a | n/a | 89,877 | 82,945 | ** |
| Parnassus Core Equity Fund Inst | n/a | n/a | 56,709 | 38,264 | ** |
| Small-Cap/Mid-Cap Funds | | | | | |
| Janus Henderson Enterprise Fund N | n/a | n/a | 155,037 | 47,718 | ** |
| Vanguard Sml-Cap Index-Instl | n/a | n/a | 21,213 | 47,197 | ** |
| Vanguard Mid-Cap Index-Instl | n/a | n/a | 33,717 | 68,566 | ** |
| JPMorgan Md Cap Value Fund Cls L Shr | n/a | n/a | 3,355 | 37,549 | |
| Janus Henderson Small cap Value Fund I | n/a | n/a | 35,006 | 16,331 | ** |
| Emerald Growth Fund Inst | n/a | n/a | 2,203 | 49,518 | |
| Specialty Fund - Real Estate | | | | | |
| Voya Clarion Real Est Prtinstl | n/a | n/a | 61,544 | 22,389 | |
| Total VEBA Plan investments measured at fair value | | | <u>\$ 13,415,638</u> | <u>\$ 20,366,432</u> | |

* Represents 5% or more of the Plan's total investments.

** Represents funds holding international investments

CITY OF SAN JOSE
VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION PLANS

Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

NOTE 4 – INVESTMENTS (Continued)

The following presents investments at June 30, 2019 with the information related to interest rate risk, credit risk, concentration of credit risk and fair value measurement within the fair value hierarchy established by generally accepted accounting principles on its investments:

| <u>Investments</u> | <u>Average Effective Maturity</u> | <u>Credit Rating</u> | <u>PFD Plan June 30, 2019</u> | <u>FED Plan June 30, 2019</u> | |
|--|---|----------------------|-----------------------------------|-----------------------------------|----|
| Investments measured at the net asset value (NAV) | | | | | |
| Short-Term Funds | | | | | |
| Vanguard Federal Money Market | n/a | Not Rated | \$ 195 | \$ 41,514 | |
| Voya Fixed Account | n/a | n/a | 8,131,715 | 14,217,388 | * |
| Voya Holding Account | n/a | n/a | 781 | 853 | |
| Bonds Funds | | | | | |
| Loomis Sayles Core Plus Bd FN | 8.14 years | BBB | 795 | 83,678 | ** |
| BlkRck InPrtdBnd - Inst sh | 9.05 years | AAA | 857 | 19,112 | ** |
| Templeton Global Bond VIP Fd 1 | 1.54 years | BBB | 464 | 64,468 | ** |
| Global International Funds | | | | | |
| American Funds EuroPacific R5 | n/a | n/a | 7,537 | 13,801 | ** |
| Oppenheimer Developing Mkts FY | n/a | n/a | 53,213 | 18,410 | ** |
| DFA Int'l Small CO - Class | n/a | n/a | 1,156 | 6,344 | ** |
| Vanguard Tot Intl St Indx Fd Sig | n/a | n/a | 3,066 | 256,482 | ** |
| Asset Allocation Funds | | | | | |
| Moderate Custom Lifestyle Port | n/a | n/a | 202,385 | 373,608 | ** |
| Aggressive Custom Lifestyle Port | n/a | n/a | 547,408 | 302,808 | ** |
| Conservative Custom Lifestyle Port | n/a | n/a | 173,787 | 165,056 | ** |
| Vanguard T Retirement 2025 | 7.38 years | AA | 30,978 | 148,935 | ** |
| Vanguard Tgt Ret 2020 - Inv | 7.82 years | AA | 142,561 | 72,729 | ** |
| Vanguard T Retirement 2035 | 8.62 years | A | 135,802 | 78,504 | ** |
| Vanguard T Retirement 2015 | 8.62 years | A | - | 96,654 | ** |
| Vanguard T Retirement 2045 | 8.62 years | A | 174,619 | 48,167 | ** |
| Vanguard Tgt Ret 2055 - Inv | 8.62 years | A | 73,864 | 87,472 | ** |
| Vanguard Tgt Ret 2030 - Inv | 8.62 years | A | 29,457 | 156,790 | ** |
| Vanguard T Retirement Income | 8.62 years | A | - | 18,929 | ** |
| Vanguard Tgt Ret 2050 - Inv | 8.62 years | A | 67,196 | 107,364 | ** |
| Vanguard Tgt Ret 2040 - Inv | 8.62 years | A | 58,843 | 86,563 | ** |
| Vanguard Tgt Ret 2060 - Inv | 8.63 years | A | 8,882 | 2,161 | ** |
| Vanguard Tgt Ret 2065 - Inv | 7.22 years | AA | 1,346 | - | |
| Large Cap Growth Funds | | | | | |
| American Funds Growth End R5 | n/a | n/a | 146,841 | 119,871 | ** |
| Fidelity Adv New Insights I | n/a | n/a | 95,381 | 15,956 | ** |
| Large Cap Value Funds | | | | | |
| Vanguard Tot Stok Mrkt Ind-Instl | n/a | n/a | 95,523 | 45,094 | ** |
| Vanguard Institl Index (Inst) | n/a | n/a | 16,557 | 34,390 | ** |
| The Yacktman Fund Sr | n/a | n/a | 87,110 | 83,389 | ** |
| Vanguard Equity Income Fund Adm | n/a | n/a | 89,003 | 44,555 | ** |
| Parnassus Core Equity Fund Inst | n/a | n/a | 6,386 | 23,636 | ** |
| Small-Cap/Mid-Cap Funds | | | | | |
| Janus Henderson Enterprise Fund N | n/a | n/a | 95,102 | 64,738 | ** |
| Vanguard Sml-Cap Index-Instl | n/a | n/a | 18,027 | 8,243 | ** |
| Vanguard Mid-Cap Index-Instl | n/a | n/a | 2,523 | 40,930 | ** |
| JPMorgan Md Cap Value Fund Cls L Shr | n/a | n/a | 1,473 | 19,387 | |
| Janus Henderson Small cap Value Fund I | n/a | n/a | 24,633 | 17,658 | ** |
| Emerald Growth Fund Inst | n/a | n/a | 182 | 61,489 | |
| Specialty Fund - Real Estate | | | | | |
| Voya Clarion Real Est Prtinstl | n/a | n/a | 9,441 | 14,051 | |
| Total VEBA Plan investments measured at fair value | | | <u>\$ 10,535,089</u> | <u>\$ 17,061,177</u> | |

* Represents 5% or more of the Plan's total investments.

** Represents funds holding international investments

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Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

NOTE 4 – INVESTMENTS (Continued)

Short-Term Funds. This type includes investments in 3 separate accounts that invest in a diversified portfolio of fixed income assets and short-term money market instruments. The fair value of the investments in this type have been determined using the NAV per share of the investments. The VRIAC pooled separate accounts are valued using the NAV per share of the investments. Investments in this type do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Bond Funds. This type includes investments in 3 pooled separate accounts that invest in bonds and grade securities. Under normal market conditions, the funds will invest at least 80% of its net assets in bonds. The funds might invest some of its net assets in foreign securities. The VRIAC pooled separate accounts are valued using the NAV per share of the investments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Global International Funds. This type includes investments in 4 separate accounts that invest in common stocks of issuers throughout the world. The VRIAC pooled separate accounts are valued using the NAV per share of the investments. Investments in this type do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Assets Allocation Funds. This type includes investments in 3 separate accounts and 11 pooled separate accounts (12 as of June 30, 2019) that invest in funds according to their asset allocation strategies designed for investors planning to retire at their respective target years. The fair value of the investments in this type have been determined using the NAV per share of the investments. The VRIAC pooled separate accounts are valued using the NAV per share of the investments. Investments in this type do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Large Cap Growth Funds. This type includes investments in 2 separate accounts that invest primarily in common stocks and seek to invest in companies that appear to offer superior opportunities for growth of capital. The VRIAC pooled separate accounts are valued using the NAV per share of the investments. Investments in this type do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

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Notes to the Financial Statements (Continued)
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NOTE 4 – INVESTMENTS (Continued)

Large Cap Value Funds. This type includes investments in 5 separate accounts that invest primarily in domestic equity securities of large and medium companies regularly traded on the New York Stock Exchange and Nasdaq. The management of each fund may invest its assets in foreign equity securities. The VRIAC pooled separate accounts are valued using the NAV per share of the investments. Investments in this type do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Small-Cap/Mid-Cap Funds. This type includes investments in 6 separate accounts that invest primarily in equity securities of small and medium U.S. companies. The VRIAC pooled separate accounts are valued by using the NAV per share of the investments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Specialty Fund – Real Estate. This type includes investments in 1 pooled separate account that invests primarily in common and preferred stocks of U.S. real estate investment trusts and real estate companies. The VRIAC pooled separate accounts are valued using the NAV per share of the investments. Investments in this type do not have any unfunded commitments. Investments in this type can be redeemed daily, and there is not any restriction on redemption notice period.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Since all investments are participant directed, all risks exist at the participant level. The maturities of the VEBA Plans' investments are identified on page 12 and 13.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Since all investments are participant directed, all risks exist at the participant level. The credit ratings of the VEBA Plans' investments are identified on page 12 and 13.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The VEBA Plans allow the option of investment in the separately managed accounts that invest outside the U.S. The individual funds which hold foreign investments are identified on page 12 and 13.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the VEBA Plans will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. All deposits of the VEBA Plans are held on behalf of the VEBA Plans by VRIAC in accordance with the formal deposit policy for custodial credit risk and are not exposed to custodial credit risk.

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Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2020 and 2019

NOTE 4 – INVESTMENTS (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the VEBA Plans' investments in single issuer. The VEBA Plans' investments are managed by several fund managers. The concentrations of investments are determined by the participants' elections to invest in the available investment options as selected by the DCAC. The investments that exceed 5% of the VEBA Plans' total investments are identified on page 12 and 13. Since all investments are participant directed, all risks exist at the participant level.