

**CITY OF SAN JOSE  
DEFINED CONTRIBUTION 401(a) PLAN**

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

For the Years Ended June 30, 2022 and 2021



Certified  
Public  
Accountants

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
For the Years Ended June 30, 2022 and 2021

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## Independent Auditor's Report

City Council  
City of San José, California

### *Opinion*

We have audited the financial statements of the Defined Contribution 401(a) Plan (Plan) of the City of San José, California (City), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2022 and 2021, and the respective changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Management's Responsibilities for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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.

*Macias Gini & O'Connell LLP*

Walnut Creek, California  
October 12, 2022

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Management’s Discussion and Analysis  
For the Years Ended June 30, 2022 and 2021  
(Unaudited)

The following discussion and analysis of the City of San José’s (City) Defined Contribution 401(a) (Plan) financial performance provides an overview of their basic financial activities for the fiscal years ended June 30, 2022 and 2021. Please read it in conjunction with the Plan’s financial statements, which begin on page 5. 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 Plan. To the best of our actual knowledge and belief, the financial statements, as presented, are accurate in all material respects.

***Financial Highlights – 2022***

- At the close of the fiscal year, June 30, 2022, the net position due to Plan participants was \$2.9 million. This represents a decrease of \$149.0 thousand from the prior year ending balance.
- Investment losses and payments to participants exceeding contributions were the primary reasons for a decrease to net position.

***Financial Highlights – 2021***

- At the close of the fiscal year, June 30, 2021, the net position due to Plan participants was \$3.0 million. This represents an increase of \$921.0 thousand from the prior year ending balance.
- Investment earnings and contributions exceeding the payments to participants were the primary reasons for an increase to net position.

***Financial Statements***

The financial reports for the Plan 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, 2022, 2021 and 2020:

	<b>2022</b>	<b>2021</b>	<b>2020</b>
Investments at fair value	\$ 2,865,446	\$ 3,014,469	\$ 2,093,508
Net position due to participants	\$ 2,865,446	\$ 3,014,469	\$ 2,093,508

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Management's Discussion and Analysis (Continued)  
For the Years Ended June 30, 2022 and 2021  
(Unaudited)

***Financial Statements (Continued)***

The following table indicates the changes in net position for the fiscal years ended June 30, 2022, 2021 and 2020:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Additions	\$ 39,632	\$ 1,107,390	\$ 504,077
Deductions	<u>(188,655)</u>	<u>(186,429)</u>	<u>(46,818)</u>
Net increase	(149,023)	920,961	457,259
Net position, beginning of year	<u>3,014,469</u>	<u>2,093,508</u>	<u>1,636,249</u>
Net position, end of year	<u>\$ 2,865,446</u>	<u>\$ 3,014,469</u>	<u>\$ 2,093,508</u>

***2022 Analysis***

The net position due to participants decreased by \$149.0 thousand, or 4.9 percent, in fiscal year 2021-2022. This change in net position is mainly due to investment losses and payments to participants exceeding contributions.

The total additions to net position of \$39.6 thousand in fiscal year 2021-2022 decreased by \$1.1 million from \$1.1 million in fiscal year 2022-2021. The decrease is mainly due to a decrease in investment income. Total deductions from net position of \$188.7 thousand in fiscal year 2021-2022 increased by \$2.3 thousand from \$186.4 thousand in fiscal year 2020-2021. The change is mainly due to a similar amount of payments to participants.

***2021 Analysis***

The net position due to participants increased by \$921.0 thousand, or 44.0 percent, in fiscal year 2020-2021. This change in net position is mainly due to investment income and contributions exceeding the payments to participants.

The total additions to net position of \$1.1 million in fiscal year 2020-2021 increased by \$603.3 thousand from \$504.1 thousand in fiscal year 2019-2020. The increase is mainly due to an increase in investment income. Total deductions from net position of \$186.4 thousand in fiscal year 2020-2021 increased by \$139.6 thousand from \$46.8 thousand in fiscal year 2019-2020. The change is mainly due to the increase in payments to participants.

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
 Statements of Net Position Due to Participants  
 June 30, 2022 and 2021

	<b>2022</b>	<b>2021</b>
Assets		
Investments at fair value		
Short Term Funds	\$ 82,192	\$ 72,771
Bond Funds	1,540	12,085
Global International Funds	28,744	25,862
Assets Allocation Funds	2,486,805	2,695,059
Large Cap Growth Funds	84,961	57,438
Large Cap Value Funds	103,230	78,225
Small-Cap/Mid-Cap Funds	77,974	60,946
Specialty Fund- Real Estate	-	12,083
Total investments at fair value	2,865,446	3,014,469
Net position due to participants	\$ 2,865,446	\$ 3,014,469

See accompanying notes to the financial statements.

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Statements of Changes in Net Position Due to Participants  
For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Additions		
Employee contributions	\$ 535,790	\$ 425,303
Investment income	(496,158)	682,087
Total additions	<u>39,632</u>	<u>1,107,390</u>
Deductions		
Payments to participants	(187,079)	(185,090)
Administration fees	(1,576)	(1,339)
Total deductions	<u>(188,655)</u>	<u>(186,429)</u>
Change in net position	(149,023)	920,961
Net position due to participants		
Beginning of year	<u>3,014,469</u>	<u>2,093,508</u>
End of year	<u>\$ 2,865,446</u>	<u>\$ 3,014,469</u>

See accompanying notes to the financial statements.



**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Notes to the Financial Statements  
For the Years Ended June 30, 2022 and 2021

**NOTE 1 – PLAN DESCRIPTION**

The following description of the City of San José's (City's) Defined Contribution 401(a) (Plan) provides only general information. Participants should refer to the Plan's agreement and the Municipal Code for a more complete description of the Plan's provisions.

The Plan is described in Chapter 3.49 of the San José Municipal Code. Each employee hired on or after January 20, 2013, whom has never been a member of the Federated or Sworn Retirement Plans, has a one-time irrevocable election to either: (1) become a participant in this plan and make mandatory employee contributions to this Plan; or (2) become a participant as a Tier 2 member in the federated employees retirement plan under Chapter 3.28, by executing a written election form on or before his or her first day of employment with the City. Each employee has only one election (including a default election) to participate in the Plan, and that election cannot be changed for any reason. If an employee who has made an election (including a default election) under this section leaves employment with the City and later returns to City employment in a capacity/position that would be covered by the Plan, the employee's prior election will determine whether or not the employee participates in this Plan. An employee who becomes a participant in this Plan (and any survivors of such a participant) is not eligible for retiree medical, dental, or other health and welfare benefits under Part 16 and Part 17 of Chapter 3.28.

On executing the participation agreement, the employee designates his or her investment objective prospectively only. The City may select for investment of accounts the types of investments set forth in Sections 53601 and 53602 of the Government Code of the State of California and in corporate stocks, bonds, and securities, mutual funds, savings and loan accounts, credit union accounts, life insurance policies, variable and fixed annuities, mortgages, deeds of trust, or other security interests in real or personal property. The Plan utilizes Voya Retirement Insurance and Annuity Company (VRIAC) as its investment administrator.

*Contributions* – During each payroll period in which an employee is a participant in the Plan, the City deducts the percentage of the employee's compensation specified in the adoption agreement and contributes such amount to the Plan. The contributions are paid by the City via salary reductions in accordance with Internal Revenue Code Section 414(h)(2). A participant may not receive any amounts paid directly instead of having the amounts paid to the Plan. Participant contributions are subject to the applicable limit under Internal Revenue Code Section 415, as provided by Section 3.049.045 and the Plan.

For each participant making contributions to the Plan under Section 3.49.040, the City contributes the percentage of the participant's compensation for each payroll period set forth in the adoption agreement (not to exceed nine percent) to the participant's employer contribution account in the defined contribution fund. In no event will a participant receive any City contributions for any payroll period for which the participant does not make an employee contribution to the Plan.

*Participant Accounts* – The City established a defined contribution fund to which all contributions to the Plan are credited, and to which all direct rollover amounts accepted by the Plan are credited as received. Separate accounts are established for each employee participating, which show all amounts of contributions, direct rollover amounts, investments made, shares acquired and earnings and gains on investments. Each account is valued at least semiannually.

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Notes to the Financial Statements (Continued)  
For the Years Ended June 30, 2022 and 2021

**NOTE 1 – PLAN DESCRIPTION (Continued)**

*Vesting* – The participant at all times is one hundred percent vested in the contributions paid by the City to the Plan.

*Payment of Benefits* – A participant’s account balances may continue to be invested until withdrawn for the payment of benefits. Payment of benefits under Section 3.49.131 may commence thirty-one days following the occurrence of a severance event, but in no event will commence later than the required beginning date under Code Section 401(a)(9), as specified in the Plan.

Payment of benefits in the event of the death of the participant prior to commencement of benefits may commence sixty days after satisfactory proof of death, and will commence no later than sixty days after the close of the Plan year in which death occurred, subject to satisfactory proof of the death of the participant. However, if the beneficiary is the spouse of the participant, then the spouse may elect, within sixty days of the participant's death, to defer distribution to a date not later than the participant's required beginning date. In the event of the participant's death after commencement of benefits, benefits will be paid as provided by Internal Revenue Code Section 401(a)(9), as specified in the Plan.

**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 Plan 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 Plan 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 Plan.

*Investment Valuation* – The Plan’s investments are stated at fair value. Investments valued at the net asset value (NAV) are investments in the VRIAC separate accounts and pooled separate accounts. The VRIAC pooled separate accounts are also valued at NAV.

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

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Notes to the Financial Statements (Continued)  
For the Years Ended June 30, 2022 and 2021

**NOTE 3 – INVESTMENTS**

Plan participants may direct contributions into any of the investment options offered by the Plan's investment administrator, which include various VRIAC separate and pooled separate accounts. It is the Plan's 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 Plan categorizes its 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 NAV. Descriptions for each fund type are listed on pages 12 and 13.

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Notes to the Financial Statements (Continued)  
For the Years Ended June 30, 2022 and 2021

**NOTE 3 – INVESTMENTS (Continued)**

The following presents investments at June 30, 2022 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>June 30, 2022</u>	
<b>401(a) Plan</b>				
<b>Investments measured at the net asset value (NAV)</b>				
<b>Short-Term Funds</b>				
Stable Value Fund	5.05 years	AA	\$ 82,192	
<b>Bond Funds</b>				
Fidelity US Bond Index Fund	6.35 years	AA	687	**
Loomis Sayles Core Plus Bd F N	8.94 years	BBB	853	**
<b>Global International Funds</b>				
American Funds EuroPacific R6	n/a	n/a	23,041	**
Vanguard Tot Intl St Indx Fd Sig	n/a	n/a	5,703	**
<b>Asset Allocation Funds</b>				
Vanguard Trgt Retire Inc Tr II	7.52 years	A	10,206	**
Vanguard Trgt Retire 2025 Tr II	8.58 years	A	150,798	* **
Vanguard Trgt Retire 2030 Tr II	9.02 years	A	595,581	* **
Vanguard Trgt Retire 2035 Tr II	9.02 years	A	276,086	* **
Vanguard Trgt Retire 2040 Tr II	9.02 years	A	95,657	**
Vanguard Trgt Retire 2045 Tr II	9.03 years	A	279,407	* **
Vanguard Trgt Retire 2050 Tr II	9.03 years	A	294,394	* **
Vanguard Trgt Retire 2055 Tr II	9.03 years	A	560,477	* **
Vanguard Trgt Retire 2060 Tr II	9.03 years	A	159,482	**
Vanguard Trgt Retire 2065 Tr II	9.03 years	A	64,717	**
<b>Large Cap Growth Funds</b>				
T. Rowe Price Large Cap Growth D	n/a	n/a	84,961	**
<b>Large Cap Value Funds</b>				
Vanguard Equity Income Fund Adm	n/a	n/a	12,105	**
Vanguard FTSE Social Index Fund Inst	n/a	n/a	8,459	**
Vanguard Institutl Index Inst Plus	n/a	n/a	82,666	**
<b>Small-Cap/Mid-Cap Funds</b>				
Hood River Small-Cap Growth Fund Ret	n/a	n/a	12,578	**
Janus Henderson Enterprise Fund N	n/a	n/a	35,755	**
MFS Mid Cap Value Class R6	n/a	n/a	409	**
Vanguard Mid-Cap Index-Instl	n/a	n/a	14,159	**
Vanguard Sml-Cap Index-Instl	n/a	n/a	15,073	**
Total 401(a) Plan investments measured at fair value			\$ 2,865,446	

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

\*\* Represents funds holding international investments

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Notes to the Financial Statements (Continued)  
For the Years Ended June 30, 2022 and 2021

**NOTE 3 – INVESTMENTS (Continued)**

The following presents investments at June 30, 2021 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>June 30, 2021</u>	
<b>401(a) Plan</b>				
<b>Investments measured at the net asset value (NAV)</b>				
<b>Short-Term Funds</b>				
Stable Value Fund	4.78 years	AA+	\$ 72,771	
<b>Bond Funds</b>				
Loomis Sayles Core Plus Bd F N	7.70 years	BBB	12,085	**
<b>Global International Funds</b>				
American Funds EuroPacific R5	n/a	n/a	10,874	**
Inv Developing Mkts Fd Y	n/a	n/a	7,951	**
Vanguard Tot Intl St Indx Fd Sig	n/a	n/a	7,037	**
<b>Asset Allocation Funds</b>				
Vanguard Tgt Ret 2015 - Inv	7.45 years	A	7,163	**
Vanguard Tgt Ret 2025 - Inv	8.73 years	A	337,498	* **
Vanguard Tgt Ret 2030 - Inv	8.86 years	A	587,607	* **
Vanguard Tgt Ret 2035 - Inv	8.86 years	A	254,472	* **
Vanguard Tgt Ret 2040 - Inv	8.86 years	A	129,331	**
Vanguard Tgt Ret 2055 - Inv	8.85 years	A	307,956	* **
Vanguard Tgt Ret 2050 - Inv	8.87 years	A	302,876	* **
Vanguard Tgt Ret 2055 - Inv	8.86 years	A	626,327	* **
Vanguard Tgt Ret 2060 - Inv	8.85 years	A	115,809	**
Vanguard Tgt Ret 2065 - Inv	8.79 years	AA	26,020	**
<b>Large Cap Growth Funds</b>				
American Funds Growth End R5	n/a	n/a	47,053	**
Fidelity Adv New Insights I	n/a	n/a	10,385	**
<b>Large Cap Value Funds</b>				
Vanguard Tot Stok mrkt Ind-Instl	n/a	n/a	18,655	**
Vanguard Institutl Index (Inst)	n/a	n/a	40,825	**
The Yacktman Fund Sr	n/a	n/a	8,721	**
Parnassus Core Equity Fund Inst	n/a	n/a	10,024	**
<b>Small-Cap/Mid-Cap Funds</b>				
Janus Henderson Enterprise Fund N	n/a	n/a	33,852	**
Vanguard Sml-Cap Index-Instl	n/a	n/a	10,196	**
Emerald Growth Fund Inst	n/a	n/a	16,898	
<b>Specialty Fund - Real Estate</b>				
Voya Clarion Real Est Prtinstl	n/a	n/a	12,083	
Total 401(a) Plan investments measured at fair value			\$ 3,014,469	

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

\*\* Represents funds holding international investments

**CITY OF SAN JOSE**  
**DEFINED CONTRIBUTION 401(a) PLAN**  
Notes to the Financial Statements (Continued)  
For the Years Ended June 30, 2022 and 2021

**NOTE 3 – INVESTMENTS (Continued)**

*Short-Term Funds.* This type includes investments in one pooled separate account that invests 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 at NAV. 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 two pooled separate account (one as of June 30, 2021) 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 at NAV. 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.

*Global International Funds.* This type includes investments in two pooled separate accounts (three as of June 30, 2021) that invest in common stocks of issuers throughout the world. The VRIAC pooled separate accounts are valued at NAV. 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 ten pooled separate accounts that invest in funds according to their asset allocation strategies designed for investors planning to retire at their respective target years. The VRIAC pooled separate accounts are valued at NAV. 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 one pooled separate account (two as of June 30, 2021) that invests 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 at NAV. 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 Value Funds.* This type includes investments in three pooled separate accounts (four as of June 30, 2021) 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 at NAV. 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 five pooled separate accounts (three as of June 30, 2021) that invest primarily in equity securities of small and medium U.S. companies. The VRIAC pooled separate accounts are valued at NAV. 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.

**CITY OF SAN JOSE**  
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Notes to the Financial Statements (Continued)  
For the Years Ended June 30, 2022 and 2021

**NOTE 3 – INVESTMENTS (Continued)**

*Specialty Fund – Real Estate.* This type includes investments in one pooled separate account as of June 30, 2021 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 at NAV. 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 Plan's investments are identified on pages 10 and 11.

**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 Plans' investments are identified on pages 10 and 11.

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The 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 pages 10 and 11.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the 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 Plans are held on behalf of the Plans by VRIAC in accordance with the formal deposit policy for custodial credit risk and are not exposed to custodial credit risk.

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plans' investments in a single issuer. The 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 Plans' total investments are identified on pages 10 and 11. Since all investments are participant directed, all risks exist at the participant level.