CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: Federated City Employees' Retirement System Audit Committee

FROM: Benjie Chua Foy

SUBJECT: CAFR

DATE: October 7, 2020

INFORMATION

Attached you will find the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2020, that will be presented to the full Board at their November Board meeting, for your review and comment. Please note the CAFR has been prepared and reviewed by numerous reviewers (including external auditors, Retirement Services Staff, City Finance Department Staff, but pending Cheiron and the City Attorney's Office). As such, some content is not available for modification, specifically the audited financial section. The auditors have not completed their review of the full CAFR but will be expected to complete by the time this goes to the Board.

The CAFR contains the audited financial statements as required by San Jose Municipal Code (SJMC) Section 3.28.170 and serve as the Board's Annual Report to City Council and City Manager as required by SJMC 3.28.260. The audited financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB). The other sections of the CAFR is prepared to achieve the Certificate of Achievement for Excellence in Financial Reporting issued by the Governmental Finance Officers Association (GFOA) of the United States and Canada to government units and public employees retirement systems whose CAFRs achieve the highest standards in government accounting and financial reporting.

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

City of San José

Federated City Employees' Retirement System

Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 2020 and June 30, 2019

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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City of San José Federated City Employees' Retirement System

Roberto L. Peña
Chief Executive Officer

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, 2020 and June 30, 2019

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

Board Chair Letter

Office of Retirement Services

Federated City Employees' Retirement System

November 5, 2020

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, 2020.

The System's Pension Plan earned a time-weighted, net-of-investment fees rate of return of 3.6% on investments for the fiscal year, compared to a 3.9% return for its policy benchmark and a 1.3% return for the Investment Metrics universe net median of public funds greater than $1 billion. The System underperformed the net rate of return of 6.75% assumed by the Board and System's actuary for the fiscal year ended June 30, 2020. The System's Pension Plan earned a time-weighted, net-of-investment fees rate of return of 4.6% and 4.1% for the three-year and five-year periods ending June 30, 2020, respectively; while the Investment Metrics net median earned a time-weighted rate of return of 5.0% and 5.4% for the same periods.

The Healthcare Plan earned a time-weighted, net-of-investment fees rate of return of (0.1)% on investments for the fiscal year, compared to a 0.9% return for its policy benchmark. Additionally, the System's Healthcare Plan earned a time-weighted, net-of-investment fees rate of return of 3.0% and 2.9% for the three-year and five-year periods ending June 30, 2020, respectively.

The System's net position increased from $2,426,640,000 to $2,511,327,000 (see the Financial Section beginning on page 10). The net increase in the System's net position for fiscal year 2019-2020 was $84,687,000.

The Investment Program continued to manage portfolio investments and move initiatives forward during the fiscal year through our leadership of our CEO and CIO. During fiscal year 2019-2020, the Board implemented a comprehensive investment-governance framework as well as a revised strategic asset allocation. With the COVID-19 shock, March markets were gripped by fears that an economic crisis would become a financial crisis. The impact on the financial markets was extreme. The spread of the virus prompted additional volatility in financial markets. As a result, on March 27, 2020, at a special board meeting during the height of COVID-19, the Retirement System's Board voted to shift its Asset Allocation Policy to prepare for this unprecedented time.

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,

Jay Castellano, Chair
Board of Administration

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Office of Retirement Services

Federated City Employees' Retirement System

November 5, 2020

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, 2020. 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). 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, 2020 and 2019, please refer to the Management's Discussion and Analysis (MD&A) on page 14.

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.

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, 2019. This was the 20th consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the System must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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, 2019, the funding ratio of the defined benefit pension plan and the defined benefit OPEB plan was 53.0%, and 53.1%, 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 6.75%. The impact of the difference between the actual net rate of return earned by the System and the 6.75% 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 2019-2020 was $84,687,000. Details of the components of this increase are included in the Statement of Changes in Plan Net Position on page 30. The defined benefit pension plan's funding progress is presented on page 137 and the defined benefit OPEB plan's funding progress is presented on page 153.

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.

The pandemic had a profound negative effect on financial markets across the world in the first quarter of 2020, exacerbated by a swiftness in decline that took everyone by surprise. It took only twelve days to enter bear market territory (defined as a 20% decline in equity markets) which was the steepest decline ever recorded. After reaching a high of 3,393 on February 19, 2020, the S&P500 reached a low of 2,191 on March 23, 2020, registering a fall of 35%. During that time, both developed markets and emerging markets equity indices registered similar or greater declines, as did the Russell 2000, the index of small capitalization US stocks.

The Federated System Investment committees met multiple times in March and also held a special board meeting on March 27, 2020 to consider the economic ramifications of the COVID-19 pandemic as well as its effect on the portfolio. During those deliberations, trustees paid close attention to the effect of the meltdown on plan portfolio, potential impact on the sponsor, the effects of monetary and fiscal stimulus, as well as opportunities to position the portfolio for long-term success. Following these deliberations, with input from the boards' investment consultants as well as the investment team, the Board decided to increase the level of growth assets in the portfolio, balancing increased return expectations going forward with the risk tolerance of the City and instructed the investment team to implement the revised strategic asset allocation as efficiently and expeditiously as possible.

The Board had followed a deliberate policy of designing defensive portfolios, taking into account both the maturity of the plans as well as the high valuations in growth-oriented assets. The portfolio construction is built around the concept of resilient growth - maintaining an immunized cash flow portfolio to meetnear-term pension payments, investing in low beta strategies that offer diversification and downside protection, and a growth portfolio that produces sufficient risk-adjusted returns to meet funding needs.

This defensive stance greatly helped minimize losses during the first quarter of 2020. While the Federated System lost 10.7% for the quarter, the System's performance ranked in the twenty third percentile of its peers. In comparison, the MSCI ACWI (All Country World Index), an index of global stocks, had lost 22.4% for the quarter.

While the Board decided to increase growth assets at the end of the first quarter of 2020 taking into account the increased return expectations of growth assets over the long term, the coincident market rally following unprecedented monetary and fiscal stimulus once again immensely benefitted the performance of the System. The Federated System returned 11.1% for the second quarter of 2020, boosting fiscal year 2019-20 returns to 3.6% (fourteenth percentile). For calendar year to date through June 30, 2020, the System finished in the first of its public pension plan peers. In July 2020, the System continued its strong run, returning +3.96%.

Over the past fiscal year, the System Pension Plan's time-weighted net of investment fees rate of return was 3.6% for the fiscal year, compared to a 3.9% return for its policy benchmark and a 1.3% return for the Investment Metrics universe net median of public funds greater than $1 billion. Additionally, the System Pension Plan earned a time-weighted net of investment fees rate of return of 4.6% and 4.1% for the three-year and five-year periods ending June 30, 2020, respectively, while the Investment Metrics universe net median earned a time-weighted rate of return of 5.0% and 5.4% for the same periods.

The Healthcare Plan's time-weighted net of investment fees rate of return was (0.1)% on investments for the fiscal year, compared to a 0.9% return for its policy benchmark. In addition, the Healthcare Plan earned a time-weighted net of investment fees rate of return of 3.0% and 2.9% for the three-year and five-year periods ending June 30, 2020, respectively.

The net position of the System increased from $2,426,640,000 to $2,511,327,000 (see the Financial Section beginning on page 10).

Major Initiatives

The Investment Program continued to manage portfolio investments and move initiatives forward during the fiscal year. The continuity of the Investment Program is a testament to the human capital and infrastructure that are in place. The investment team filled open positions, worked on an investment governance framework, and worked with our general consultant, Meketa, in implementing a revised strategic asset allocation.

In November 2016, a charter amendment to alter the pension system for public employees, known as Measure F, was approved, 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 benefits, 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 (GPP) benefit for Tier 1 retirees. The VEBA is being administered by the City, not ORS, and therefore it is also not under the jurisdiction of the Retirement Board.

In October 2018, the Post Employment Healthcare plan that was established under IRC Section 401(h) to fund retiree healthcare benefits was exhausted. All post-employment healthcare benefit payments are now made from the IRC 115 trust account, an alternative to the 401(h), which was established in June 2011.

The Office of Retirement Services (ORS) implemented a new pension administration system that went live in February 2019; the implementation of the system started in March 2015. The implementation process spanned approximately 44 months and cost approximately $9 million, which was allocated to both the Federated System and the Police and Fire Plan. The project completion was extended to the fall of 2019 to allow for the implementation of Measure F-related calculations in the system. One of Retirement Service's main goals has been to increase customer service through the new pension administration system. The Member Direct Portal from this upgrade was rolled out and available to our members starting July 27, 2020.

During fiscal year 2019-2020, the Board approved a Strategic Communications Plan that encompasses social media and other communication needs of ORS. During this same period, the first and second quarterly newsletters, *The Retirement Connection*, was mailed out to the membership.

In October 2017, the City Auditor issued report 17-06, Audit of Retirement Services: Greater Transparency Needed in the Budgeting Process, Interactions Among Stakeholders, Investment Policies, and Plan Administration. The report was published with five separate findings which are covered in 25 different recommendations and 5 of the 25 recommendations are addressed to the City. ORS has addressed and completed all but 3 of the recommendation over which they have control, including preparing a comprehensive annual budget report through the Manager's Budget Addendum Process (MBA) for the City Council. The other 3 recommendations have been partly implemented with a goal of completion by June 2021.

Effective January 1, 2020, seven new health plan offerings were implemented. Implementation plan involved establishing contractual obligations, payment methods, customer service protocols, member communication, transfer of all prescriptions and provider referrals and generations of medical insurance cards for members. Two health insurance providers, BlueShield of California and Sutter Health Plus, were replaced with a single provider, Anthem Blue Cross. Retirees that were enrolled in the BlueShield Medicare supplement plans were transferred to the Anthem Medicare PPO plan. In addition, the annual full-time student verification audit was conducted.

As a response to the COVID-19 pandemic, similar to many businesses and operations, a remote workforce was mobilized in March 2020. Retirement Services continued to meet its core duties and operations while working remotely, ensuring that day-to-day operations; such as processing pension payments, accepting members' retirement applications, and providing quality customer service continued. In addition, regular and special Board and Committee meetings continued to be held virtually.

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, commitment to the System and for their diligent work to assure the System's continued successful operation.

Respectfully Submitted,

Roberto L. Peña

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, 2019

Christopher P. Morrill

Executive Director/CEO

PPCC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2019

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)

Alan H. Winkle
Alan H. Winkle
Program Administrator

Board of Administration, Administration, and Outside Consultants

BOARD OF ADMINISTRATION

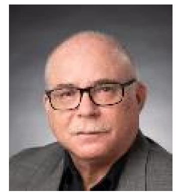
The Retirement System is administered by a seven-member Board of Administration composed of two City employees elected by members of the System, a Retiree Representative and three public members, who are not connected with the City and have significant banking or investment experience, and another public 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, 2020, the members of the Board were as follows:

JAY CASTELLANO, CHAIR
Retiree Representative appointed to the Board May 2018. His current term expires November 30, 2020.

ANURAG CHANDRA, VICE CHAIR
Public member appointed to the Board December 5, 2016. His current term expires November 30, 2022.

QIANYU SUN, TRUSTEE
Federated Employee Representative appointed to the Board August 2018. Her current term expires November 30, 2021.



SPENCER HOROWITZ, TRUSTEE
Public member appointed to the Board August 28, 2019. His current term expires November 30, 2020.

ELAINE ORR, TRUSTEE
Public member appointed to the Board November 2018. Her current term expires November 30, 2022.

JULIE JENNINGS, TRUSTEE
Employee Representative appointed to the Board January 2020. Her current term expires November 30, 2023

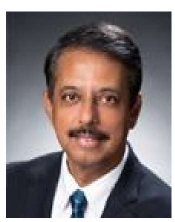
MARK KELEHER, TRUSTEE
Public member appointed to the Board December 3, 2019. His current term expires November 30, 2023.

DEVORA "DEV" DAVIS CITY COUNCIL LIAISON TO THE BOARD
Non-voting member appointed to the Board March 2017

OFFICE OF RETIREMENT SERVICES ADMINISTRATION

ROBERTO L. PEÑA, DIRECTOR CHIEF EXECUTIVE OFFICER

BARBARA HAYMAN, DEPUTY DIRECTOR CHIEF OPERATIONS OFFICER



PRABHU PALANI, 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.

OUTSIDE CONSULTANTS

ACTUARY
Cheiron, Inc.
Encinitas, CA

AUDITOR
Grant Thornton LLP
San Francisco, CA

DOMESTIC RELATIONS ORDER AND DISABILITY COUNSEL
Saltzman & Johnson Law Corporation
Alameda, CA

GENERAL & FIDUCIARY COUNSEL
Reed Smith LLP
San Francisco, CA

INVESTMENT COUNSEL
Hanson Bridgett LLP
San Francisco, CA

Reed Smith LLP
San Francisco, CA

INVESTMENT CONSULTANTS
Albourne America LLC – Absolute Return
San Francisco, CA

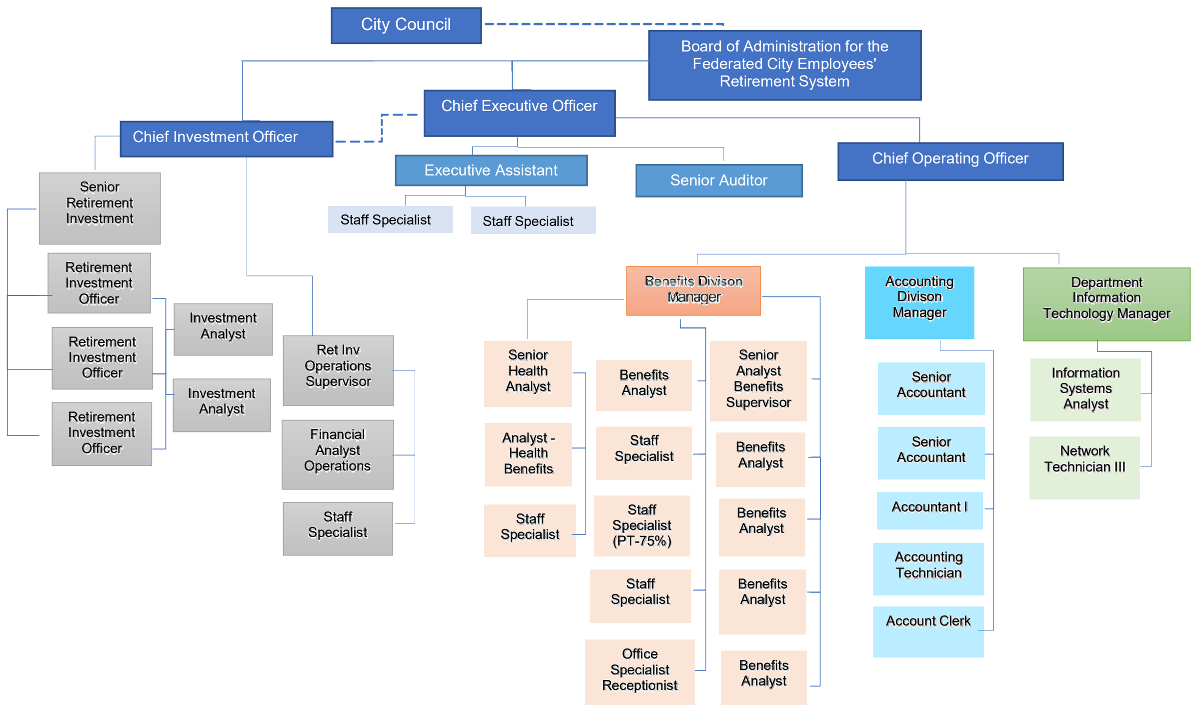
Meketa Investments Group, Inc. – General Consultant
Carlsbad, CA

Verus Advisory Inc. – Risk Advisory
Seattle, WA

TAX COUNSEL
Ice Miller LLP
Indianapolis, IN

A list of investment professionals who provide services for the pension and healthcare trusts can be found on page 105 of the Investment Section of this report. The Schedule of Investment Fees and Schedule of Commissions can be found on pages 117 and 118, respectively.

2020 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

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Financial Section

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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, 2020 and June 30, 2019

GrantThornton

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2020 and 2019, 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 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 audits 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.

Grant Thornton

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, 2020 and 2019, and the changes in plan net position for the year 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 plan, schedule of investment returns – defined benefit pension plan, schedule of employer contributions – defined benefit pension plan, notes to schedule, schedule of changes in the employer's net pension liability and related ratios – postemployment healthcare plans, schedule of investment returns – postemployment healthcare plan, and schedule of employer contributions – postemployment healthcare plans, 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 audits 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 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, 2020, combining schedule of changes in defined benefit pension plan net position for the year ended June 30, 2020, combining schedule of other postemployment plan net position as of June 30, 2020, combining schedule of changes in other postemployment plan net position for the year ended June 30, 2020, and the schedules of administrative expenses and other, schedules of payments to consultants, and schedules of investment expenses for the years ended June 30, 2020 and 2019 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 audits 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 ____, 2020, 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 grant agreements 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 ____, 2020

November X, 2020

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, 2020 and 2019. 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 5 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2020

- As of June 30, 2020, the System had $2,511,327,000 in plan net position restricted for pension benefits and postemployment healthcare benefits. Plan net position of $2,208,017,000 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 $303,310,000 is 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, 2020 by $84,687,000 or 3.5% from the prior fiscal year, primarily as a result of the appreciation in the fair value of investments caused by favorable market conditions, as well as the increase in contributions during the fiscal year.

- Additions to plan net position during the fiscal year ended June 30, 2020 were $337,618,000, which includes employer and employee contributions of $207,860,000 and $35,774,000, respectively, and net investment income of $93,984,000. This represents an increase of $18,691,000 or 5.9% of total additions from the prior fiscal year amount of $318,927,000.

- Deductions from plan net position for fiscal year ended June 30, 2020 increased from $238,877,000 to $252,931,000 over the prior fiscal year, or approximately 5.9%, due to the increase in retirement benefit payments this fiscal year. The increase in retirement benefit payments 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, 2020, 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). 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.

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 29 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 62 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 pages 19 and 20). At the close of fiscal years 2020 and 2019, 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, 2019 actuarial valuation rolled forward to June 30, 2020, the net position of the Defined Benefit Pension Plan was 51.1% of the total pension liability, and the net position of the Other Postemployment Employee Benefit Plan was 46.7%. For more information on the results and impact of the June 30, 2019 actuarial valuations, please see Notes 4 and 5 to the financial statements beginning on page 50.

NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 1a)
As of June 30, 2020 and 2019 (In Thousands)

	2020	2019	Increase Amount	Increase Percent
Receivables	$ 72,657	$ 17,753	$ 54,904	309.3 %
Investments at fair value	2,150,627	2,115,800	34,827	1.6 %
Capital assets, net	3,348	2,937	411	14.0 %
Total Assets	**2,226,632**	**2,136,490**	**90,142**	**4.2 %**
Current liabilities	18,615	4,338	14,277	329.1 %
Total Liabilities	**18,615**	**4,338**	**14,277**	**329.1 %**
Plan Net Position	**$ 2,208,017**	**$ 2,132,152**	**$ 75,865**	**3.6 %**

NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 1b)
As of June 30, 2019 and 2018 (In Thousands)

	2019	2018	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Receivables	$ 17,753	$ 12,416	$ 5,337	43.0 %
Investments at fair value	2,115,800	2,062,101	53,699	2.6 %
Capital assets, net	2,937	1,684	1,253	74.4 %
Total Assets	**2,136,490**	**2,076,201**	**60,289**	**2.9 %**
Current liabilities	4,338	6,868	(2,530)	(36.8)%
Total Liabilities	**4,338**	**6,868**	**(2,530)**	**(36.8)%**
Plan Net Position	**$ 2,132,152**	**$ 2,069,333**	**$ 62,819**	**3.0 %**

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

As of June 30, 2020 and 2019 (In Thousands)

	2020	2019	Increase Amount	Increase Percent
Receivables	$ 11,476	$ 4,109	$ 7,367	179.3 %
Investments at fair value	299,491	290,963	8,528	2.9 %
Capital assets, net	197	55	142	258.2 %
Total Assets	**311,164**	**295,127**	**16,037**	**5.4 %**
Current liabilities	7,854	639	7,215	1,129.1 %
Total Liabilities	**7,854**	**639**	**7,215**	**1,129.1 %**
Plan Net Position	**$ 303,310**	**$ 294,488**	**$ 8,822**	**3.0 %**

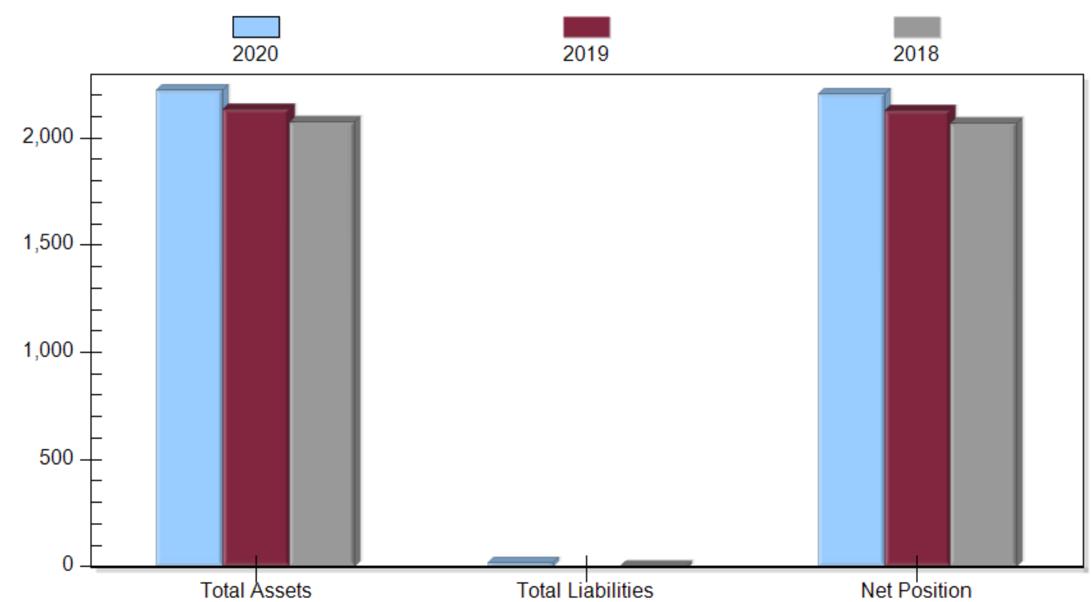
NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN (Table 1d)

As of June 30, 2019 and 2018 (In Thousands)

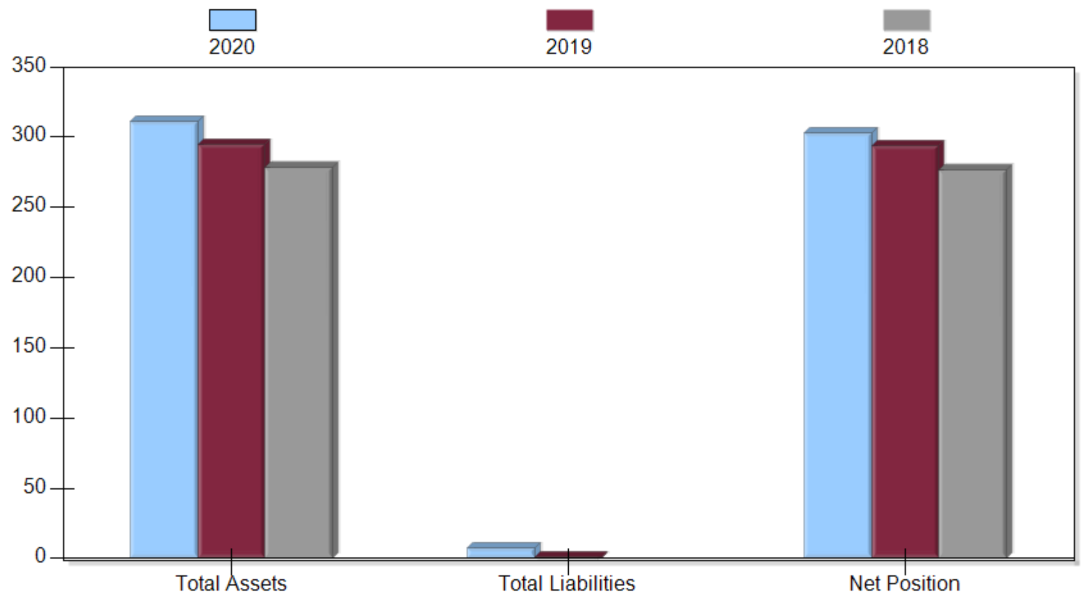
	2019	2018	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Receivables	$ 4,109	$ 4,211	$ (102)	(2.4)%
Investment at fair value	290,963	273,442	17,521	6.4 %
Capital assets	55	70	(15)	(21.4)%
Total Assets	**295,127**	**277,723**	**17,404**	**6.3 %**
Current liabilities	639	466	173	37.1 %
Total Liabilities	**639**	**466**	**173**	**37.1 %**
Plan Net Position	**$ 294,488**	**$ 277,257**	**$ 17,231**	**6.2 %**

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

As of June 30, 2020, 2019 and 2018
(Dollars in Millions)



POSTEMPLOYMENT HEALTHCARE PLAN NET POSITION (Tables 1c and 1d)
As of June 30, 2020, 2019 and 2018
(Dollars in Millions)



As of June 30, 2020, $2,208,017,000 and $303,310,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on pages 19-20). Plan net position restricted for pension benefits of $2,208,017,000 is available to meet the System's ongoing obligations to pension plan participants and their beneficiaries. Postemployment Healthcare Plan net position of $303,310,000 is available for the exclusive use of retiree medical benefits.

As of June 30, 2020, total net position restricted for pension benefits and for the postemployment healthcare benefits increased by 3.6% and 3.0% from the prior year, primarily due to the net appreciation in the fair value of investments of $83,993,000 for the Defined Benefit Pension Plan, and net investment income of $3,075,000 for the Postemployment Healthcare Plan. The appreciation in the fair value of investments for 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 39.

As of June 30, 2019, $2,132,152,000 and $294,488,000, in total net position was restricted for pension benefits and postemployment healthcare benefits, respectively (see Tables 1b and 1d on pages 19-20). Plan net position restricted for pension benefits of $2,132,152,000 was available to meet the System's ongoing obligations to pension plan participants and their beneficiaries. Postemployment Healthcare Plan net position of $294,488,000 was available for the exclusive use of retiree medical benefits.

As of June 30, 2019, total net position restricted for pension benefits and for the postemployment healthcare benefits increased by 3.0% and 6.2% from the prior year, primarily due to the net appreciation in the fair value of investments of $65,538,000 and $3,607,000 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 39.

As of June 30, 2020, receivables increased by $54,904,000 or 309.3% and by $7,367,000 or 179.3% in the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Receivables in the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased mainly due to pending investment trades at year end, causing an increase in receivables from brokers and other, and accrued investment income receivables.

In the previous year, receivables for the Defined Benefit Pension Plan increased by $5,337,000 or 43.0% due to an increase in employer contribution receivables, and decreased by $(102,000) or (2.4)% in the Postemployment Healthcare Plan due to a decrease in brokers and others, and accrued investment income.

As of June 30, 2020, total liabilities for the Defined Benefit Pension Plan increased by $14,277,000 or 329.1% and increased by $7,215,000 or 1,129.1% in the Postemployment Healthcare Plan, respectively, compared with June 30, 2019, due to increases in payable to brokers, primarily as a result of the timing of investment transactions. In the previous year, liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan decreased by $(2,530,000) or (36.8)% and increased by $173,000 or 37.1%, respectively, 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, 2020, the System's combined Defined Benefit Pension Plan and Postemployment Healthcare Plan net position increased by $84,687,000 or 3.5%, due to a combination of favorable market conditions during the fiscal year and an increase in contributions. Overall, net plan position increased, but the impact of COVID-19 led to a decrease in net investment income. 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, 2020, were $297,318,000 and $40,300,000, respectively (see Tables 2a and 2c on pages 23 - 24).

For the fiscal year ended June 30, 2020, total additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by $24,851,000 or 9.1% and decreased by $(6,160,000), or (13.3)%, respectively. The primary cause of the increase from the prior year in the Defined Benefit Pension Plan was a combination of the increase in net investment income of $14,054,000 and the increase in contributions of $10,797,000, due to better market conditions throughout the first two quarters, the asset allocation change and the increase in employer contributions. The decrease in the Postemployment Healthcare Plan was due to a decrease in investment income of $(6,397,000) due to a different asset allocation than the Pension Plan. The impact of COVID-19 on the financial markets was extreme. As a result, the Retirement System's Board voted to shift its Asset Allocation Policy to prepare for the volatility in the financial markets. However, the market conditions still had an impact on the System and did not result in the same amount of gains as prior years, even causing a decrease in the Healthcare Plan.

The System's time-weighted net investment fee rate of return, as determined by the System's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2020 for the Defined Benefit Pension Plan, was 3.6% compared to 4.3% for fiscal year 2019.

For fiscal year ended June 30, 2019, total additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan decreased by $(22,297,000) and $(13,818,000), or (7.6)% and (22.9)%, respectively. The primary cause of the decrease from the prior year was a combination of the decrease in net investment income of $(40,638,000) and increase in contributions of $18,341,000 in the Defined Benefit Pension Plan and the decrease of $(2,864,000) and $(10,954,000), in net investment income and contributions, respectively, in the Postemployment Healthcare Plan, respectively.

The decrease in net investment income was due to the less than favorable market conditions during the fiscal year as compared to the prior year and the increase in employer contributions was due to the increase in City contribution rates. The System's time-weighted net of investment fee rate of return, as determined by the System's investment consultant on an investment (non-GAAP) basis, for the fiscal year ended June 30, 2019 for the Defined Benefit Pension Plan, was 4.3% compared to 5.9% for fiscal year 2018.

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, 2020, totaled $221,453,000 and $31,478,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 5.6% from the previous year due to an increase in benefit payments (see Table 2a on page 23). 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 7.7% from the previous year primarily due to the increase in administrative fees and healthcare insurance premiums. (see Table 2c on page 24).

Deductions for the fiscal year ended June 30, 2019, totaled $209,648,000 and $29,229,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 5.8% from the previous year due to an increase in benefit payments The increase in benefit payments is primarily due to continued increases in the number of retirees and beneficiaries with higher than average salaries and added cost of living adjustments. (see Table 2b on page 21). Deductions for the Postemployment Healthcare Plan decreased by (32.6%) from the previous year primarily due to the decrease in the transfer of VEBA assets for the fiscal year. (see Table 2d on page 22).

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 2a)
For the Fiscal Years Ended June 30, 2020 and 2019 (Dollars in Thousands)

	2020	2019	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	$ 25,082	$ 22,606	$ 2,476	11.0 %
Employer contributions	181,327	173,006	8,321	4.8 %
Net investment income [1]	90,909	76,855	14,054	18.3 %
Total Additions	**297,318**	**272,467**	**24,851**	**9.1 %**
Retirement benefits	201,474	190,228	11,246	5.9 %
Death benefits	14,389	13,719	670	4.9 %
Refund of contributions	865	1,119	(254)	(22.7)%
Administrative expenses	4,725	4,582	143	3.1 %
Total Deductions	**221,453**	**209,648**	**11,805**	**5.6 %**
Net Increase in Plan Net Position	**75,865**	**62,819**	**13,046**	**20.8 %**
Beginning Net Position	**2,132,152**	**2,069,333**	**62,819**	**3.0 %**
Ending Net Position	**$ 2,208,017**	**$ 2,132,152**	**$ 75,865**	**3.6 %**

[1] *Net of investment expenses of $9,063 and $10,513 in 2020 and 2019, respectively.*

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN (Table 2b)
For the Fiscal Years Ended June 30, 2019 and 2018 (Dollars in Thousands)

	2019	2018	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	$ 22,606	$ 20,501	$ 2,105	10.3 %
Employer contributions	173,006	156,770	16,236	10.4 %
Net investment income [1]	76,855	117,493	(40,638)	(34.6)%
Total Additions	**272,467**	**294,764**	**(22,297)**	**(7.6)%**
Retirement benefits	190,228	179,366	10,862	6.1 %
Death benefits	13,719	12,970	749	5.8 %
Refund of contributions	1,119	1,064	55	5.2 %
Administrative expenses	4,582	4,823	(241)	(5.0)%
Total Deductions	**209,648**	**198,223**	**11,425**	**5.8 %**
Net Increase in Plan Net Position	**62,819**	**96,541**	**(33,722)**	**(34.9)%**
Beginning Net Position	**2,069,333**	**1,972,792**	**96,541**	**4.9 %**
Ending Net Position	**$ 2,132,152**	**$ 2,069,333**	**$ 62,819**	**3.0 %**

[1] *Net of investment expenses of $10,513 and $10,734 in 2019 and 2018, respectively.*

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN (Table 2c)
For the Fiscal Years Ended June 30, 2020 and 2019 (Dollars in Thousands)

	2020	2019	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	$ 10,692	$ 10,578	$ 114	1.1 %
Employer contributions	26,533	26,410	123	0.5 %
Net investment income [1]	3,075	9,472	(6,397)	(67.5)%
Total Additions	**40,300**	**46,460**	**(6,160)**	**(13.3)%**
Healthcare insurance premiums	30,779	28,826	1,953	6.8 %
Administrative expenses	686	384	302	78.6 %
VEBA transfer	13	19	(6)	(31.6)%
Total Deductions	**31,478**	**29,229**	**2,249**	**7.7 %**
Net Increase in Plan Net Position	**8,822**	**17,231**	**(8,409)**	**(48.8)%**
Beginning Net Position	**294,488**	**277,257**	**17,231**	**6.2 %**
Ending Net Position	**$ 303,310**	**$ 294,488**	**$ 8,822**	**3.0 %**

[1] *Net of investment expenses of $535 and $551 in 2020 and 2019, respectively.*

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN (Table 2d)
For the Fiscal Years Ended June 30, 2019 and 2018 (Dollars in Thousands)

	2019	2018	Increase/ (Decrease) Amount	Increase/ (Decrease) Percent
Employee contributions	$ 10,578	$ 15,545	$ (4,967)	(32.0)%
Employer contributions	26,410	32,397	(5,987)	(18.5)%
Net investment income [1]	9,472	12,336	(2,864)	(23.2)%
Total Additions	**46,460**	**60,278**	**(13,818)**	**(22.9)%**
Healthcare insurance premiums	28,826	29,724	(898)	(3.0)%
Administrative expenses	384	170	214	125.9 %
VEBA transfer	19	13,497	(13,478)	(99.9)%
Total Deductions	**29,229**	**43,391**	**(14,162)**	**(32.6)%**
Net Increase in Plan Net Position	**17,231**	**16,887**	**344**	**2.0 %**
Beginning Net Position	**277,257**	**260,370**	**16,887**	**6.5 %**
Ending Net Position	**$ 294,488**	**$ 277,257**	**$ 17,231**	**6.2 %**

[1] *Net of investment expenses of $551 and $403 in 2019 and 2018, respectively.*

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 42 for a complete listing and year-end balances of the System’s reserves). The 401(h) reserves were depleted in fiscal year 2019.

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 System’s General Reserve.

With the implementation of Measure F, a medical in-lieu component of the General Reserves was created to account for those members who elected to be into the medical-in-lieu credit program. These members are retirees who are eligible for medical insurance and/or dental insurance but who opt not to take it and instead elect to be in the in-lieu credit program. These members are given credits worth 25% of the lowest cost plan, which can be used in future years if the retiree opts to enroll in a City medical or dental plan.

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 included, 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 were eligible to opt-in to the VEBA and rehired employees with healthcare contributions will also have the option through calendar year 2022. The VEBA is being administered by the City, not ORS and therefore it is also not under the jurisdiction of the Retirement Board.

The System's actuarial valuations as of June 30, 2019, were used to determine the contribution rates and dollar amounts effective June 28, 2020, for fiscal year 2020-2021. The annual determined contribution rates and dollar amounts were adopted by the Board in June 2020. Because of the impact of COVID-19 on the City's budget, the City decided that prefunding Tier 1 pension contributions for fiscal year 20-21 would add significant budgetary savings. The June 30, 2019 actuarial valuations include Board adopted actuarial assumption changes recommended by the System's actuary in the June 30, 2019 Preliminary Valuation Results and Demographic Experience Study presented in November 2019.

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 liability (UAL) of $1,971.9 million, as of June 30, 2019, does not include the impact of approximately $96.7 million of net deferred investment losses yet to be recognized, primarily resulting from unfavorable investment returns during fiscal years 2016 and 2019. 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 6.75%, net of investment expenses, in the actuarial valuation as of June 30, 2019. With all other actuarial valuations being equal, underperforming the assumed rate of return would increase the UAL and decrease the funded status of the System, thereby increasing required contributions to the System. Conversely, with all other actuarial variables being equal, overperforming the assumed rate of return would decrease the UAL and increase the funded status of the System, thereby decreasing 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 two 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, 2019 actuarial valuation as a result of the demographic experience study presented in November 2019. The next experience study is schedules to be conducted in 2021. See Actuarial section for the effects of these changes.

Contribution rates for fiscal year 2020-2021, as determined by the June 30, 2019 actuarial valuation includes the impact of the changes stated above and the recognition of smoothed deferred investment gains and losses.

Postemployment Healthcare Plan

With the passage of Measure F, the Framework became effective as of June 16, 2017. A VEBA for retiree healthcare was created and Tier 1 and some Tier 2 members were eligible for an irrevocable opt-out of the defined benefit retiree healthcare plan. The VEBA opt-in election period was October 18, 2017 through December 15, 2017, and the healthcare contributions of members who opted in to the VEBA was transferred out of the Postemployment Healthcare Plan in March 2018.

Historically, member and City contributions to the System have been negotiated through collective bargaining and have not been actuarially determined. With the implementation of Measure F, member contributions were fixed at 7.5% of pay; the City's contribution toward the explicit subsidy (or premium subsidy) will be actuarially determined; and the City will also pay the implicit subsidy (difference between the expected claims cost for a retiree or spouse and the total (retiree plus City) premium) on a pay-as you-go basis as part of active health premiums. In addition, the City has an option to limit its contribution to 14% of payroll.

In March 2018, the Board approved the contribution policy that sets the City health care contributions as a flat dollar amount, beginning with fiscal year 2019.

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

STATEMENTS OF PLAN NET POSITION

As of June 30, 2020 and 2019 (In Thousands)

	2020		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ASSETS			
Receivables			
Employee contributions	$ 1,173	$ 479	$ 1,652
Employer contributions	8,525	1,026	9,551
Brokers and others	17,354	9,623	26,977
Accrued investment income	45,605	348	45,953
Total Receivables	**72,657**	**11,476**	**84,133**
Investments, at fair value:			
Securities and other:			
Public equity	1,065,848	172,771	1,238,619
Private equity	282,119	-	282,119
Investment grade bonds	118,673	-	118,673
Core real estate	86,103	23,306	109,409
Immunized cash flows	93,225	-	93,225
Short-term investment grade bonds	-	88,170	88,170
Market neutral strategies	82,797	-	82,797
Private debt	81,617	-	81,617
Growth real estate	79,998	-	79,998
Emerging market bonds	67,399	-	67,399
Treasury inflation-protected securities	43,582	-	43,582
High yield bonds	43,541	-	43,541
Long term government bonds	43,397	-	43,397
Cash and cash equivalents	42,125	(283)	41,842
Private real assets	20,213	-	20,213
Commodities	-	15,527	15,527
International currency contracts, net	(10)	-	(10)
Total Investments	**2,150,627**	**299,491**	**2,450,118**
Capital Assets, net	3,348	197	3,545
TOTAL ASSETS	**2,226,632**	**311,164**	**2,537,796**
LIABILITIES			
Payable to brokers	16,934	7,673	24,607
Other liabilities	1,681	181	1,862
TOTAL LIABILITIES	**18,615**	**7,854**	**26,469**
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	2,208,017	-	2,208,017
Postemployment healthcare benefits	-	303,310	303,310
TOTAL PLAN NET POSITION	**$ 2,208,017**	**$ 303,310**	**$ 2,511,327**

See accompanying notes to basic financial statements. *(continued)*

STATEMENTS OF PLAN NET POSITION (continued)

As of June 30, 2020 and 2019 (In Thousands)

	2019		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ASSETS			
Receivables			
Employee contributions	$ 942	$ 439	$ 1,381
Employer contributions	7,627	881	8,508
Brokers and others	5,927	2,297	8,224
Accrued investment income	3,257	492	3,749
Total Receivables	**17,753**	**4,109**	**21,862**
Investments, at fair value:			
Securities and other:			
Public equity	622,761	168,718	791,479
Short-term investment grade bonds	393,019	84,793	477,812
Private equity	381,075	-	381,075
Market neutral strategies	173,354	-	173,354
Bonds (immunized cash flows)	104,988	-	104,988
Core real estate	79,655	19,062	98,717
Commodities	61,455	14,520	75,975
Private debt	72,576	-	72,576
Emerging market bonds	70,416	-	70,416
Growth real estate	52,440	-	52,440
Treasury inflation-protected securities	44,438	-	44,438
Cash and cash equivalents	37,307	3,870	41,177
Private real assets	22,277	-	22,277
International currency contracts, net	39	-	39
Total Investments	**2,115,800**	**290,963**	**2,406,763**
Capital Assets	2,937	55	2,992
TOTAL ASSETS	**2,136,490**	**295,127**	**2,431,617**
LIABILITIES			
Payable to brokers	2,618	473	3,091
Other liabilities	1,720	166	1,886
TOTAL LIABILITIES	**4,338**	**639**	**4,977**
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	2,132,152	-	2,132,152
Postemployment healthcare benefits	-	294,488	294,488
TOTAL PLAN NET POSITION	**$ 2,132,152**	**$ 294,488**	**$ 2,426,640**

See accompanying notes to basic financial statements. *(concluded)*

STATEMENTS OF CHANGES IN PLAN NET POSITION

For the Fiscal Years Ended June 30, 2020 and 2019 (In Thousands)

	2020		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ADDITIONS			
Contributions:			
Employee	$ 25,082	$ 10,692	$ 35,774
Employer	181,327	26,533	207,860
Total Contributions	**206,409**	**37,225**	**243,634**
Investment income			
Net appreciation / (depreciation) in fair value of investments	83,993	(831)	83,162
Interest income	10,394	709	11,103
Dividend income	5,585	3,732	9,317
Less: investment expense	(9,063)	(535)	(9,598)
Net Investment Income	**90,909**	**3,075**	**93,984**
TOTAL ADDITIONS	**297,318**	**40,300**	**337,618**
DEDUCTIONS			
Retirement benefits	201,474	-	201,474
Healthcare insurance premiums	-	30,779	30,779
Death benefits	14,389	-	14,389
Refund of contributions	865	-	865
Administrative expenses and other	4,725	686	5,411
VEBA transfer	-	13	13
TOTAL DEDUCTIONS	**221,453**	**31,478**	**252,931**
NET INCREASE	**75,865**	**8,822**	**84,687**
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS			
BEGINNING OF YEAR	**2,132,152**	**294,488**	**2,426,640**
END OF YEAR	**$ 2,208,017**	**$ 303,310**	**$ 2,511,327**

See accompanying notes to basic financial statements. *(continued)*

STATEMENTS OF CHANGES IN PLAN NET POSITION (continued)

For the Fiscal Years Ended June 30, 2020 and 2019 (In Thousands)

	2019		
	Defined Benefit Pension Plan	Postemployment Healthcare Plan	Total
ADDITIONS			
Contributions:			
Employee	$ 22,606	$ 10,578	$ 33,184
Employer	173,006	26,410	199,416
Total Contributions	**195,612**	**36,988**	**232,600**
Investment income			
Net appreciation in fair value of investments	65,538	3,607	69,145
Interest income	17,120	587	17,707
Dividend income	4,710	5,829	10,539
Less: investment expense	(10,513)	(551)	(11,064)
Net Investment Income	**76,855**	**9,472**	**86,327**
TOTAL ADDITIONS	**272,467**	**46,460**	**318,927**
DEDUCTIONS			
Retirement benefits	190,228	-	190,228
Healthcare insurance premiums	-	28,826	28,826
Death benefits	13,719	-	13,719
Refund of contributions	1,119	-	1,119
Administrative expenses and other	4,582	384	4,966
VEBA transfer	-	19	19
TOTAL DEDUCTIONS	**209,648**	**29,229**	**238,877**
NET INCREASE	**62,819**	**17,231**	**80,050**
PLAN NET POSITION - RESTRICTED FOR PENSION AND POSTEMPLOYMENT HEALTHCARE BENEFITS			
BEGINNING OF YEAR	**2,069,333**	**277,257**	**2,346,590**
END OF YEAR	**$ 2,132,152**	**$ 294,488**	**$ 2,426,640**

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 115 trust and is held and administered in the 1975 Federated City Employees' Retirement System and the Federated City Employees' Healthcare Trust Fund; 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), was 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. The 401(h) plan was depleted during the past fiscal year and all post-employment healthcare benefit payments are now made from the IRC 115 trust account.

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 depleted 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.

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.

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. 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), were eligible to opt-in to the VEBA, while all Tier 2 employees (except unrepresented employees) were required to move in to the defined contribution VEBA.

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

(a) General (continued)

The VEBA opt-in election period was October 18, 2017 through December 15, 2017, and the Internal Revenue Service issued a favorable private letter ruling to the Section 115 Trust on February 7, 2018. The IRS ruled that allowing the contributions to the VEBA to be made from the Sections 115 Trust is consistent with Code Section 115(1) and will not compromise the Section 115 Trust's status under Code Section 115. The contributions for the members who opted in to the VEBA and opted out of the defined benefit healthcare plan were transferred in March 2018 for the initial opt-in period. The IRS approved allowing eligible employees who are rehired into the City from calendar years 2018 through 2022 to opt-in to the VEBA if they were not employed during the initial opt-in period. The VEBA is being administered by the City, not the Office of Retirement Services, and therefore it is also not under the jurisdiction of the Retirement Board.

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 three 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, 2020 and 2019, respectively.

	As of June 2020				
Defined Benefit Pension Plan:	**Tier 1 Pension only -**	**Tier 1 Pension & Medical -**	**Tier 2 Pension only -**	**Tier 2 Pension & Medical -**	**Total**
Retirees and beneficiaries currently receiving benefits -	-	-	-	-	-
Terminated vested members entitled to future benefits	-	-	-	-	-
Active members	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**
Postemployment Healthcare Plan:		**-**		**Tier 2A [3]**	**Total**
Retirees and beneficiaries currently receiving benefits -	-	-		-	-
Terminated vested members entitled to future benefits	-	-		-	-
Active members	-	-		-	-
Total	**-**	**-**		-	**-**

	As of June 2019				
Defined Benefit Pension Plan:	**Tier 1 Pension only [2]**	**Tier 1 Pension & Medical [3]**	**Tier 2 Pension only [2]**	**Tier 2 Pension & Medical [3]**	**Total**
Retirees and beneficiaries currently receiving benefits [1]	697	3,654	8	-	4,359
Terminated vested members entitled to future benefits	840	165	530	-	1,535
Active members	168	1,501	1,867	81	3,617
Total	**1,705**	**5,320**	**2,405**	**81**	**9,511**
Postemployment Healthcare Plan		**Tier 1 [3]**		**Tier 2 [3]**	**Total**
Retirees and beneficiaries currently receiving benefits [4]	-	3,654	-	-	3,654
Terminated vested members entitled to future benefits	-	165	-	-	165
Active members -	-	1,501	-	81	1,582
Total	**-**	**5,320**	**-**	**81**	**5,401**

1 *The combined domestic relations orders are not included in the count above as their benefit payment is included in the retiree member count*

2 *Includes members that are eligible for catastrophic disability medical benefits only (VEBA) from the Postemployment Healthcare plan*

3 *Eligible for full retiree medical benefits*

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

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 [1]	Tier 1 Classic [4]	Tier 2A [5]	Tier 2B [6]
Contributions				
Employee	14.56% of base salary (Pension: 7.06% [2], Retiree Health: 7.50%) as of 6/30/2019	10.35% of base salary (Pension: 8.35%, 2.00% VEBA [3]) as of 6/30/2019	15.83% of base salary (Pension: 8.33% Retiree Healthcare: 7.50% [3]) as of 6/30/2019	10.33% of base salary (8.33% Pension, 2.00% VEBA [7]) as of 6/30/2019
City	19.34% of base salary Pension: (Normal Cost) + Flat dollar amount (UAL); Retiree Health: Flat dollar amount as of 6/30/2019	19.34% of base salary Pension: (Normal Cost) + Flat dollar amount (UAL) as of 6/30/2019	8.33% of base salary Pension and Retiree Healthcare: Flat dollar amount (UAL) as of 6/30/2019	8.33% of base salary as of 6/30/2019
Service required to leave contributions in retirement system	5 years		5 years Federated City 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 yrs 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	
Allowance	2.5% x Years of Service x Final Compensation (75% max) Final Compensation is the highest average monthly earnable pensionable salary during 12 consecutive months, capped at 108% of the second highest 12 consecutive months. 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	

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

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

	Tier 1 [1]	Tier 1 Classic [4]	Tier 2A [5]	Tier 2B [6]
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%, maximum of 70% of Final Compensation)	
Disability Retirement (Non-Service Connected)				
Minimum service	5 years			
Allowance	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) For those who entered the System on 8/31/98 or before, the calculation is as follows: 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		2% x Years of Federated City Service x Final Compensation. (Minimum of 20%, maximum of 70% of Final Compensation)	
Medical Benefits [3]				
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 - All Federated Tier 1 Classic Employees are mandated to contribute 2.00% of base salary to the VEBA; except for those who entered the Plan after June 18, 2017 [7]	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 - All Federated Tier 2B Employees are mandated to contribute 2.00% of base salary to the VEBA
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 - All Federated Tier 1 Classic Employees are mandated to contribute 2.00% of base salary to the VEBA; except for those who entered the Plan after June 18, 2017 [7]	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 - All Federated Tier 2B Employees are mandated to contribute 2.00% of base salary to the VEBA

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

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

	Tier 1 [1]	Tier 1 Classic [4]	Tier 2A [5]	Tier 2B [6]
Medicare eligibility	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 - All Federated Tier 1 Classic Employees are mandated to contribute 2.00% of base salary to the VEBA; except for those who entered the Plan after June 18, 2017 [7]	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 - All Federated Tier 2B Employees are mandated to contribute 2.00% of base salary to the VEBA
Dental Benefits [3]				
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)	N/A - All Federated Tier 1 Classic Employees are mandated to contribute 2.00% of base salary to the VEBA; except for those who entered the Plan after June 18, 2017 [7]	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 - All Federated Tier 2B Employees are mandated to contribute 2.00% of base salary to the VEBA
Premiums	Fully paid by retirement fund	N/A - All Federated Tier 1 Classic Employees are mandated to contribute 2.00% of base salary to the VEBA; except for those who entered the Plan after June 18, 2017 [7]	Fully paid by retirement fund.	N/A - All Federated Tier 2B Employees are mandated to contribute 2.00% of base salary to the VEBA
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. Final eligibility for reciprocity is determined at the time of retirement.			

Notes to the Basic Financial Statements *(continued)*

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

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

	Tier 1 [1]	Tier 1 Classic [4]	Tier 2A [5]	Tier 2B [6]
Cost-of-Living Adjustments (COLA)				
COLA	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.	

[1] *Federated Tier 1 applies to employees hired on or before September 29, 2012.*

[2] *Federated Rehires (hired between September 30, 2012 and June 18, 2017) will have an additional contribution rate for the cost of the retroactive benefit.*

[3] *Federated employees who opted-in to the VEBA are not eligible for the Defined Benefit Retiree Healthcare Plan (Medical or Dental Benefits). For more information about the VEBA, visit or email veba@sanjoseca.gov.*

[4] *Employees with "Classic" membership from a CalPERS or reciprocal agency hired by the City of San Jose on or after June 18, 2017. A CalPERS "Classic" member is a member who previously worked for a CalPERS or other reciprocal agency and meets the following criteria: 1. First established CalPERS membership or membership in a CalPERS reciprocal agency prior to January 1, 2013, 2. AND is hired by the City of San Jose after a break in service of less than six months, 3. AND did not have concurrent (overlapping) service with the other agency. City of San Jose Reciprocity Election Form must be submitted within thirty (30) days of the first day of employment with the City. Employees in Tier 1 Classic are not eligible for the defined benefit retiree healthcare plan.*

[5] *Tier 2A applies to employees hired between September 30, 2012 and September 27, 2013.*

[6] *Tier 2B are employees who were newly hired after September 27, 2013.*

[7] *Unit 99 employees are not eligible to contribute to the VEBA.*

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.

Tier 1 / Tier 1 Classic	
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	
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	
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. However, it will last until death if member was at least 55 with at least 20 years of service at the time of death, or 30 years of service regardless of age. For death after retirement, 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.

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.

	Tier 2A and 2B
Death Before Retirement	
Non-service connected death not eligible for retirement	Return of employee contributions, plus interest.
Eligible for retirement	To surviving spouse / domestic partner: 2.0% x Years of Federated Service x Final Compensation (70% max) 40% minimum, 70% maximum, except that "deferred vested" members not eligible for 40% minimum) 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 4 or More Children: Split equal share of 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	
Survivorship allowance to surviving spouse / domestic partner or children that was elected by the member at retirement. (Minimum 5 years of service)	To surviving spouse / domestic partner: 50% of Retiree's Allowance 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 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	
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 62 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.

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, 2020 and 2019, 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, 2020, the Defined Benefit Pension Plan investment policy was updated, as shown in the following table, which the Board approved on May 18, 2020. 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, 2019 valuations.

The System's investment asset allocation is as follows:

Pension	As of June 30,				
Asset Class	2020 Target Asset Allocation	2019 Target Asset Allocation	Asset Class	2020 Target Asset Allocation	2019 Target Asset Allocation
Public equity	49 %	30 %	Market neutral strategies	3 %	7 %
Investment grade bonds	8 %	0 %	Private debt	3 %	4 %
Private equity	8 %	10 %	Private real assets	3 %	3 %
Immunized cash flows	5 %	5 %	High yield bonds	2 %	0 %
Core real estate	5 %	5 %	Long-term government bonds	2 %	0 %
Venture / growth capital	4 %	5 %	Treasury inflation protected securities	2 %	2 %
Emerging market bonds	3 %	3 %	Commodities	0 %	3 %
Growth real estate	3 %	3 %	Short-term investment grade bonds	0 %	20 %

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments (continued)

On April 19, 2018, the Board adopted an updated asset allocation for the 115 healthcare trust. The Postemployment Healthcare Plan investment policy was originally approved on March 21, 2013. While the investment policy has not been updated, the presentation of investments throughout the financial statements for 2020 and 2019 have been reclassified to reflect the pension's asset allocation for easier presentation and comparison. The asset classes in the healthcare policy are broad classifications which were further broken down to more specific allocation to align with the pension asset classification.

HEALTHCARE	As of June 30, 2020			As of June 30, 2019		
Asset Class	Minimum Allocation	Target Asset Allocation	Maximum Allocation	Minimum Allocation	Target Asset Allocation	Maximum Allocation
Global equity	40 %	55 %	54 %	40 %	55 %	54 %
Fixed income	20 %	28 %	40 %	20 %	28 %	40 %
Real assets	15 %	17 %	30 %	15 %	17 %	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 for more detailed information on the fair value of investments.

The fair value of derivative investments that are not exchange traded, such as swaps and rights is determined by the System's custodian bank 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.

Cash includes payments to the City to pay for the System's administrative costs. Cash can fluctuate due to the timing of payments.

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 in the *Statement of Changes in Plan 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments (continued)

For the years ended June 30, 2020 and 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 3.79% and 4.17%, respectively. For the year ended June 30, 2020 and 2019, the annual money-weighted rate of return on healthcare plan investments, net of healthcare plan investment expenses, was 0.53% and 4.33%, respectively. 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 capital asset went into production on February 1, 2019 and is being amortized using the straight line method of amortization over a 10 year period ending 2029. For fiscal years ended 2020 and 2019, the amortization expense was $408,727 and $133,809, respectively. It is being amortized per GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

Capital asset and accumulated amortization	As of June 30, 2019	Additions	Deletions	As of June 30, 2020
Capital assets, amortizable				
Pension administration system	$ 3,126	$ 961	$ -	$ 4,087
Total capital assets, cost	**3,126**	**961**	**-**	**4,087**
Less accumulated amortization for:	-	-	-	-
Pension administration system	(134)	(408)	-	(542)
Total accumulated amortization	**(134)**	**(408)**	**-**	**(542)**
Capital assets, net of accumulated amortization	**$ 2,992**	**$ 553**	**$ -**	**$ 3,545**

Capital asset and accumulated amortization	As of June 30, 2018	Additions	Deletions	As of June 30, 2019
Capital assets, amortizable				
Pension administration system	$ 1,754	$ 1,372	$ -	$ 3,126
Total capital assets, cost	**1,754**	**1,372**	**-**	**3,126**
Less accumulated amortization for:	-	-	-	-
Pension administration system	-	(134)	-	(134)
Total accumulated amortization	**-**	**(134)**	**-**	**(134)**
Capital assets, net of accumulated amortization	**$ 1,754**	**$ 1,238**	**$ -**	**$ 2,992**

(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 115 Trust).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

As of June 30, 2020 and 2019, plan net position totaling $2,511,327,000 and $2,426,640,000, respectively, is allocated as follows (in thousands):

	Retirement Fund	Cost-of-Living Fund	Total Defined Benefit Pension Plan	Post-employment Health-care (115)	Grand Total
June 30, 2020					
Employee contributions reserve	$ 340,303	$ 51,493	$ 391,796	$ -	$ 391,796
General reserve	1,088,977	727,244	1,816,221	302,274	2,118,495
Retiree healthcare in-lieu premium credit	-	-	-	1,036	1,036
TOTAL	**$ 1,429,280**	**$ 778,737**	**$ 2,208,017**	**$ 303,310**	**$ 2,511,327**
June 30, 2019					
Employee contributions reserve	$ 315,806	$ 48,642	$ 364,448	$ -	$ 364,448
General reserve	1,089,855	677,849	1,767,704	294,200	2,061,904
Retiree healthcare in-lieu premium credit	-	-	-	288	288
TOTAL	**$ 1,405,661**	**$ 726,491**	**$ 2,132,152**	**$ 294,488**	**$ 2,426,640**

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 reserves.

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.

(g) Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 92, *Omnibus 2020*, was issued in January 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: 1) The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, Leases, for interim financial reports, 2) Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan, 3) The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Implementation of Governmental Accounting Standards Board Statements (continued)

67 and 68, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits, 4) The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements, 5) Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition, 6) Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers, 7) Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature, and 8) Terminology used to refer to derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020, except Statement No. 87 which is effective upon issuance. Based on the GASB Statement No. 95, the System will adopt the provisions of Statement No. 92 for the fiscal year beginning with July 1, 2021.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, was issued in March 2020. The objective of this Statement is to address those and other accounting and financial reporting implications that result from replacement of an IBOR. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Based on the GASB Statement No. 95, the System will adopt the provisions of Statement No. 93 for the fiscal year beginning with July 1, 2021.

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, was issued in May 2020. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in the following pronouncements are postponed by one year: 1) Statement No. 83, *Certain Asset Retirement Obligations*, 2) Statement No. 84, *Fiduciary Activities*, 3) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, 4) Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, 5) Statement No. 90, *Majority Equity Interests*, 6) Statement No. 91, *Conduit Debt Obligations*, 7) Statement No. 92, *Omnibus 2020*, and 8) Statement No. 93, *Replacement of Interbank Offered Rates*. The effective date of GASB Statement No. 87, *Leases*, was postponed by 18 months. Each affected GASB Statement reflects the postponement effective date within the above Statement.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, was issued in May 2020. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The System will adopt the provisions of Statement No. 95 for the fiscal year beginning with July 1, 2021.

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.

Market Risk – General market risk factors exist that could cause depreciation or appreciation of the Plan's investment portfolio. These risks include general, economic, political and regulatory risks. The Plan's investments may be impacted by changes caused by global and domestic market conditions and industry-specific economic and regulatory conditions. With the recent volatility of the global financial markets amidst the COVID-19 pandemic, such market risks of growing unemployment, changes in consumer behavior, volatility in various other financial market rates and general economic slowdown of all sectors may have a significant impact to the underling investments within the Plan's investment portfolio.

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in months and years) as of June 30, 2020 and 2019.

INVESTMENT MATURITIES AT FAIR VALUE
As of June 30, 2020 (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
Investment grade bonds	$ 999	$ 69	$ 4,419	$ 16,308	$ 92,725	$ 4,153	$ 118,673	$ 114,193
Immunized cash flows	5,793	8,190	13,904	65,338	-	-	93,225	90,556
Short-term investment grade bonds	88,170	-	-	-	-	-	88,170	88,168
Emerging market bonds	-	-	-	-	67,399	-	67,399	61,213
Treasury inflation-protected securities	-	-	5,636	37,946	-	-	43,582	42,111
High yield bonds	-	-	-	43,541	-	-	43,541	44,000
Long term government bonds	-	-	-	-	-	43,397	43,397	44,000
Cash and cash equivalents	41,842	-	-	-	-	-	41,842	41,842
TOTAL FIXED INCOME	**$ 136,804**	**$ 8,259**	**$ 23,959**	**$163,133**	**$160,124**	**$ 47,550**	**$ 539,829**	**$ 526,083**

NOTE 3 - INVESTMENTS (continued)

INVESTMENT MATURITIES AT FAIR VALUE
As of June 30, 2019 (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								
Immunized cash flows	$ 4,861	$ 7,400	$ 12,327	$ 80,400	$ -	$ -	$ 104,988	$ 104,587
Short-term investment grade bonds	477,812	-	-	-	-	-	477,812	477,810
Emerging market bonds	-	-	-	-	70,416	-	70,416	67,147
Treasury inflation-protected securities	1,406	-	5,562	37,470	-	-	44,438	44,485
Cash and cash equivalents	41,177	-	-	-	-	-	41,177	40,246
TOTAL FIXED INCOME	**$ 525,256**	**$ 7,400**	**$ 17,889**	**$ 117,870**	**$ -**	**$ -**	**$ 738,831**	**$ 734,275**

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, 2020 and 2019, 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 table provides information for the portfolio as of June 30, 2020 and 2019 concerning credit risk. These tables reflect only securities held in the System's name.

NOTE 3 - INVESTMENTS (continued)

RATINGS OF FIXED INCOME INVESTMENTS
As of June 30, 2020 and 2019 (Dollars in Thousands)

	2020		2019	
S&P Quality Rating	Fair Value	Fair Value as a % of Total Fixed Income	Fair Value	Fair Value as a % of Total Fixed Income
AAA	$ 5,615	1.04%	-	-
AA+	119,510	22.14	$ 631,994	85.54%
AA	2,111	0.39	-	-
AA-	1,236	0.23	-	-
A+	190	0.04	-	-
A	1,335	0.25	-	-
A-	718	0.13	-	-
BBB+	1,013	0.19	-	-
BBB	750	0.14	-	-
BBB-	200	0.04	-	-
BB-	2,163	0.40	-	-
B+	1,117	0.21	-	-
Not Rated	403,871	74.80	106,837	14.46
TOTAL	**$ 539,829**	**100.0%**	**$ 738,831**	**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, 2020 and 2019, 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.

The following tables provide information as of June 30, 2020 and 2019, concerning the fair value of investments that are subject to foreign currency risk:

FOREIGN CURRENCY RISK ANALYSIS
As of June 30, 2020 (In Thousands)

Currency Name	Cash	Public Equity	International Currency Contracts, Net	Private Equity	Growth Real Estate	Total Exposure
Australian dollar	$ -	$ 3,037	$ -	$ -	$ -	$ 3,037
British pound	-	15,766	-	-	-	15,766
Canadian dollar	-	3,457	-	-	-	3,457
Chinese yuan renminbi	-	-	(10)	-	-	(10)
Danish krone	-	511	-	-	-	511
Euro currency	308	12,480	-	790	13,001	26,579
Hong Kong dollar	2	3,831	-	-	-	3,833
Japanese yen	-	11,255	-	-	-	11,255
Korean won	-	5,787	-	-	-	5,787
Norwegian krone	-	189	-	-	-	189
Swedish krona	-	4,141	-	-	-	4,141
Swiss franc	-	15,204	-	-	-	15,204
TOTAL	**$ 310**	**$ 75,658**	**$ (10)**	**$ 790**	**$ 13,001**	**$ 89,749**

NOTE 3 - INVESTMENTS (continued)

FOREIGN CURRENCY RISK ANALYSIS
As of June 30, 2019 (In Thousands)

Currency Name	Cash	Public Equity	International Currency Contracts, Net	Private Equity	Growth Real Estate	Total Exposure
Australian dollar	-	3,965	-	-	-	3,965
British pound	-	16,354	-	-	-	16,354
Canadian dollar	1	4,850	-	-	-	4,851
Chinese yuan renminbi	-	-	39	-	-	39
Danish krone	-	399	-	-	-	399
Euro currency	101	12,772	-	1,194	11,698	25,765
Hong Kong dollar	-	1,185	-	-	-	1,185
Japanese yen	-	4,612	-	-	-	4,612
Korean won	-	8,137	-	-	-	8,137
Norwegian krone	-	503	-	-	-	503
Swedish krona	-	1,675	-	-	-	1,675
Swiss franc	-	15,137	-	-	-	15,137
Taiwanese new dollar	8	-	-	-	-	8
TOTAL	110	69,589	39	1,194	11,698	82,630

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. 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 15% 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 custodian bank. In such cases, there is no concentration limit. 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, 2020 and 2019, the System did not hold investments in any one issuer, excluding U.S. government guaranteed investments, that represented 5% or more of the total plan net position or total investments.

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. 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, 2020 or 2019. 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.

NOTE 3 - INVESTMENTS (continued)

The fair values and notional amounts for derivative instruments outstanding as of June 30, 2020 and 2019, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2020 and 2019 financial statements are as follows (amounts in thousands):

	Net Appreciation/ (Depreciation) in Fair Value of Investments through June 30, 2020		Fair Value at June 30, 2020		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount/ Shares**
Fixed income futures long	Investment income	$ 98	Futures	-	53,200
Fixed income futures short	Investment income	204	Futures	-	(2,300)
FX forwards	Investment income	35	Long-Term Instruments	$ (10)	$ 3,202
Index futures long	Investment income	15,156	Futures	-	5
Index futures short	Investment income	(845)	Futures	-	(15)
Total Derivative Instruments		**$ 14,648**		**$ (10)**	

	Net Appreciation/ (Depreciation) in Fair Value of Investments through June 30, 2019		Fair value at June 30, 2019		
Investment Derivative Instruments	**Classification**	**Amount**	**Classification**	**Amount**	**Notional Amount/ Shares**
Fixed income futures long	Investment income	$ (208)			
Fixed income futures short	Investment income	30		-	-
FX forwards	Investment income	255	Long-Term Instruments	$ 39	$ 3,774
Index futures long	Investment income	(452)	Futures	-	3
Index futures short	Investment income	(668)	Futures	-	-
Total Derivative Instruments		**$ (1,043)**		**$ 39**	

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, 2020 and 2019.

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, 2020, total commitments in forward currency contracts to purchase and sell international currencies were $3,202,000, with fair values of $3,206,000 and $3,216,000, respectively, held by counterparties with S&P rating of AAA and above. As of June 30, 2019, total commitments in forward currency contracts to purchase and sell international currencies were $3,774,000, with fair values of $3,785,000 and $3,746,000, respectively, held by counterparties with S&P rating of A and above.

NOTE 3 - INVESTMENTS (continued)

Fair Value Measurements – The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly. Inputs to the valuation include: 1) quoted prices for similar assets or liabilities in active markets; 2) quoted prices for identical or similar assets or liabilities in markets that are not active; 3) inputs other than quoted prices that are observable for the asset or liability; and 4) market-corroborated inputs.

Level 3 inputs are unobservable inputs for an asset or liability where there are little market activities. The inputs into the determination of fair value are based upon the best information in the circumstances and may require management judgment or estimation.

The System has the following recurring fair value measurements as of June 30, 2020 and 2019:

Investments Measured at Fair Value As of June 30, 2020		Fair Value Measurements Using			
(In Thousands)	Total	Level 1	Level 2	Level 3	Net Asset Value (NAV)
Investments by Fair Value Level					
Public equity	$ 1,238,619	$ 213,433	$ -	$ -	$ 1,025,186
Private equity	282,119	-	-	10,507	271,612
Investment grade bonds	118,673	3,141	27,965	-	87,567
Core real estate	109,409	-	-	-	109,409
Immunized cash flows	93,225	43,288	49,937	-	-
Short-term investment grade bonds	88,170	88,170	-	-	-
Market neutral strategies	82,797	-	-	-	82,797
Private debt	81,617	-	-	6,149	75,468
Growth real estate	79,998	-	-	-	79,998
Emerging market bonds	67,399	-	-	-	67,399
Treasury inflation-protected securities	43,582	43,582	-	-	-
High yield bonds	43,541	-	-	-	43,541
Long term government bonds	43,397	-	-	-	43,397
Cash and cash equivalents	41,842	41,842	-	-	-
Private real assets	20,213	-	-	-	20,213
Commodities	15,527	-	-	-	15,527
International currency contracts	(10)	(10)	-	-	-
Total investments measured at fair value	**$ 2,450,118**	**$ 433,446**	**$ 77,902**	**$ 16,656**	**$ 1,922,114**

NOTE 3 - INVESTMENTS (continued)

Investments Measured at Fair Value As of June 30, 2019		Fair Value Measurements Using			
(In Thousands)	Total	Level 1	Level 2	Level 3	Net Asset Value (NAV)
Investments by Fair Value Level					
Public equity	$ 791,479	$ 244,781	$ -	$ -	$ 546,698
Short-term investment grade bonds	477,812	477,812	-	-	-
Private equity	381,075	-	-	2,511	378,564
Market neutral strategies	173,354	-	-	-	173,354
Immunized cash flows	104,988	56,533	48,455	-	-
Core real estate	98,717	-	-	-	98,717
Commodities	75,975	-	-	-	75,975
Private debt	72,576	-	5,166	9,551	57,859
Emerging market bonds	70,416	-	-	-	70,416
Growth real estate	52,440	-	-	-	52,440
Treasury inflation-protected securities	44,438	44,438	-	-	-
Cash and cash equivalents	41,177	41,177	-	-	-
Private real assets	22,277	-	-	-	22,277
International currency contracts	39	39	-	-	-
Total investments measured at fair value	**$ 2,406,763**	**$ 864,780**	**$ 53,621**	**$ 12,062**	**$ 1,476,300**

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 for similar securities that are observable in the market place. Debt and equity securities classified in Level 3 are securities whose inputs to valuation techniques are 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 public equity, private equity, market neutral strategies, core real estate, commodities, emerging market bonds, private debt, growth real estate, and private real assets. 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 the alternative investment program are classified as Level 3 assets or at the NAV. 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 Statement No. 72, *Fair Value Measurement and Application*, 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.

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, provided that the NAV is calculated and used as a practical expedient to estimate fair value in accordance with GAAP requirements. These investments are not categorized within 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, 2020 and 2019:

Investments Measured at the NAV As of June 30, 2020 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Public equity	$ 1,025,186	$ 22,300	Daily, Weekly, Monthly	1 - 30 Days
Private equity	271,612	-	Daily, NA	1 Day, N/A
Core real estate	109,409	31,100	Quarterly	90 Days
Investment grade bonds	87,567	-	Daily	3 Days
Market neutral strategies	82,797	-	Monthly, Bi-Annual	45 - 65 Days
Growth real estate	79,998	57,100	NA	NA
Private debt	75,468	90,200	NA	NA
Emerging market bonds	67,399	-	Daily, Quarterly	1 - 45 Days
High yield bonds	43,541	-	Daily	3 Days
Long term government bonds	43,397	-	Daily	3 Days
Private real assets	20,213	11,100	NA	NA
Commodities	15,527	-	Daily	3 Days
Total investments measured at NAV	**$ 1,922,114**	**$ 211,800**		

Investments Measured at the NAV As of June 30, 2019 (In Thousands)	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Public equity	$ 546,698	$ -	Daily, Monthly, Quarterly	1 - 90 days
Private equity	378,564	-	Daily, N/A	30 days, N/A
Market neutral strategies	173,354	-	Weekly, Monthly, Quarterly	14 - 75 days
Core real estate	98,717	-	Quarterly, N/A	14 - 60 Days, N/A
Commodities	75,975	-	Daily	3 days
Emerging market bonds	70,416	-	Daily, Quarterly	45 - 60 days
Private debt	57,859	88,580	N/A	N/A
Growth real estate	52,440	37,760	N/A	N/A
Private real assets	22,277	7,652	N/A	N/A
Total investments measured at NAV	**$ 1,476,300**	**$ 133,992**		

NOTE 3 - INVESTMENTS (continued)

Public equity - This type includes investments in fourteen commingled investments. Public equities are shares of ownership of a firm listed on an exchange; the Plan holds global public equities in order to benefit from their total return (capital appreciation plus current yield) over a long-term horizon. The commingled funds liquidity ranges from daily to monthly and the notice periods are between one day and thirty days.

Private equity - This type includes investments in one commingled investment fund and nine 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. The commingled investment offers daily liquidity with a one day notice.

Core real estate - This type includes investments in two open-end real estate commingled funds. Core real estate funds typically invest in physical properties. The goal of core real estate is to produce the System price appreciation and income while maintaining a low correlation to stocks and bonds held by the System. The open-end real estate funds offer quarterly redemptions with notice periods of three months.

Investment grade bonds – This type includes investments in two separate accounts and one commingled fund. The purpose of core bonds is to produce returns and income for the System by providing exposure to rates and credit risk. The commingled fund offers daily liquidity with a notice period of three days.

Market neutral strategies - This type includes investments in four limited partnership 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 monthly to bi-annual with notice periods of 45 days to 65 days. Two funds have 25% investor-level redemption gates, while the remain two funds have no gates.

Growth real estate - This type includes ten limited partnership real estate funds which generally invests in physical properties. The goal of growth real estate is to produce the System price appreciation and income while maintaining a low correlation to be stocks and bonds. The only way to exit these funds is through a sale in a secondary market.

Private debt - This type includes investments in nine 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.

Emerging market bonds - This type includes investments in two limited partnership funds. Emerging market bonds funds typically invest in contractual cash flows of governments and other sovereign entities, corporations, securitizations, and derivatives thereof in emerging market countries with a sovereign rating less than BBB-. One partnership has quarterly redemption period with a notice period of 45 days; the other has a daily redemption period with a one day notice period.

High yield bonds – This type includes an investment in one commingled fund. The primary purpose of high yield bonds is to provide the System with exposure to high yielding corporate debt. The commingled fund offers daily liquidity with a notice period of three days.

Long-term government bonds – This type includes investments in a commingled fund. The purpose of long-term government bonds is to provide a positive return in highly stressed market environments, with a low correlation to equity risk. The commingled fund offers daily liquidity with a notice period of three days.

NOTE 3 - INVESTMENTS (continued)

Private real assets - This type includes four limited partnership real asset funds. Private 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 only way to exit these funds is through a sale in a secondary market.

Commodities - This type includes investments in one limited partnership commodities fund. Commodities are physical or tangible assets that have value due to their substance and properties. The goal of commodities is to help the portfolio maintain purchasing power through periods of inflation. The commodities fund offers daily liquidity with three business days' notice.

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, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25*, less the plan net position) as of June 30, 2020 and 2019, were as follows (dollars in thousands):

	2020	2019
Total pension liability	$ 4,323,370	$ 4,229,613
Plan fiduciary net position	2,208,017	2,132,152
Net pension liability	$ 2,115,353	$ 2,097,461
Plan fiduciary net position as a percentage of the total pension liability	**51.1 %**	**50.4 %**

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 October 2019.

The total pension liability as of June 30, 2020 and 2019 is based on results of an actuarial valuation date of June 30, 2019 and 2018, respectively, and rolled-forward to June 30, 2020 and 2019 using standard roll forward procedures. A summary of the actuarial assumptions used to determine the total pension liability is shown below.

Actuarial Assumptions		
Valuation date	June 30, 2019	June 30, 2018
Measurement date	June 30, 2020	June 30, 2019
Inflation rate	2.50%	2.50%
Discount rate	6.75%. The Board expects a long-term rate of return of 7.6% based on Meketa's 2019 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	6.75%. The Board expects a long-term rate of return of 7.3% 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
Active, withdrawal, death, disability service retirement	Tables based on current experience	Tables based on current experience

Notes to the Basic Financial Statements *(continued)*

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

Actuarial Assumptions		
Mortality	Healthy retirees: 0.995 for males, and 0.960 for females, times the 2010 Public General Mortality Table (PubG-2010). Mortality is projected on a generational basis using the MP-2019 projection scale. Retirees annuitants: 1.051 for males and 0.991 for femailes times the CalPERS 2009 Ordinary Disability Mortality Table. Mortality is projected on a generational basis using the MP-2019 projection scale.	Healthy annuitants: 0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant 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-2018 scale
Salary increases	The base wage inflation assumption of 3.00% plus a merit / longevity increase based on years of service ranging from 3.75% at hire to 0.10% for members with 15 or more years of service	The base wage inflation assumption of 3.25% 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
Cost-of-Living Adjustment	Tier 1 - 3% per year; Tier 2 - 1.25% to 2.00% depending on years of service	Tier 1 - 3% per year; Tier 2 - 1.25% to 2.00% depending on years of service

The assumption for the long-term expected rate of return on pension plan investments of 6.75%, for years ended June 30, 2019 and 2018, 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.

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, 2020 and 2019, (see the discussion of the System's investment policy) are summarized in the following table:

	2020		2019	
Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	49%	5.4%	30%	6.2%
Investment grade bonds	8%	(0.1)%	N/A	N/A
Private equity	8%	6.8%	10%	7.3%
Core real estate	5%	3.5%	5%	3.1%
Immunized cash flows	5%	(0.9)%	5%	0.8%
Venture / growth capital	4%	6.6%	5%	7.2%
Emerging market bonds	3%	2.0%	3%	2.6%
Growth real estate	3%	6.1%	3%	5.3%
Market neutral strategies	3%	2.1%	7%	2.7%
Private debt	3%	4.4%	4%	4.6%
Private real assets	3%	5.0%	3%	6.7%
High yield bonds	2%	2.6%	N/A	N/A
Treasury inflation-protected securities	2%	(0.1)%	2%	1.0%
Long term government bonds	2%	0.2%	N/A	N/A
Commodities	N/A	N/A	3%	2.3%
Short-term investment grade bonds	N/A	N/A	20%	0.8%

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

Discount Rate. The discount rate used to measure the total pension liability was 6.75% for measurement years ended June 30, 2020 and 2019. 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, 2020 and 2019, calculated using the discount rate of 6.75%, 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 or 1.0% higher than the current rate (in thousands):

	2020			2019		
	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
Total pension liability (TPL)	$ 4,918,402	$ 4,323,370	$ 3,838,213	$ 4,814,252	$ 4,229,613	$ 3,752,961
Plan fiduciary net position	2,208,017	2,208,017	2,208,017	2,132,152	2,132,152	2,132,152
Net pension liability	$ 2,710,385	$ 2,115,353	$ 1,630,196	$ 2,682,100	$ 2,097,461	$ 1,620,809
Plan fiduciary net position as a percentage of the TPL	**44.9 %**	**51.1 %**	**57.5 %**	**44.3 %**	**50.4 %**	**56.8 %**

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 (referred to as prefunding).

In November 2010, the Board adopted a funding policy (referred to as the floor methodology) setting the City's funding policy contribution amount 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 prefunding 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 to the discount rate that is used to calculate the prefunding is 15% per year, up to a maximum of 45%, which was the reduction for fiscal year June 30, 2020.

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 Actuarial 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 2017.

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 UAL. Currently,

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

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 UAL 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). Therefore, the contribution rate determined by the actuary multiplied by the actual payroll will be used.

On March 21, 2019, the Board approved the City's decision to not prefund Tier 1 contributions for the fiscal year ending June 30, 2020. The City decided that the amount required to prefund, at the discount rate, would not result in a benefical savings to the City for this fiscal year.

The City's contributions for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2020 and 2019 were as follows.

Fiscal year	2020		
Actuarial valuation year	**2018**		
(In Thousands)	**Tier 1**	**Tier 2**	**Total**
Actual payroll	$ 155,761	$ 164,219	$ 319,980
City normal cost rate for pension and COLA	19.34%	8.33%[1]	
Regular contributions paid throughout the year	30,124	13,679	43,803
UAL amounts	137,409	-	137,409
Adjustments and accruals	13	102	115
Total contributions for the fiscal year	**$ 167,546**	**$ 13,781**	**$ 181,327**

[1] *Tier 2 Contribution rate includes UAL percentage of 0.27%*

Fiscal year	2019		
Actuarial valuation year	**2017**		
(In Thousands)	**Tier 1**	**Tier 2**	**Total**
Actual payroll	$ 162,904	$ 135,920	$ 298,824
Actuarial payroll	158,776	N/A	N/A
Actual payroll in excess of actuarial payroll	4,128	N/A	N/A
City normal cost rate for pension and COLA	18.61%	N/A	N/A
Additonal contributions due to the Floor Methodology	768	N/A	768
Prefunded contribution amount (BOY) [1]	154,548	N/A	154,548
Regular contributions paid throughout the year	-	10,744	10,744
Adjustments and accruals	6,358	588	6,946
Total contributions for the fiscal year	**$ 161,674**	**$ 11,332**	**$ 173,006**

[1] *Beginning of year*

Contributions to the Defined Benefit Pension Plan are actuarially determined to provide adequate assets to pay benefits when due. The City's Tier 1 UAL contribution is actuarially determined as a minimum dollar amount. All other contributions are an actuarially determined percentage of each member's covered payroll. The contribution rates and amounts for fiscal years ended June 30, 2020 and 2019 were based on the actuarial valuations performed as of June 30, 2018 and 2017, respectively.

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

The City and the participating member's contribution rates in effect for the Defined Benefit Pension Plan during the fiscal years ended June 30, 2020 and 2019 were as follows:

Period	City-Board Adopted			Member [2]	
		City Tier 1 Minimum			
	City Tier 1	Dollar Amount [3]	City Tier 2	Employee Tier 1	Employee Tier 2
06/28/20 - 06/30/20	19.82%		7.92%	7.22%	7.92%
07/01/19 - 06/27/20	19.34%	$137,409,000	8.33%	7.06%	8.33%
07/01/18 - 06/30/19 [1]	18.61%	$127,894,000	8.28%	6.81%	8.28%

[1] *The actual contribution rates paid by the City for fiscal year ended June 30, 2019 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.*

[2] *Under Measure F, certain Tier 2 members who had previous Tier 1 service or prior service with a reciprocal employer were reclassified to Tier 1. Ordinance No. 30183, which became effective January 4, 2019, amended the Municipal Code to reflect these changes. Effective 3/24/19, reclassified Tier 1 members paid an additional 3.00% in contributions. Classic Tier 1 members paid an additional 1.46% effective 8/12/18.*

[3] *Contributions are structured as a normal cost, plus a payment on the Unfunded Actuarial Liability (UAL). City contributions are administered as a contribution rate plus a minimum dollar amount based on actuarial payroll.*

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, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, less the plan fiduciary net position) as of June 30, 2020 and 2019, were as follows (dollars in thousands):

	2020	2019
Total OPEB liability	$ 649,866	$ 672,193
Plan fiduciary net position	303,310	294,488
Net OPEB liability	$ 346,556	$ 377,705
Plan fiduciary net position as a percentage of the total OPEB liability	**46.7 %**	**43.8 %**

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 October 2019.

Notes to the Basic Financial Statements *(continued)*

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

The total OPEB liability as of June 30, 2020 and 2019 is based on results of an actuarial valuation date of June 30, 2019 and 2018, and rolled-forward to June 30, 2020 and 2019 using generally accepted actuarial procedures. A summary of the actuarial assumptions used to determine the total OPEB liability is shown below.

Actuarial Assumptions		
Valuation date	June 30, 2019	June 30, 2018
Measurement date	June 30, 2020	June 30, 2019
Actuarial cost method	Entry age normal, level of % of pay	Entry age normal, level of % of pay
Discount rate (net)	6.75% per year. The Board expects a long-term rate of return of 7.6% based on Meketa's 20-year capital market assumptions and the System's current investment policy	6.75% per year. The Board expects a long-term rate of return of 6.8% based on Meketa's 20-year capital market assumptions and the System's current investment policy
Inflation rate	2.50%	2.50%
Projected payroll increases		
Wage inflation rate	3.00%	3.25%
Merit increase	Merit component added based on an individual's years of service ranging from 3.75% to 0.10%	Merit component added based on an individual's years of service ranging from 4.50% to 0.25%
Rates of mortality	Mortality is projected on a generational basis using the MP-2019 scale	Mortality is projected from 2009 on a generational basis using the MP-2018 scale
Healthy retirees	0.995 for males and 0.960 for females, times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees	0.952 for males and 0.921 for females, times the CalPERS 2009 Healthy Annuitant Mortality Table
Disabled retirees	1.051 for males and 0.991 for females, times the CalPERS 2009 Ordinary Disability Mortality Table	1.051 for males and 1.002 for females, times the CalPERS 2009 Ordinary Disability Mortality Table
Healthcare Cost Trend Rates		
Medical	The valuation assumes that future medical inflation will be at a rate of 7.66% to 3.94% per annum graded down over a 55 year period for medical pre-age 65 and 4.11% to 3.94% per annum for medical post-age 65	The valuation assumes that future medical inflation will be at a rate of 8.00% to 4.25% per annum graded down over a 15 year period for medical pre-age 65 and 6.00% to 4.25% per annum graded down over a 15 year period for medical post-age 65
Dental	Dental inflation is assumed to be 3.50%	Dental inflation is assumed to be 3.50%

The assumption for the long-term expected rate of return on OPEB plan investments of 6.75% for the valuation years ended June 30, 2020 and June 30, 2019, 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.

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, 2020 and 2019, (see the discussion of the System's investment policy) are summarized in the following table. The assets are invested in a 115 trust.

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

	2020		2019	
Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return	Target Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	56.0%	5.4%	56.0%	6.1%
Short-term investment grade bonds	29.0%	(0.5)%	29.0%	0.8%
Core real estate	10.0%	4.7%	10.0%	4.3%
Commodities	5.0%	1.7%	5.0%	2.3%
Cash	0%	(0.9)%	0%	0.3%

Discount Rate. The discount rate used to measure the total OPEB liability was 6.75% for the measurement years ended June 30, 2020 and 2019, respectively, and is based on the long-term expected rate of return on investments. It is assumed that plan member contributions remain fixed at 7.5% of pay for employees eligible to participate in the postemployment healthcare plan and the City contributes the actuarially determined contribution toward the explicit subsidy up to a maximum of 14% of total payroll. In addition, the City pays the implicit subsidy on a pay-as-you-go basis. 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, as of June 30, 2020 and 2019, calculated using the discount rate of 6.75%, 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 or 1.00% higher than the current rate:

	2020			2019		
	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
Total OPEB liability	$ 741,089	$ 649,866	$ 575,677	$ 767,787	$ 672,193	$ 594,436
Plan fiduciary net position	303,310	303,310	303,310	294,488	294,488	294,488
Net OPEB liability	$ 437,779	$ 346,556	$ 272,367	$ 473,299	$ 377,705	$ 299,948
Plan fiduciary net position as a percentage of the total OPEB liability	**40.9 %**	**46.7 %**	**52.7 %**	**38.4 %**	**43.8 %**	**49.5 %**

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% (6.66% decreasing to 2.50%) lower or 1.0% higher (8.66% decreasing to 4.50%) than the current healthcare cost trend rates (dollar amounts in thousands):

	2020			2019		
	1% Decrease	Health Care Cost Trend	1% Increase	1% Decrease	Health Care Cost Trend	1% Increase
Total OPEB liability	$ 567,211	$ 649,866	$ 751,879	$ 586,304	$ 672,193	$ 778,112
Plan fiduciary net position	303,310	303,310	303,310	294,488	294,488	294,488
Net OPEB liability	$ 263,901	$ 346,556	$ 448,569	$ 291,816	$ 377,705	$ 483,624
Plan fiduciary net position as a percentage of the total OPEB liability	**53.5 %**	**46.7 %**	**40.3 %**	**50.2 %**	**43.8 %**	**37.8 %**

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

The Postemployment Healthcare Plan is an IRC Section 401(h) and an IRC Section 115 Trust, which is in the actuarial valuations and thus the disclosures throughout this note. The 401(h) plan was depleted during the prior fiscal year leaving only the 115 Trust in the Healthcare Plan at the end of the fiscal year.

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 (referred to as prefunding).

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 prefunding 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 to the discount rate that is used to calculate the prefunding is 15% per year, up to a maximum of 45%, which was the reduction for fiscal year June 30, 2020.

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.

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 actuarially determined contributions (ADC) and that contributions are based on the ADC percentages developed by the actuary. Instead, the contribution rate determined by the actuary multiplied by the actual payroll is what will be used.

Historically, member and City contributions to the System have been negotiated through collective bargaining and have not been actuarially determined. No amount was determined on an actuarial basis to fund the Healthcare Plan prior to fiscal year 2019. With the passage of Measure F, the Federated Alternative Pension Reform Settlement Framework (Federated Framework) became effective as of June 16, 2017. A Voluntary Employee Beneficiary Association (VEBA) for retiree healthcare was created and Tier 1 and some Tier 2 members were eligible for an irrevocable opt-out of the defined benefit retiree healthcare plan. The VEBA opt-in election period was October 18, 2017 through December 15, 2017, and the healthcare contributions of members who opted in to the VEBA was transferred out of the Postemployment Healthcare Plan in March 2018 and moved in to the defined contribution VEBA. 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), were eligible to opt-in to the VEBA, while all Tier 2 employees (except unrepresented employees) were required to move in to the defined contribution VEBA. The VEBA is being implemented by the City, not ORS, and therefore it is also not under the jurisdiction of the Retirement Board.

With the implementation of Measure F, member contributions were fixed at 7.5% of pay. The City's contribution toward the explicit subsidy will be actuarially determined beginning with the fiscal year ending June 30, 2019, and the City will also pay the implicit subsidy on a pay-as-you-go basis as part of active health premiums. In addition, the City has an option to limit its contributions to 14% of payroll. The explicit subsidy (or premium subsidy) is paid by the System and is the premium for health coverage

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

selected by the retiree, up to 100% of the premium for the lowest cost plan offered to active employees. The implicit subsidy is the difference between the expected claims cost for a retiree or spouse and the total (retiree plus City) premium.

In February 2018, the Board approved the contribution policy that sets the City healthcare contributions as a flat dollar amount, beginning with fiscal year 2019. The City's contribution for the Postemployment Healthcare Plan during the fiscal year ended June 30, 2020 was $26,533,000, $21,790,000 in regular contributions and $4,743,000 in implicit subsidy. The City's contribution for the Postemployment Healthcare Plan during the fiscal year ended June 30, 2019 was $26,410,000, $20,856,000 in regular contributions, $4,082,000 in implicit subsidy, and $1,472,000 in adjustments and accruals.

The City and the participating member's contribution rates in effect for the Postemployment Healthcare Plan during the fiscal years ended June 30, 2020 and 2019 were as follows:

Period	City - Board Adopted	Members with Healthcare
	City Tier 1 and City Tier 2	Tier 1 and Tier 2
07/01/19 - 06/30/20	$21,790,000 [2]	7.50 %
07/01/18 - 06/30/19	$20,856,000 [1]	7.50 %

[1] *Beginning of year, explicit subsidy amount*

[2] *Throughout the year, explicit subsidy amount*

NOTE 6 - COMMITMENTS

As of June 30, 2020 and 2019, the System had unfunded commitments to contribute capital for investments in the amount of $205,100,000 and $133,992,000, 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.

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	2020	2019	2018	2017	2016	2015	2014
Service cost (middle of year)	$ 61,014	$ 61,808	$ 59,628	$ 51,887	$ 49,011	$ 46,795	$ 43,334
Interest (includes interest on service cost)	280,131	272,787	264,250	249,388	229,609	221,690	214,487
Changes of benefit terms	-	-	1,781	12,132	-	-	-
Differences between expected and actual experience	(27,723)	(11,662)	17,461	40,853	39,720	13,005	-
Changes of assumptions	(2,937)	54,398	(15,582)	60,233	205,875	108,674	-
Benefit payments, including refunds of member contributions	(216,728)	(205,066)	(193,400)	(183,430)	(173,318)	(164,562)	(155,936)
Net Change in Total Pension Liability	**93,757**	**172,265**	**134,138**	**231,063**	**350,897**	**225,602**	**101,885**
Total Pension Liability - Beginning	**4,229,613**	**4,057,348**	**3,923,210**	**3,692,147**	**3,341,250**	**3,115,648**	**3,013,763**
Total Pension Liability - Ending	**$4,323,370**	**$4,229,613**	**$4,057,348**	**$3,923,210**	**$3,692,147**	**$3,341,250**	**$3,115,648**
Plan Fiduciary Net Position							
Contributions - employer	$ 181,327	$ 173,006	$ 156,770	$ 138,483	$ 124,723	$ 114,751	107,544
Contributions - employee	25,082	22,606	20,501	17,227	15,920	13,621	$ 13,596
Net investment income	90,909	76,855	117,493	146,010	(35,010)	(16,642)	263,688
Benefit payments, including refunds of member contributions	(216,728)	(205,066)	(193,400)	(183,430)	(173,318)	(164,562)	(155,936)
Administrative expense	(4,725)	(4,582)	(4,823)	(4,380)	(3,940)	(3,898)	(3,201)
Net Change in Plan Fiduciary Net Position	**$ 75,865**	**$ 62,819**	**$ 96,541**	**$ 113,910**	**$ (71,625)**	**$ (56,730)**	**$ 225,691**
Plan Fiduciary Net Position - Beginning	**2,132,152**	**2,069,333**	**1,972,792**	**1,858,882**	**1,930,507**	**1,987,237**	**1,761,546**
Plan Fiduciary Net Position - Ending	**$2,208,017**	**$2,132,152**	**$2,069,333**	**$1,972,792**	**$1,858,882**	**$1,930,507**	**$1,987,237**
Net Pension Liability - Ending	**$2,115,353**	**$2,097,461**	**$1,988,015**	**$1,950,418**	**$1,833,265**	**$1,410,743**	**$1,128,411**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	**51.07%**	**50.41%**	**51.00%**	**50.29%**	**50.35%**	**57.78%**	**63.78%**
Covered Payroll	**$ 319,980**	**$ 298,824**	**$ 290,504**	**$ 271,153**	**$ 257,771**	**$ 240,678**	**$ 219,434**
Net Pension Liability as a Percentage of Covered Payroll	**661.09 %**	**701.91 %**	**684.33 %**	**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.

Required Supplementary Information *(continued)*

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

	2020	2019	2018	2017	2016	2015	2014
Annual money - weighted rate of return, net of investment expense	3.79%	4.17%	6.03%	7.53%	(0.79)%	(1.07)%	7.49%

The rate shown above is based on the Defined Benefit and does not include the 115 trust.

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

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

(Dollars in Thousands)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contributions	$181,327	$173,006	$156,770	$138,483	$129,456	$114,751	$102,811	$103,109	$ 87,082	$ 59,180
Contributions in relation to actuarially determined contributions	181,327	173,006	156,770	138,483	124,723	114,751	107,544	103,109	87,082	59,180
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ 4,733	$ -	$ (4,733)	$ -	$ -	$ -
Covered payroll	$319,980	$298,824	$290,504	$271,153	$257,771	$240,678	$219,434	$217,375	$223,158	$275,869
Contributions as a percentage of covered payroll	56.67 %	57.90 %	53.96 %	51.07 %	48.39 %	47.68 %	49.01 %	47.43 %	39.02 %	21.45 %

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	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Valuation date	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age	Entry age
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Discount rate	6.750%	6.875%	6.875%	7.00%	7.00%	7.00%	7.25%	7.00%	7.50%	7.95%
Amortization growth rate	3.00%	3.00%	2.85%	2.85%	2.85%	2.85%	2.43%	3%	3.25%	3.90%

NOTES TO SCHEDULE (continued)

Fiscal Year	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Valuation date	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Salary increases	3.25% plus merit component based on years of service	3.25% plus merit component based on years of service	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service	2.85% plus merit component based on years of service	2.0% for five years and 2.85% thereafter plus merit component based on employee classifica-tion and years of service	3.25% plus merit component based on years of service	3.25% plus merit component based on years of service	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
Amortization method	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commen-cing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period	Unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30-year period commen-cing June 30, 2009. Gains, losses and plan changes are amortized over 20-year periods, and assumption changes are amortized over 25-year periods. Tier 2's Unfunded Actuarial Liability as of June 30, 2017 is amortized over a 10-year period	As of June 30, 2009, the unfunded actuarial liability was amortized over a closed 30 year period as a level percentage of pay. Gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of pay. The amorti-zation payment for the 2015 assumption changes is phased-in over 3 years	As of June 30, 2009, the unfunded actuarial liability was amortized over a closed 30 year period as a level percentage of pay. Gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of pay. The amorti-zation payment for the 2015 assumption changes is phased-in over 3 years	As of June 30, 2009, the unfunded actuarial liability was amortized over a closed 30 year period as a level percentage of pay. Gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of pay	The unfunded actuarial liability as of June 30, 2009 was amortized over a closed 30 year period commen-cing June 30, 2009 as a level percentage of Tier 1 pay. Actuarial gains and losses, assumption changes and plan changes are amortized over closed 20-year periods as a level percentage of Tier 1 and Tier 2 pay	The entire unfunded actuarial liability as of June 30, 2009 was amortized as a level percentage of payroll over a closed 30-year priod commen-ing June 30, 2009. Actuarial gains and losses, assumption changes and plan changes since June 30, 2009 are amortized as a level percentage of payroll over a closed 20-year periods beginning with the valuation in which they are first recognized	Level percent of pay, closed, layered	Level percent of pay, closed, layered	Level percent of pay, closed, layered

NOTES TO SCHEDULE (continued)

Fiscal Year	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Valuation date	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Mortality	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2018 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2017 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2015 projection scale	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	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	Sex distinct RP-2000 Combined Mortality projected to 2015 using Scale AA and setback two years	1994 group annuity mortality table set back 3 year for males and 1 year for females. Disabled used 1981 disability mortality table

[1] *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 PLAN (unaudited)

(Dollars in Thousands)

Total OPEB Liability	2020	2019	2018	2017
Service cost (BOY)	$ 7,040	$ 7,723	$ 7,889	$ 11,109
Interest (includes interest on service cost)	41,855	43,182	42,669	49,978
Changes of benefit terms	-	-	(57,623)	-
Differences between expected and actual experience	(25,639)	(10,418)	(995)	-
Changes of assumptions	(14,804)	9,310	(77,795)	-
Benefit payments, including refunds of member contributions	(30,779)	(28,826)	(29,724)	(31,007)
Net Change in Total OPEB Liability	**(22,327)**	**20,971**	**(115,579)**	**30,080**
Total OPEB Liability - Beginning	**672,193**	**651,222**	**766,801**	**736,721**
Total OPEB Liability - Ending	**$ 649,866**	**$ 672,193**	**$ 651,222**	**$ 766,801**
Plan Fiduciary Net Position				
Contributions - employer	$ 26,533	$ 26,410	$ 32,397	$ 31,905
Contributions - employee	10,692	10,578	15,545	16,827
Net investment income	3,075	9,472	12,336	17,041
Benefit payments, including refunds of member contributions	(30,779)	(28,826)	(29,724)	(31,007)
Administrative expense	(686)	(384)	(170)	(242)
VEBA transfer	(13)	(19)	(13,497)	-
Net Change in Plan Fiduciary Net Position	**$ 8,822**	**$ 17,231**	**$ 16,887**	**$ 34,524**
Plan Fiduciary Net Position - Beginning	**294,488**	**277,257**	**260,370**	**225,846**
Plan Fiduciary Net Position - Ending	**$ 303,310**	**$ 294,488**	**$ 277,257**	**$ 260,370**
Net OPEB Liability - Ending	**$ 346,556**	**$ 377,705**	**$ 373,965**	**$ 506,431**
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	**46.67 %**	**43.81 %**	**42.57 %**	**33.96 %**
Covered Payroll	**$ 319,980**	**$ 298,824**	**$ 290,504**	**$ 271,153**
Net OPEB Liability as a Percentage of Covered Payroll	**108.31 %**	**126.40 %**	**128.73 %**	**186.77 %**

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

SCHEDULE OF INVESTMENT RETURNS - POSTEMPLOYMENT HEALTHCARE PLAN (unaudited)

	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	0.53%	4.33%	4.55%	7.20%

The rate shown above is based on the 115 trust only and does not include the 401(h).

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 - POSTEMPLOYMENT HEALTHCARE PLAN (unaudited)

Beginning in FYE 2010, contributions were scheduled 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 was determined as the minimum amount that was consistent with the parameters of GASB 45. No amount had been determined on an actuarial basis prior to fund the plan, and consequently, the schedule of employer contributions was not provided. With the implementation of Measure F, Actuarially Determined Contributions (ADC) were calculated beginning for the fiscal year ending June 30, 2019.

	2020	2019
Actuarially determined contributions (ADC)	$ 26,533	$ 26,410
Actual contribution related to ADC	26,533	26,410
Contribution deficiency/ (excess) relative to ADC	-	-
Covered - employee payroll (Pay)	$ 319,980	$ 298,824
Actual contributions as % of covered payroll	8.29 %	8.84 %

(Dollars in Thousands)

NOTES TO SCHEDULE

Fiscal Year	2020	2019
Valuation date	**2018**	**2017**
Timing	Actuarially determined contributions are calculated based on the valuation one year prior to the beginning of the plan year	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the fiscal year
Key methods and assumptions used to determine contributions rates:		
Actuarial cost method	Individual entry age	Individual entry age
Amortization method	20-year layered amortizations as a level dollar amount with 3-year phase-in and phase-out	20-year layered amortizations as a level dollar amount with 3-year phase-in and phase-out
Asset valuation method	Market value of assets	Market value of assets
Amortization growth rate	3.00%	0.00%
Discount rate	6.75%	6.875%
Ultimate rate of medical inflation	4.25%	4.25%
Salary increases	3.25% plus merit component based on years of service	3.25% plus merit component based on years of service
Mortality	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2018 projection scale	Adjusted 2009 CalPERS mortality tables projected on a generational basis with the SOA MP-2018 projection scale

A complete description of the methods and assumptions used to determine contributions for the year ending June 30, 2020 can be found in the June 30, 2018 actuarial valuation report.

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET POSITION

As of June 30, 2020 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ASSETS			
Receivables			
Employee contributions	$ 931	$ 242	$ 1,173
Employer contributions	4,854	3,671	8,525
Brokers and others	11,739	5,615	17,354
Accrued investment income	30,889	14,716	45,605
Total Receivables	**48,413**	**24,244**	**72,657**
Investments, at fair value			
Securities and other:			
Public equity	689,709	376,139	1,065,848
Private equity	182,558	99,561	282,119
Investment grade bonds	76,793	41,880	118,673
Core real estate	55,717	30,386	86,103
Immunized cash flows	60,326	32,899	93,225
Market neutral strategies	53,578	29,219	82,797
Private debt	52,814	28,803	81,617
Growth real estate	51,767	28,231	79,998
Emerging market bonds	43,614	23,785	67,399
Treasury inflation-protected securities	28,202	15,380	43,582
High yield bonds	28,175	15,366	43,541
Long term government bonds	28,083	15,314	43,397
Cash and cash equivalents	27,259	14,866	42,125
Private real assets	13,080	7,133	20,213
International currency contracts, net	(6)	(4)	(10)
Total Investments	**1,391,669**	**758,958**	**2,150,627**
Capital Assets, net	2,321	1,027	3,348
TOTAL ASSETS	**1,442,403**	**784,229**	**2,226,632**
LIABILITIES			
Payable to brokers	12,018	4,916	16,934
Other liabilities	1,105	576	1,681
TOTAL LIABILITIES	**13,123**	**5,492**	**18,615**
PLAN NET POSITION - RESTRICTED FOR			
Pension benefits	1,429,280	778,737	2,208,017
TOTAL PLAN NET POSITION	**$ 1,429,280**	**$ 778,737**	**$ 2,208,017**

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET POSITION
For Fiscal Year Ended June 30, 2020 (In Thousands)

	Retirement Fund	Cost-of-Living Fund	Total
ADDITIONS			
Contributions			
Employee	$ 19,846	$ 5,236	$ 25,082
Employer	103,467	77,860	181,327
Total Contributions	**123,313**	**83,096**	**206,409**
Investment income			
Net appreciation in fair value of investments	54,810	29,183	83,993
Interest income	6,854	3,540	10,394
Dividend income	3,682	1,903	5,585
Less: investment expense	(5,965)	(3,098)	(9,063)
Net Investment Income	**59,381**	**31,528**	**90,909**
TOTAL ADDITIONS	**182,694**	**114,624**	**297,318**
DEDUCTIONS			
Retirement benefits	147,087	54,387	201,474
Death benefits	8,129	6,260	14,389
Refund of contributions	733	132	865
Administrative expenses and other	3,126	1,599	4,725
TOTAL DEDUCTIONS	**159,075**	**62,378**	**221,453**
NET INCREASE	**23,619**	**52,246**	**75,865**
PLAN NET POSITION - RESTRICTED FOR PENSION BENEFITS			
BEGINNING OF YEAR	**1,405,661**	**726,491**	**2,132,152**
END OF YEAR	**$ 1,429,280**	**$ 778,737**	**$ 2,208,017**

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2020 and 2019

	2020			2019
	Original Budget	Actual	Under Budget	Actual
Personnel services	$ 3,489,000	$ 3,275,142	$ 213,858	$ 2,961,017
Non-personnel/equipment [1]	1,408,000	1,112,347	295,653	1,041,045
Professional services	899,000	628,608	270,392	830,239
Amortization expense [2]	-	408,727	-	133,809
TOTAL ADMINISTRATIVE EXPENSES & OTHER	**$ 5,796,000**	**$ 5,424,824**	**$ 779,903**	**$ 4,966,110**

[1] *$279,000 and $416,700 of investment-related expenses including data processing, were included in the budget approved by the Board for FY 19-20 and FY 18-19, respectively. The actual amounts spent for those items are included in the Schedule of Investment Expenses - Other Investment Fees.*

[2] *Amortization expense is excluded from the budget totals since it is a non-cash item.*

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2020 and 2019

Firm	Nature of Service	2020	2019
Cheiron Inc	Actuarial consultant	$ 236,359	$ 209,491
Cortex Applied Research, Inc	Governance consultant	45,270	40,038
Grant Thornton LLP	External auditors	55,427	101,343
Ice Miller	Legal tax counsel	2,750	12,464
Levi, Ray, & Shoup	Web development and maintenance	4,624	16,832
Levi, Ray, & Shoup	Programming changes and business continuance services	4,520	11,379
Medical Director/Other Medical	Medical consultants	40,629	76,988
Pension Benefit Information	Reports on deceased benefit recipients	4,307	3,900
Reed Smith LLC	Fiduciary and general counsel	141,072	116,323
Saltzman & Johnson	Legal counsel	42,635	54,369
Trendtec Inc	Temporary staff	50,452	185,687
Other Consultants	Miscellaneous professional services	563	1,425
TOTAL		**$ 628,608**	**$ 830,239**

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2020 and 2019

Investment Managers' Fees	2020	2019
Public equity	$ 1,912,265	$ 2,145,500
Private equity	1,054,156	1,000,138
Investment grade bonds	80,081	-
Core real estate	876,814	771,969
Immunized cash flows	51,174	-
Short-term investment grade bonds	68,445	85,453
Market neutral strategies	1,238,399	3,548,632
Private debt	866,159	546,495
Growth real estate	1,678,122	862,370
High yield bonds	5,223	-
Treasury inflation-protected securities	16,703	-
Private real assets	624,976	-
Commodities	203,782	867,908
Total investment managers' fees	**8,676,299**	**9,828,465**
Other Investment Fees		
Investment consultants	580,000	592,500
Custodian bank	246,027	524,171
Investment legal fees	78,592	95,527
Other investment fees	16,630	23,255
Total other investment fees	**921,249**	**1,235,453**
TOTAL INVESTMENT EXPENSES	**$ 9,597,548**	**$ 11,063,918**

Investment Section

CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

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, 2020 and June 30, 2019

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August 27, 2020

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:

Please find below a summary of the market environment and System performance through June 30, 2020.

Fiscal Year 2020 Year in Review

The past year has seen remarkable shifts in economic and financial market performance. We entered fiscal year 2020 facing considerable uncertainty regarding the path of fiscal and monetary policies, elevated valuations, declining growth in China, a general slowdown in global growth, the potential for additional trade issues, and political uncertainty in Europe (Italy, Greece, Brexit). All of these concerns weighed heavily on most investors' minds. Fast forward to where we sit today at the close of the 2020 fiscal year, and much has changed in the world.

The start of the fiscal year was characterized by widespread concerns regarding slowing global growth. This backdrop of uncertainty prompted major central banks to continue their pivot toward more accommodative policies. Here in the US, ongoing concerns regarding a decline in growth and the trade standoff between the US and China played a key role in the Federal Reserve's decision to cut rates several times, and eventually settle at a range of 1.50-1.75% by December 2019. Considering that the Fed had previously embarked on what was characterized as a fairly aggressive rate-hiking cycle until late 2018 given improvements in the economy, this represented a stark reversal of course. Fed Chairman Jerome Powell indicated that these so called "insurance cuts" were to combat recent weakness in the economy and were not necessarily a part of a longer cycle of interest rate cuts.

Outside of the US, major central banks, notably the European Central Bank ("ECB") and the Bank of Japan, affirmed similar accommodative policy stances. ECB President Mario Draghi, in one of his last formal acts as President, re-initiated the ECB's quantitative easing program, prior to being succeeded by Christine Lagarde in November 2019. Continued monetary accommodation, and increasing whispers of more formal fiscal support, set the stage for strong performance in global equities and other risk assets at the end of 2019.

In the third calendar quarter of 2019, markets experienced mixed results with US stocks and bonds posting gains, while international assets, smaller company stocks, and commodities declined. The calendar year finished strong though as a result of broadly accommodative policy stances, coupled with

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optimism about the pass-through of easier monetary policy to better economic prospects. US equities led the way in the second half of calendar 2020, with the Russell 3000 posting a return of 10.4%, followed by emerging market equities (MSCI Emerging Markets Index) producing a return of 7.1%, and developed international markets (MSCI EAFE) generating a return of 7.0%. With interest rates declining toward multi-decade lows, spread sectors within bond markets enjoyed strong performance as well. Local currency emerging markets debt, US investment grade corporate debt, and US high yield debt led the way; the JP Morgan GBI-EM Global Diversified, Bloomberg Barclays US Corporate Investment Grade, and Bloomberg Barclays US Corporate High Yield indices generated total returns of 4.4%, 4.3%, and 4.0%, respectively in the second half of 2019. The VIX Index (a measure of volatility expectations), which saw a jump in Q4 2019 above 30.0 before ending the year at 25.4, fell markedly as the year came to a close, ending 2019 at an extremely benign level of 13.8. Gold ended the year with a reasonably strong gain, trading at $1,519.50 at the end of 2019, up from $1,278.30 at the end of 2018. WTI Crude ended 2019 at $61.10, an increase from its year-end 2018 level of $45.15.

By most accounts, global financial markets entered calendar year 2020 on relatively strong footing. Equity markets continued their march higher early in the year, despite elevated valuations, as investors increasingly began to price in a reflationary growth impulse, as suggested by leading economic indicators in global developed and emerging markets. However, a relatively optimistic backdrop underwent a remarkably rapid shift over the course of just a few weeks.

In January, the first COVID-19 case was acknowledged by Chinese authorities, reportedly originating in Wuhan, China. The actual timeline of the spread of the virus and its origination continue to be the subject of much speculation. With limited historical precedent, market participants leaned on China's relative success in containing SARS as indicative of the path of COVID-19. By March, the virus began to spread globally, particularly in Europe, with Italy and Spain reporting massive spikes in infections and, sadly, mortality rates, so markets changed course. Clearly, where SARS was quickly contained, COVID-19's infection rate had exploded globally. By virtue of greater freedom of travel and 21st century globalization, the virus spread far more quickly than was initially expected based on previous viral outbreaks. In March, in an effort to contain the spread, countries responded by enacting stringent lockdowns, or "stay at home orders" leading to an abrupt halt in production and consumption. Layoffs expanded dramatically and swiftly, as businesses were forced to close down in an effort to stop the disease from spreading.

The impact on financial markets was extreme. Global equity markets rapidly entered bear market territory, and continued their path downward throughout the month of March, as market participants attempted to price in the impact of the cessation of a large portion of global economic activity. With limited data on COVID-19, the pendulum clearly swung toward pessimism regarding the virus' impact and the likely path of activity going forward. After ending 2019 below 14, the VIX spiked above its prior peak during the Global Financial Crisis, briefly breaching 80 in early March. In the US, circuit breakers were triggered at the New York Stock Exchange, with markets opening limit down, on March 9th and March 16th. At the depth of the drawdown from January 1, 2020 to March 23, 2020, the Russell 3000 was down -31.6%, the MSCI EAFE Index (developed market equities) was down -33.2%, and the MSCI

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Emerging Markets Index (emerging market equities) was down -31.8%. The perception of acute stress in credit markets, both in the US and abroad, led to solvency fears; the Barclays High Yield index fell -19.8%. Investors universally fled risk assets, in all forms, during the selloff in favor of perceived safer assets like US Treasuries.

Over this same time period, the spread between large cap stocks, which went into the shock with stronger financial positions and have tended to experience less volatility in drawdowns, and small cap stocks, which are more pro-cyclical and volatile, widened during the selloff. Whereas the Russell 1000 fell by -31.1%, the Russell 2000 fell by -39.7%, a spread of nearly 10%. Going further, the ever-widening performance gap between growth and value, which we have highlighted in past CAFR reviews, persisted. The spread between large cap growth and small cap value expanded during the selloff, with the Russell 1000 Growth declining 25.1% and the Russell 2000 Value falling 44.3%, for a spread of nearly 20%.

The rapid unwind of risk in early 2020, which was one of the fastest market selloffs in modern financial history, reinforced the importance of diversification. While equity and credit markets fell precipitously, bonds provided an offset for investors. The Bloomberg Barclays US Aggregate generated a return of 1.0% over the course of the drawdown noted above, and long-term treasuries, measured by the Bloomberg Barclays Long US Government index, generated a return of 20.2%.

The volatility of the pandemic was exacerbated by volatility in oil prices, which experienced a rapid collapse early in 2020. The COVID-19 related restrictions weighed heavily on demand, with Saudi Arabia's untimely decision to flood the market with oil to gain market share creating further stress on prices. Oil futures briefly traded at negative price levels during the depths of the crisis, as demand collapsed and storage capacity dwindled. The May WTI futures contract briefly changed hands at nearly -$40 per barrel. Commodity and natural resource asset classes both participated in the broader market selloff; the Bloomberg Commodity Index and the S&P Global Natural Resources Index were down -23.4% and -44.6% at the trough, respectively. While the futures curve has since normalized, the oil supply/demand dynamic remains in flux. OPEC+ (inclusive of additional key producers such as Russia) reached a supply cut agreement in April that supported prices and stabilized the market.

To combat the expected, significant decline in economic activity, global fiscal and monetary authorities responded with immediate and historic stimulus measures. The Federal Reserve, in the midst of the March drawdown, immediately cut the Fed Funds Target Rate effectively to zero, and subsequently introduced aggressive stimulus measures, including backstop liquidity, funding programs, and trillions of dollars in promised asset purchases. Meanwhile, fiscal authorities released over $2.4 trillion in targeted stimulus, with the promise of additional measures in the future. Importantly, both the speed and breadth of the response, made the joint monetary/fiscal stimulus unprecedented. In Japan and Europe, similarly aggressive monetary and fiscal measures were implemented, although it should be noted that they entered the crisis with no room to cut policy rates, so their focus was on quantitative easing and fiscal measures.

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Robust stimulus across global developed and emerging economies, coupled with incremental positive news regarding the spread of COVID-19 and economies slowly reopening, set the stage for a relatively rapid rebound in risk assets in the second quarter. While the pace of the deceleration in economic activity was rapid, and data for the second calendar quarter of 2020 has been relatively dire in absolute terms, market participants are largely taking a longer-term view with expectations for a recovery in economic activity later this year and into 2021. In the second calendar quarter of 2020, the Russell 3000 (US equities), the MSCI EAFE, (developed market equities), and the MSCI Emerging Markets (emerging market equities) generated total returns of 22.0%, 14.9%, and 18.1%, respectively. Given support from the Federal Reserve and increased risk appetite, credit recovered rapidly as well, with the Bloomberg Barclays US High Yield index generating a return of 10.2%. The broader fixed income market, as measured by the Bloomberg Barclays US Aggregate, benefitted from monetary stimulus, producing a 2.9% total return. While the VIX remained elevated relative to its pre-crisis levels at 30.4 as of June 2020, it had fallen significantly since the peak of the crisis in the first calendar quarter. Equally, bond market volatility as measured by the MOVE Index fell to nearly a record low.

An investor who had not been following current events over the past year and only chose to look at US equity market performance could be forgiven for thinking that little had changed regarding the prevailing market regime. Despite a massive risk-off event in the first quarter of 2020 associated with a global pandemic, risk assets have, in some cases, posted moderately positive returns over the past fiscal year. US equities, as represented by the Russell 3000 Index, finished the fiscal year with a 6.5% return. Emerging markets (MSCI Emerging Markets) delivered -3.4% for the year. The MSCI EAFE Index was the worst performer among the headline global regions, posting a total return of -5.1%.

Several important trends underneath the headline results merit emphasis. In the US, the spread between large cap stocks and small cap stocks remains extremely wide. The Russell 1000 produced a total return of 7.5% over the fiscal year, whereas the Russell 2000 generated a total return of -6.6%. The spread between growth and value also remains stubbornly wide; the Russell 1000 Growth's return of 23.3% during the fiscal year far outpaced the Russell 1000 Value's total return of -8.8%. Key to the persistent spread between value and growth has been the sector composition of the Value and Growth indices. The Russell 1000 Value's large financials and utilities overweights, as well as large information technology and consumer discretionary underweights, relative to the Russell 1000 Growth, were key contributors. The two benchmarks' relative allocations to financials and information technology alone generated a performance spread of 14.1% in favor of the growth index. An even starker contrast can be observed between large cap growth (Russell 1000 Growth at 23.3%) and small cap value (Russell 2000 Value at -17.5%) where the total return spread was a massive 40.8%!

Within international developed markets, the MSCI EAFE opportunity set, of which Japan, the UK, and the Eurozone are featured most heavily, underperformed relative to the US and emerging markets. This can largely be attributed to the weak footing on which they entered the crisis to begin with, the robust spread of COVID-19, and the stringency of lockdowns in many of these economies. Within emerging markets, an extremely wide spread between countries that were able to manage the virus' spread and deployed aggressive countermeasures (e.g., China: 9.9% return) relative to countries facing already-dire economic circumstances (e.g., Brazil: -33.4%, Mexico: -25.2%, and South Africa: -24.9%) was relatively extreme. The same style regime observed in the US, with growth outperforming value, persisted in both developed and emerging international markets. Again, the relative performance of financials and information technology and consumer stocks were key drivers of the spread between value and growth indices.

Fixed income markets generated relatively strong results, due to a collapse in global yield curves coupled with a robust liquidity backstop from central banks. The Bloomberg Barclays US Aggregate produced a total return of 8.7% over the past year. High yield bonds retraced their earlier losses, with the Bloomberg Barclays US High Yield index finishing flat over the fiscal year. However, the standout performer within fixed income has been long maturity Treasuries, with the Bloomberg Barclays Long US Government index gaining an impressive 25.1% over the past year.

While equities, and especially large cap growth equities, as well as fixed income, produced relatively strong results despite the COVID-19 shock, we have seen mixed results from other asset classes. While energy prices recovered to some extent, with WTI Crude Oil trading at $39.28 at the end of the fiscal year, the current level still represents a significant drawdown relative to even a year ago, when it traded at $58.20. Natural resource stocks and commodities, on account of uncertainty regarding supply gluts, especially in the oil market, and the uncertainty regarding the recovery of demand, produced weak total returns. The S&P Global Natural Resources Index returned -16.8% while the Bloomberg Commodity Index returned -17.4%. One of the hardest hit asset classes in markets in 2020 has been real estate, where fears regarding utilization rates in commercial real estate have prevented the asset class from participating in the recovery to the same extent as other asset classes. The MSCI U.S. REIT Index returned -12.9%.

Elsewhere, an increasingly robust acceleration in money supply growth, widening fiscal deficits on account of unprecedented stimulus measures, and an environment of stagnating growth expectations manifesting in a collapse in real yields, resulted in a significant increase in demand for physical gold. Over the course of the fiscal year, the price of gold increased from $1,409.40 per ounce to $1,793.00, an increase of 27.2%. With investors increasingly fearing the potential ramifications of fiat currency devaluation as a result of monetary de-basement by the Federal Reserve and other global central banks, they have turned to gold as a potential hedge.

Fiscal 2020 Outlook

Looking ahead, we acknowledge the wide breadth of new issues being presented by the pandemic, including: 1) economies opening up too soon from virus-related restrictions, and ultimately having to retract and "close down" again, 2) consumers permanently, or for an extended time, changing economic behaviors; 3) persistently high unemployment due to a significant number of companies not surviving the economic downturn; 4) virus-related fears negatively impacting the future of globalization, 5) an increase in sovereign debt risk due to the record issuance by governments; and 6) knock-on effects of unprecedented central bank intervention, including over-extended equity markets and the risk of unexpected inflation.

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Globally, countries continue to tentatively ease their lockdown measures, as politicians face increasing pressure to get economic growth and employment back on track after a rapid and severe disruption. As a result, local outbreaks of the virus have arisen in the US and abroad, forcing local restrictive measures in harder-hit areas. The continued need for careful management of the spread of the virus is likely to prompt additional volatility in financial markets. This will only accelerate as we approach the end of the warm summer months in parts of the world and enter the traditional "flu season" of fall and winter. This brings many potential risks, including a spike in infections and hospitalizations, the mutation of the virus in an unfavorable manner, or even a concurrent outbreak and a severe flu season alongside COVID-19. Since market participants remain focused on developments regarding COVID-19, its trajectory will be a key driver of market volatility in the near-term.

We have already observed a rapid change in consumption preferences in the US in the wake of the initial COVID-19 shock. The US savings rate spiked to an unprecedented level, and remains elevated when compared to historical trends. This represents a potential opportunity, as it could represent pent-up demand and, eventually increased spending and consumption. However, consumer confidence has not fully recovered, and without certainty regarding the path of the virus, survey data suggest that most people in the US have chosen to build cash as a defense against further issues with COVID-19, rather than spend aggressively. Importantly, survey data also suggest that stimulus checks were not used for durable goods purchases, and instead were either saved or spent on necessary staples. Until consumers build more confidence in the path of COVID-19, the testing regime improves, and the outlook for a vaccine becomes less opaque, it is likely that consumer confidence, and thus consumption itself, will remain muted relative to pre-crisis levels, placing a damper on the prospective economic recovery.

Unemployment, despite a gradual re-opening of the US economy over the past quarter, remains stubbornly high after spiking to a post-World War II record. Unemployment as of the end of the fiscal year remained at 11.1%. The Bureau of Labor Statistics has also cautioned that considerable uncertainty exists around data quality; the actual numbers could be far better than reported, or far worse. A continued decline in unemployment from its current level will follow an easing of COVID-19 related restrictions, especially in the hard-hit service sector, as well as additional fiscal support. Conversely, companies continue to right-size their workforces to cope with a collapse in their top-lines and increasing solvency risk. The longer that uncertainty regarding the virus persists and leads to measures that are likely to stifle economic activity, the weaker business confidence will continue to be. This increases the risk that many layoffs, which might have been perceived as temporary, could become permanent, resulting in a higher equilibrium rate of unemployment.

COVID-19 has had a meaningful impact on the already-tapering long-term trend toward globalization in the 21st century. In some cases, local trade conflicts have arisen and have been resolved, but the trend toward the re-localization of supply chains is likely to accelerate in the wake of the crisis. The most obvious example of this trend is the continued, protracted conflict between the US and China. While the conflict was set aside in the early stages of COVID-19, it has been rekindled in recent months. The current US presidential administration's foreign policy approach has increasingly shifted toward a more aggressive anti-China stance. COVID-19 also exposed the reliance of some countries on

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choke-points in global supply chains that they will undoubtedly seek to address going forward. Global policymakers, such as ECB President Christine Lagarde, have acknowledged that de-globalization is likely to persist in the wake of the virus, beyond the US/China conflict. The risk is most severe for countries that have become reliant on foreign investment and export-driven growth. If global economies increasingly focus on domestic products, export-oriented economies are likely to suffer inordinately in this type of environment.

Historically, crisis periods have often witnessed concurrent periods of either voluntary or involuntary deleveraging, at the sovereign, corporate, and consumer levels. In 2008, for example, the US experienced a rapid de-leveraging in the mortgage market that quickly spread to corporates and consumers. In 2020, while consumers entered the crisis in a reasonable financial position, corporates and sovereigns did not. In the US, for example, corporate solvency was a meaningful source of uncertainty even prior to the crisis, as debt built up in the US corporate debt market. With the COVID-19 shock, March markets were gripped by fears that an economic crisis would become a financial crisis, where in the GFC the opposite had been the case. The Federal Reserve, seeking to prevent this outcome, chose to intervene by essentially backstopping corporate credit. As a result, corporate leverage has rapidly *increased*, where the opposite was true in previous cycles. Alongside this trend, the US government has massively increased the size of the fiscal deficit in order to support those people facing temporary income loss due to unemployment. Suddenly, the US faces the need to finance a widening budget deficit; a large slate of debt issuance will test global investors' willingness to finance a weakening US fiscal position, which could have considerable knock-on effects for interest rates and thus global risk assets. The US, within both the corporate and sovereign sector, continues to push the boundary of investors' appetite for debt.

The evolution of economic growth and inflation bear close monitoring going forward. In addition to widening deficits, unprecedented asset purchases by central banks run the risk of creating longer-term distortions in markets. There can be little doubt that the Federal Reserve's actions have boosted market confidence, and thus asset prices, in recent months. While they execute these policies in the hope of creating a virtuous feedback loop in order to stimulate growth, the pass through is indirect, at best. The Fed is increasingly facing a tightrope walk, backstopping market risk while trying not to lose the market's confidence in its ability to do so with an increasingly narrow set of policy tools. Given that interest rates are probably near a lower bound, at least for now, that leaves them with quantitative easing, which might increasingly become permanent rather than temporary. As evidenced by the path of nominal interest rates across the yield curve, growth expectations remain incredibly weak, while inflation expectations have begun to tick higher, resulting in a collapse in real interest rates. In addition, the Fed has increasingly signaled that it is likely to revise its inflation target, in the interest of allowing inflation to "run hot" in order to focus on achieving growth and full employment, with the added benefit of reducing the US sovereign debt burden. The potential for unexpected inflation within this regime means that asset allocation care is warranted; assets with low yields, like US Treasuries, could experience diminished long-term return prospects, requiring shifts in allocation decisions.

We will continue to monitor these issues and others, as they arise.

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Since the end of the fiscal year, global markets have evolved significantly. The impact of COVID-19 and the extraordinary policy response have engendered profound significant changes in financial markets that have continued to play out since the end of the fiscal year. The evolution of COVID-19, with respect to its spread and the prospect for an eventual definitive healthcare solution, will continue to impact markets going forward.

Plan Investment Results and Asset Allocation for the Retirement System[1,2]

The San Jose Federated City Employees' Retirement System had $2.18 billion in assets at the end of the fiscal year. For the fiscal year, the Retirement System returned +3.6% net of fees, versus the Policy Benchmark (+3.9%) and Investable Benchmark (+3.1%). The Retirement System's return fell short of the 6.75% assumed actuarial rate of return, though it has exceeded that rate in five of the past ten fiscal years. The Retirement System's standard deviation of returns was 11.2%, exhibiting lower volatility than the peer median (12.1%).

Key factors for the Retirement System's performance for the fiscal year include:

- *Asset Allocation*: On March 27, 2020, at a Special Board Meeting during the height of the COVID-19 market selloff, the Retirement System's Board voted to shift its asset allocation policy. This shift resulted in an increase of the Growth aggregate target to 75% of System assets, from 61%, with a 14% increase in policy toward Public Equity. In the second quarter of 2020 following this shift, Public Equity returned +21.0%, outperforming the Public Equity Benchmark return of +20.0%.
- *Growth:* The Retirement System's Growth allocation represented 75.3% of the System as of the end of the fiscal year. Growth returned +1.2% for the fiscal year, versus the Growth Benchmark return of +1.6% over the same period. Within the Growth aggregate, Public Equity represented 49.3% of the System, Private Markets 20.9%, Emerging Markets Debt 3.1%, and High Yield Bonds representing the remaining 2.0%. High Yield Bonds were a new allocation added during the fiscal year.
- *Low Beta:* The Retirement System's Low Beta aggregate represented 10.4% of the System as of the end of the fiscal year. Low Beta returned +2.6% for the fiscal year, versus the Low Beta Benchmark return of +2.8% over the same period. Within the Low Beta aggregate, Market Neutral Strategies represented 3.8% of the System, Immunized Cash Flows 4.3%, and Cash 2.4%.
- *Other:* The Retirement System's Other aggregate represented 13.4% of the System as of the end of the fiscal year. Other returned +1.2% for the fiscal year, outperforming the Other Benchmark by 590 basis points. Over the fiscal year, we estimate that Other added approximately 0.7% to the Retirement System's return, relative to the Policy Benchmark, driven by benchmark outperformance within Core Real Estate, TIPS, Investment Grade Bonds and Long-Term Government Bonds. Investment Grade Bonds and Long-Term Government Bonds were new allocations added during the fiscal year.

[1] Performance figures calculated by custodian bank.
[2] Time-weighted rate of return based on the market rate of return is used as the basis for the calculation.

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Plan Investment Results and Asset Allocation for the Health Care Trust[1,2]

The San Jose Federated Retiree Health Care Trust had $307.4 million in assets at the end of the fiscal year. For the fiscal year, the Health Care Trust returned -0.1% net of fees, versus the Policy Benchmark return of+0.9%. As a percentage of the Health Care Trust, Growth represented 56.2%, Low Beta 31.1%, and Other 12.6%. Growth returned -2.0% versus the Growth Benchmark return of +1.2%. In the fiscal year, a global equity growth manager was added to the roster in order to balance the portfolios stylistic exposure. Low Beta returned +1.7% versus the ICE BofA 91 Days T-Bills TR return of +1.6%, with slight outperformance from the passive investment manager within Short-Term Investment Grade Bonds, which represents 28.9% of the Total Fund. Other returned -1.0%, outperforming the Other benchmark by 360 basis points over the fiscal year period. Within Other, Core Real Estate represented 7.6% of the Total Fund and outperformed its benchmark by 170 basis points, while Commodities represented 5.1% and outperformed its benchmark by 920 basis points.

Summary

Performance for the San Jose Federated City Employees' Retirement System over the fiscal year exceeded its Investable Benchmark. Compared to the Public Peer Group over $1 Billion Net Return, performance over the fiscal year was very strong and ranked in the 14th percentile, while also taking on less risk than the peers. We believe that the Retirement System has been enhanced 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 assist the Retirement System in meeting its obligations to participants.

Sincerely,

Laura Wirick, CFA, CAIA
Principal

Chris Theordor, CAIA
Consultant

Hannah Schriner
Consultant

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LBW/CJT/HS/JP/jls

[1] Performance figures calculated by custodian bank.

[2] Time-weighted rate of return based on the market rate of return is used as the basis for the calculation.

Statement of Investment Policy

PENSION

EXECUTIVE SUMMARY

The purpose of this document is to set forth the goals and objectives of the San Jose Federated City Employees' Retirement System, and to establish guidelines for the implementation of investment strategy.

This document will be reviewed at least annually by the Board of Administration of the San Jose Federated City Employees' Retirement System ("Board"). Any revisions to this document may be made only with the approval of the Board.

The Board of Administration recognizes that a stable, well-articulated investment policy is crucial to the long-term success of the System. As such, the Board members have developed this Investment Policy Statement with the following goals in mind:

- To clearly and explicitly establish the objectives and constraints that govern the investment of the System's assets,
- To establish a long-term target asset allocation with a high likelihood of meeting the System's objectives given the explicit constraints, and
- To protect the financial health of the System through the implementation of this stable long-term investment policy.

This document includes detail on the System's adopted asset allocation policy (summarized in Appendix A) and process, including the selected Functional asset class structure and the System benchmarks approved by the Board. It also includes the System's policy on manager selection, retention, evaluation, and termination, as well as the System's adopted risk policy, with specific risk parameters summarized in Appendix B.

Throughout this document, expected returns and volatilities were based on capital market assumptions from the general consultant.

I. SAN JOSE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S GOALS

The San Jose Federated City Employees' Retirement System was established to provide retirement income for San Jose Federated City Employees' Retirement System employees and their families. The System's assets are structured to provide growth from capital gains and income, while maintaining sufficient liquidity to meet beneficiary payments.

II. INVESTMENT OBJECTIVES

The investment strategy of the San Jose Federated City Employees' Retirement System is designed to ensure the prudent investment of System assets in such a manner as to provide real growth of assets over time while protecting the value of the assets from undue volatility or risk of loss.

A. Risk Objectives

1. To accept the optimal level of risk required to achieve the System's return objective as stated immediately below.
2. To target total portfolio investment risk consistent with the investment beliefs and strategic goals set forth by the San Jose Federated City Employees' Retirement System Board.
3. To consider the financial health of the Sponsor when assuming investment risks.
4. To use diversification to minimize exposure to company and industry-specific risks in the aggregate investment portfolio.

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B. Return Objective

1. In a manner consistent with the goals stated in Section I above, to manage the System's assets as to achieve the highest, reasonably prudent return possible.

III. INVESTMENT CONSTRAINTS

A. Legal and Regulatory

The San Jose Federated City Employees' Retirement System is a defined benefit retirement program for certain employees of the City of San Jose in the State of California. The terms of the System are described in the San Jose Municipal Code.

B. Time Horizon

The System will be managed on a going-concern basis. The assets of the System will be invested with a long-term time horizon (ten to twenty years or more), consistent with the participant demographics and the purpose of the System.

C. Liquidity

The Board members intend to maintain sufficient liquidity to meet at least five years of anticipated beneficiary payments, net of System sponsor and member contributions.

D. Tax Considerations

The System is a tax-exempt entity. Therefore, investments and strategies will be evaluated only on the basis of expected risks and potential returns.

IV. RISK AND RETURN CONSIDERATIONS

The Board members accept the risks associated with investing in the capital markets (market risks), but will minimize wherever possible those risks for which the System is unlikely to be compensated (non-market or diversifiable risks).

V. DIVERSIFICATION

The Board members of the San Jose Federated City Employees' Retirement System recognize that an important element of risk control is diversification. Therefore, investments will be allocated across multiple classes of assets, chosen in part for their low correlation of expected returns. Within each asset type, investments will be distributed across many individual holdings, with the intention of further reducing volatility.

The specific degrees of diversification within asset classes will be addressed in each separate account manager's investment guidelines, or in each commingled manager's fund documents.

The purpose of the functional classifications and major asset classes are defined in the language and table below.

A. Functional Sub-portfolios

The investment strategy for the Investment Program employs three functional sub-portfolios to construct the comprehensive asset allocation. The allocation to the sub-portfolios is assessed at least annually and is based on projected capital market assumptions. The Chief Investment Officer ("CIO") shall review the relative size and composition of these sub-portfolios and advise the Investment Committee ("IC") of any necessary revisions to the allocation among the sub-portfolios.

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1. **Growth Sub-portfolio:** The purpose of the Growth Sub-portfolio is to grow invested assets over the long-term in order to pay future benefits. This portfolio is characterized by a long investment horizon and can, therefore, accept a higher level of volatility. Assets in this portfolio may be volatile, have reduced liquidity, and derive the bulk of their return from capital appreciation. These assets include public and private equity, corporate and other debt with credit risk premiums, private real estate and other private assets. The success of this portfolio will be measured primarily by compounded annual growth rates in conjunction with the annualized standard deviation of returns as the primary measure of risk. Performance evaluation will, therefore, focus on the long-term total risk-adjusted return of the portfolio.

2. **Low Beta Sub-Portfolio:** The purpose of the Low Beta Sub-portfolio is to ensure that the overall (total portfolio) a) is relatively immune from market fluctuations while providing a source of alpha b) is a source of capital for purchasing undervalued assets in the Growth sub-portfolio, and c) has adequate assets available to pay benefits over an extended timeframe (the immunized cash portfolio). It will contain an "absolute return" program that invests in risk assets in isolation but whose combined long and short betas are relatively neutral to market movements, an immunized cash portfolio, as well as cash and cash-like assets such as short-term bonds, derivatives, and other investments that provide fixed, contractual cash flows with a minimum level of credit risk. For the immunized cash portfolio, the Board has established a target allocation amount of up to 60 months' worth of projected benefit payments in the Low Beta Sub-portfolio, which will be drawn down and replenished annually. The Low Beta portfolio is expected to provide a stable offset to the rest of the portfolio during periods of severe market stress and to effectively dampen the market volatility across the entire portfolio. The success of the Low Beta Sub-portfolio will be measured by its ability to offset declines in value in the Growth Sub-portfolio, as well as its ability to provide liquidity during times of market stress.

3. **Other Sub-Portfolio:** The purpose of the Other Sub-portfolio is to ensure that the overall portfolio is specifically protected against inflation risks while also providing for further diversification. The success of the Other sub-portfolio will be measured by its ability to protect the portfolio from inflation risk while also providing an additional source of return and diversification.

B. Interaction between the Functional Sub-Portfolios

The allocations to the Growth, Low Beta, and Other sub-portfolios will vary over time. When Growth assets are undervalued, the Low Beta Sub-portfolio will act as a source of funds and when Growth assets are overvalued the Low Beta sub-portfolio will act as a use for harvested Growth portfolio returns. The Growth and Other sub-portfolios will be subject to the volatility of the markets in which each functional sub-portfolio invests. In order to reallocate between the functional sub-portfolios, the CIO and the General Consultant will conduct an annual capital review to assess the relative value and risks associated with each asset class and deliver a review of the capital markets to the Board. The Consultant will provide the Board current forward-looking risk and return assumptions for all major asset classes. In conjunction with this review, the CIO will provide a recommendation of how best to allocate assets within each functional sub-portfolio. If necessary, the CIO will recommend changes in target allocations to the underlying asset classes in order to deploy the Investment Program's assets effectively in the upcoming year. While considering changes to the allocation to each functional sub-portfolio, the CIO will view the totality of all functional portfolios, and consider the impact of changes to the overall risk and return profile of the total portfolio.

Public Equity - *Growth*
The purpose of Public Equity is to provide the System exposure to the total return due to equity capital owners, including exposure to capital appreciation from economic growth, while managing volatility relative to the equity market.
Private Markets - *Growth*
The purpose of Private Markets is to provide the System exposure to asset growth and income while diversifying the portfolio and capturing an illiquidity premium.
Emerging Market Bonds - *Growth*
The primary purpose of Emerging Market Bonds is to provide the System exposure to rates and credit risk within emerging markets.
High Yield Bonds -*Growth*
The primary purpose of High Yield Bonds is to provide the System with exposure to high yielding corporate debt.
Market Neutral Strategies - *Low Beta*
The purpose of Market Neutral Strategies is to produce alpha based returns while reducing overall System volatility and increasing Sharpe ratio.
Bonds (Immunized Cash Flows) - *Low*
The purpose of Bonds (Immunized Cash Flows) is to provide liquid funds for expected outflows and allow for other assets to be invested in an illiquid fashion.
Treasury Inflation-Protected Securities (TIPS) – *Other*
The purpose of TIPS is to provide exposure to inflation in addition to interest rates.
Core Real Estate – *Other*
The purpose of Core Real Estate is to produce the System income and price appreciation while maintaining a low correlation to both stocks and bonds.
Long-Term Government Bonds -*Other*
The purpose of Long-Term Government Bonds is to provide a positive return in highly stressed market environments, with a low correlation to equity risk.
Core Bonds –*Other*
The purpose of Core Bonds is to produce returns and income for the System by providing exposure to rates and credit risk.

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VI. ASSET ALLOCATION POLICY

Asset Allocation and Portfolio Construction

A. The Board recognizes that establishing an appropriate strategic asset allocation (SAA) portfolio is critical to the long-term success of the investment program, as asset allocation is the single biggest determinant of the expected risk and return of the System.

B. In arriving at the SAA, the Board shall follow a building block approach whereby it approves a series of benchmark portfolios, each offering expected risk and return characteristics that are preferable to the one before it. This building block approach is further explained below:

1. *Liability Benchmark Portfolio* (LBP). As the first step in the portfolio construction process, the Board shall approve a LBP. The LBP is the portfolio that offers the lowest possible expected funding risk, where funding risk is defined as the risk that assets will grow at a slower rate than the system's liabilities. The LBP is expected to consist solely of bonds that match the duration of the liabilities.

2. *Low-Cost Passive Portfolio* (LCPP). If the Board believes a portfolio can be constructed that offers expected return/risk characteristics that are preferable to those of the LBP, but does not wish to invest significant resources in staff and consultants, the Board would then approve a LCPP. The LCPP would be simple to construct and implement and would consist only of public market asset classes managed on a passive basis. It would exclude private market asset classes and hedge funds, which are complex and costlier to implement.

3. *Strategic Asset Allocation Portfolio* (SAAP). If the Board believes an even more diversified portfolio would enhance the risk-adjusted return characteristics of the System and justify a meaningful investment in staff and consulting resources, the Board would then develop and approve an SAAP. The SAAP would be more complex than the LCPP because it would likely include private market asset classes and/or hedge funds. The staff and consulting resources required to manage such a portfolio would significantly increase the cost and administrative complexity of the System.

4. *Investable Benchmark Portfolio* (IBP). The Benchmark Portfolio would include the same underlying benchmarks as the SAAP, but would use an actual invested weight for each asset class. This will account for weighting differences to the SAAP in asset classes that take more than one year to invest (private markets asset classes).

C. The Board believes the above building-block approach represents a thoughtful way of approaching its asset allocation decisions, as it makes each step in the portfolio construction process clear and explicit. It also requires the Board to consider and confirm the rationale for accepting the potential incremental risk, complexity and cost introduced by moving from one portfolio model to the next. Their relative merits would include evaluation on a net-of-expenses basis.

D. The benchmarks approved by the Board as of the date of this document, and the expected return of each, are described below:

1. A LBP consisting of a market benchmark with a duration profile similar to the System's liabilities. The expected return for the LBP is 3.1% (20 years/geometric mean) as of the date of this document.

2. A LCPP consisting of the following asset classes and targets, and the broad, commonly-used market indices that could be used for each asset class, are shown in Appendix A. The expected return for the LCPP is 7.0% (20 years/geometric mean) as of the date of this document.

3. A SAAP consisting of the following asset classes and targets is shown in Appendix A. The expected return of the SAAP is 7.8% (20 years/geometric mean) as of the date of this document.

Asset Allocation Tools & Methods

A. The LBP will be re-evaluated annually following the results of the annual actuarial study. LCPP and SAPP shall be established and modified based on the results of formal asset allocation studies performed approximately every three years or when a significant market correction occurs. The capital market assumptions (CMA) used in such studies shall be reviewed and updated annually or when the S&P 500 experiences a decrease of more than 20% from peak. The Board shall consult with the general investment consultant in connection with such asset allocation studies and CMA reviews.

B. Asset allocation studies shall be designed to ensure rigorous and objective analysis, and minimize decision-making bias by:

1. Requiring the use of a portfolio construction engine ("Engine"); and
2. Requiring that the Board and IC always focus first on establishing the most reasonable and defensible inputs to the Engine. That is, if the Board is uncomfortable with the results of the Engine, it shall respond by reviewing the reasonableness of the inputs to the Engine, rather than simply modifying the results.

C. When arriving at the LCPP and the SAAP, asset allocation studies shall include the four basic steps outlined below:

1. Step 1: Inputs
   a. For each study, the Board shall approve the inputs to the Engine including:
      - Permitted asset classes (Permitted asset classes for the LCPP shall include only public markets and permitted asset classes for the SAA Portfolio shall include both public and private markets);
      - CMAs; and
      - Material constraints (e.g. maximum allocations to certain asset classes), along with supporting rationale.

   b. The CIO shall propose the inputs to the IC, with prior input from the Board's general investment consultant, and work with the investment consultant throughout the process to make subsequent revisions to inputs, based on feedback from the IC.

   c. The Board, IC, CIO and investment consultant are expected to reach a consensus regarding the above inputs and the Board shall formally approve them. Staff shall document the process by which it arrives at its recommended inputs.

2. Step 2: Modeling and Analysis
   a. The investment consultant will incorporate the approved inputs into the Engine to be used to identify and analyze potential asset allocation choices for each study and present the results to the CIO.

   b. The Board expects that the Engine will rely on mean-variance optimization ("MVO").

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c. The Board shall also consider the results of the MVO analysis under additional constraints to ensure adherence with approved risk limits including:
- Stress testing, including historical scenario analysis and factor-specific testing;
- Liquidity analysis under normal and stressed conditions; and
- Cash flow management requirements for the immunization of certain projected benefits and expenses.

3. Step 3: Recommendations

a. The CIO will present the current asset allocation and a number of reasonable alternatives along the so-called “efficient frontier” for the Board to consider.

b. In presenting the alternatives, the CIO initially will present only the return/risk characteristics of each alternative and will not reveal the underlying asset class allocations (i.e. “blind” format). This will allow the Board/IC to focus initially on the return/risk implications of each alternative, rather than the underlying asset allocations.

c. After the Board has engaged in a preliminary discussion and analysis of the alternatives, the underlying asset allocations of each alternative will be revealed for further consideration.

d. The Board/IC may provide feedback to the CIO and investment consultant, which may require further analysis and a request for revised recommendations for the Board/IC to consider.

4. Step 4: Approvals

a. The Board/IC will review the final analyses and recommendations from the CIO and general consultant and approve:
- Low Cost Portfolio Benchmark weights; and
- Strategic Asset Allocation Portfolio weights, targets and ranges (maximum – minimum).

Rebalancing

A. The CIO shall adhere to the SAAP asset and sub-asset class “targets” approved by the Board and shall rebalance to within the approved range at least quarterly if the actual weights at the sub-asset class levels are not within 10% of the approved target, considering the cost of more frequent rebalancing. For example, if the target allocation for an asset class is 20%, re-balancing will be triggered quarterly when the actual allocation for the asset class deviates by +/- 2% (i.e. 10% x 20%, reaching 18% or 22%). The CIO may use discretion to rebalance to within the approved range at more frequent intervals than quarterly, and when actual weights are within 10% of the approved target, subject to an assessment of market risk, active risk, and transactions costs. When a change to the SAAP is made by the Board, the CIO and the investment team will rebalance to the new target weights as expeditiously as possible, or in tranches if directed by the Board. The CIO shall also use his discretion in rebalancing to the new SAAP in the event that instant liquidation of managers within an asset class may work against the interests of the System. Changes to the weights of illiquid asset classes may take several quarters to implement, and the CIO shall keep the IC apprised of progress toward the new SAAP. Synthetic rebalancing through an overlay provider may also be used when appropriate. The Immunized Cash Flows portfolio is exempt from this rebalancing provision, as it is amortizing by design.

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B. Total System active risk (i.e. tracking error) is to be maintained below 3%. While asset class exposures may fall within acceptable capital allocation ranges as noted above, total System tracking error is not to exceed this 3% threshold.

Evaluating Asset Allocation Decisions

A. The Board shall periodically evaluate the effectiveness of its asset allocation decisions using the above portfolio benchmarks (i.e. Liability Portfolio Benchmark, Low-Cost Passive Portfolio, and Strategic Asset Allocation Portfolio).

B. The following table uses hypothetical returns to illustrate how the above benchmarks shall be used to evaluate the Board's asset allocation decisions.

Portfolio Benchmark	Net Return (%)	Value Added (%)	Conclusions
A. Liability Benchmark Portfolio	3.1	N/A	
B. Low Cost Passive Portfolio	7.0	3.9 (B - A)	By deviating from a portfolio with modest funding risk to a low-cost, passive portfolio that does not require significant staff or consulting resources, the Board shall have added net value of 3.2%
C. SAA Portfolio	7.8	0.8 (C - B)	By enhancing the passive portfolio with investments in private markets and hedge funds, the Board added net value of 0.8%

C. The Board will evaluate two additional benchmarks in order to assess the value added by the CIO, investment staff, and the investment consultants:

1. Actual Portfolio: This is the actual portfolio implemented by the CIO and investment staff with support from investment consultants. The Actual Portfolio includes private markets and hedge funds and reflects any active management exercised by the CIO and the underlying investment managers, subject to Board-approved policies and CIO-approved procedures.
2. Investable Benchmark Portfolio: The Investable Benchmark Portfolio is identical to the SAAP but is adjusted for the fact that the SAAP is not constantly "investable" with respect to private market asset classes. For private markets, the Investable Benchmark Portfolio would apply the best available private market benchmarks and, for weighting purposes, would reflect the pacing Systems for private markets (assuming the pacing Systems are reasonable). For example, if the private equity pacing System called for 15% to be invested in private equity by the end of the performance measurement period, then the Investable Benchmark Portfolio would reflect a 15% allocation to private equity, even though the SAA Portfolio calls for 22% to be invested in private equity.

The following table illustrates how the performance of the CIO would be evaluated. Again, the returns are hypothetical and for illustration purposes only.

Portfolio Benchmark	Net Return (%)	Value Added (%)	Conclusions
A. Actual Portfolio	7.5	0.5 (A - B)	CIO outperformed the Benchmark Portfolio from these sources: i) manager selection (including security selection effects) and ii) other effects
B. Benchmark Portfolio	7.0	N/A	

D. For the benefit of stakeholders, the Board shall also measure and report for comparison purposes, on a quarterly basis, the actual portfolio return relative to the return of the LCPP and relative to commonly cited benchmarks, including:

1. A 60% equity and 40% fixed income portfolio ("60/40 Portfolio") comprised of 60% MSCI ACWI IMI (net, unhedged) and 40% Bloomberg Barclays Global Aggregate Bond Index; and

2. A peer group benchmark consisting of other U. S. public pension Systems similar in size to the system, as reported in the InvestorForce Public DB > $1B Net.

VII. MANAGER SELECTION, RETENTION, EVALUATION & TERMINATION POLICY

Background

A. The Board has delegated to the CIO the authority to select and terminate all investment managers of the System subject to constraints and parameters contained herein. Such authority shall be further subject to Manager Selection, Retention, Evaluation & Termination Procedures ("Procedures"), approved by the CIO, that provide more detailed constraints and parameters.

B. It is the Board's intention that the CIO shall have the necessary authority and resources to effectively select, retain, evaluate, and terminate investment managers with the exceptions of venture capital and co-investments (due to the nascent nature of the venture capital program and investment concentration risk of co-investments). The Venture Capital program shall be approved by the Investment Committee and the Board prior to its implementation. These exceptions do not pertain to funds where an external manager has discretion.

C. Accordingly, the CIO shall have the authority to:

1. Manage the Investment Personnel of the System, including:

a. Recommending to the CEO the appointment and duties of all professional, technical, and clerical employees of the Investment Division;

b. Directing and supervising all Investment Personnel on a day-to-day basis; and

c. Evaluating all Investment Personnel and managing their professional development.

2. Select and terminate investment consultants to assist in the selection, retention, evaluation, and termination of investment managers.

a. The CIO may use the services of the general investment consultant appointed by the Board. Alternatively, if the services of the general consultant can be unbundled to separate manager research services, the CIO may select a consultant(s) of his or her choice to carry out manager research services that would otherwise have

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been included in the general investment consultant scope of services.

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b. The CIO shall ensure that the total fees and expenses associated with the consultants he or she selects are reasonable and shall provide a report of such fees and expenses to the Investment Committee and the Board on at least a quarterly basis.

c. While the CIO shall have the authority to select and terminate investment consultants to assist staff in selecting, retaining, evaluating and terminating investment managers, the Board shall approve all contracts with investment consultants selected by the CIO to ensure such contracts reflect fair and reasonable value for the System.

3. Delegation of authority to the CIO to select and terminate investment managers reflects the Board's desire to:

a. Promote efficiency and effectiveness in the manager selection and termination processes;

b. Focus the Board's time and attention on investment policy, asset allocation, and oversight, rather than manager selection and termination; and

c. Establish clear accountability on the part of the CIO and investment staff for manager selection, retention, evaluation, and termination.

General Constraints and Parameters

A. The CIO's authority to select and terminate investment managers shall be subject to the following general constraints and parameters:

1. Investment managers shall meet the following **minimum qualifications** to be selected to manage any assets of the fund:

a. Be **registered as an investment advisor** under the Investment Advisor's Act of 1940 or comparable legislation, unless the manager represent and warrants that it is exempt from such registration under applicable law.

b. Agree to enter into a contract with the System requiring them to perform their services consistent with the fiduciary services established under (a) the Investment Advisor's Act of 1940; (b) California law applicable to fiduciaries of public employee retirement systems, which includes the California State Constitution, Art. XVI sec. 17 and the San Jose Municipal Code and/or (c) terms and conditions substantially comparable to the foregoing that are satisfactory to the System.

2. The nature and size of the manager's mandate shall be consistent with:

a. The asset allocation policy of the System;

b. Applicable constraints (e.g. **manager or strategy concentrations**) contained in this Investment Policy Statement; and the total System **active risk limit(s)[1] contained in the risk section of this IPS**

[1] Active risk or tracking error limits may apply at the total fund level, or another aggregation (e.g. public markets assets only, excluding private markets). Risk limits may also be based on concentration, expressed for example, as a percentage (%) of some total amount of risk.

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3. Notwithstanding paragraph 2) b) above, the CIO shall not approve the selection of an investment management firm for mandates that exceed the following limits:

4. When a market movement is the cause of a breach in the following limits, it should be reported to the IC at the earliest of a mutually agreed-upon time during which the Investment Committee could convene with a quorum, or at the next regularly scheduled Investment Committee meeting, along with a report on how the breach was addressed, or a recommendation to address the breach.

Basis*	Description	Management Firm Concentration Limit [1]
Vehicle	Separately managed accounts (active)	15%
	Commingled funds and SMAs (public, passive)	No limit[2]
	Commingled funds (public, active)	15%
	Commingled funds (hedge funds)	15%
	Commingled funds (private strategies)	15%[3]
Public Markets [4]	Passive strategies	No limit
	Active strategies (excluding hedge funds)	10%
	Hedge funds	10%
		Transaction Limit [5]
Private Markets (excluding venture capital)	Total $ commitment to asset class (e.g. Private Debt)	150% of Board-approved pacing plan (cumulative) [6]
	Primary fund commitment (1st allocation to mgr.)	2%**
	Primary fund commitment (follow-on)	3%**
	Secondary fund investment	1%**

* To be selected, the manager must satisfy the “Vehicle” constraint and the appropriate “Public Markets” or “Private Markets” constraints

** Percentage (%) of total System assets

1 Percentage (%) of total System assets allowable per investment manager.
2 Rationale: Fund is constrained by the asset allocation. This is the “default” option for investing, and scale determines pricing.
3 For private strategies, limit applies to the capital invested plus future callable commitments.
4 Some of these limits related to public markets may be “interim”, to be replaced by risk-based limits for example.
5 Percentage (%) of total System assets allowable per investment manager
6 This would allow, for example, a commitment in Year 1 that is 50% above “plan”. The “cumulative” provision would allow for a “catch-up” for any slower-than-planned investments in prior years.

Manager Selection

Manager Selection Process

A. The process used to select an investment manager shall, at a minimum, include the following elements:

1. Imposition of a Quiet Period/No Contact policy. Board members and staff shall not have contact with individuals or entities who are seeking engagement by the System in response to an RFP, RFI, purchase order, or other solicitation or contracting process, except in accordance with the published terms of the contracting process or except for, and limited to, contact necessary in connection with ongoing System business with an individual or entity. The System’s RFPs, RFIs, and other contract solicitations shall include notice that a “quiet period” will be in place from the beginning of the contracting process until the selection of the successful party such

that these communications shall not occur, except as provided above. As part of the contracting process, potential contracting parties shall be required to disclose potential conflicts of interest. Board members and staff shall not use or attempt to use influence, outside of the individual authority to cause the organization to enter into a contract with any individual or entity. Board members and staff may refer individuals or entities for consideration for contracting to the appropriate System staff member(s) responsible for the particular procurement or contract process.

2. Identification of a mandate to implement the Board's SAA Policy Portfolio.

3. Comprehensive **operational due diligence** performed by the investment staff, qualified investment consultant, or qualified quasi-discretionary investment manager;

4. In the case of private markets, comprehensive operational due diligence performed by the investment staff, qualified investment consultant, or qualified quasi-discretionary investment manager;

5. **Legal review** by qualified investment counsel of the manager agreement and related documentation;

6. **An internal meeting of investment officers, including the CIO** and the officer responsible for the asset class in question, during which staff's due diligence analysis is reviewed and debated and a staff recommendation is made;

7. **Approval by the CIO;**

8. **Concurrence by a qualified investment consultant** or quasi-discretionary investment manager as to the reasonableness of the selection decision;

9. Written affirmation to the Investment Committee by the CIO that the process used to select the manager complied with applicable policies and the Procedures. Such affirmation shall be submitted to the Investment Committee at the next regularly scheduled Investment Committee meeting following the selection of the manager.

B. The Procedures shall include any checklists and templates to be used in the due diligence process. Such Procedures shall be presented to the Investment Committee for review and input at least every three years, or sooner upon request of the Investment Committee or any member of the Board.

C. Whenever amendments are made to the Procedures, a copy shall be provided to the Investment Committee at its next regularly scheduled meeting.

D. Should any Investment Officer responsible for performing manager due diligence and preparing manager selection and termination recommendations to the CIO cease to be employed by the City for any reason, the CIO shall inform the Investment Committee immediately.

E. The selection of an investment manager that would contravene a provision of this policy or the Procedures shall require Investment Committee approval.

F. A file or files shall be established to serve as a permanent record of the due diligence process for each investment manager hired and shall contain a summary of the due diligence information and analysis generated during the search process, as well as the legal documentation.

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G. The internal audit plan of the internal auditor shall include a review of a random sample of investment manager selection decisions at least once per year to confirm compliance with this policy and the Procedures approved by the CIO, the scope of which shall not include the investment performance of such selection decisions. The results of such review shall be reported to the Audit Committee and the Investment Committee.

H. A "**Watch List**" will be established for underperforming managers and managers under extraordinary review for qualitative reasons, and will be maintained by the General Consultant.

1. Quantitative criteria for underperformance which would trigger placement on the Watch List includes manager underperformance versus the appropriate benchmark over a three and/or five year period.
2. Potential actions resulting from placement on the Watch List include finding appropriate resolution of outstanding issues, renewed confidence in the manager or strategy, or determination that the termination of the manager or strategy is appropriate.
3. Investment staff will identify underperforming managers in conjunction with consultants.
4. As necessary, nuanced investment strategies or fund types may require customized review.

I. The System will seek alignment of interests when negotiating fees while pursuing the best net of fees performance results. Investment costs shall be monitored, controlled, and whenever possible negotiated to ensure cost effectiveness. The Board shall give consideration to the impact of administrative expenses, external management fees and performance fees when establishing the asset mix policy of the System. The Board will be provided reports on investment costs of the System at least annually.

J. The System's staff, in coordination with its investment consultants and legal counsel, will negotiate, monitor, and report on fees with investment managers regularly to ensure market competitiveness and appropriateness.

K. The System will seek to ensure that excessive fees are not being paid for alternative assets by reviewing manager fees at least annually. Fee structures could incorporate fixed fees, performance based fees, high water marks, waterfall, hurdles, floors and caps. The System may also incorporate multi-year performance periods with clawbacks as needed.

Manager Termination Procedures

A. City of San Jose Department of Retirement Services investment staff is aware that the ongoing review and analysis of investment managers is just as important as the due diligence implemented during the investment manager selection process. The performance of the investment managers will be monitored on an ongoing basis and it is at the CIO's discretion to take corrective action by terminating and/or replacing an investment manager if it is deemed appropriate at any time for any reason.

The CIO, in agreement with the appropriate consultant for the manager/asset class in question, may terminate an investment manager or product due to a variety of reasons.

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These reasons can include but are not limited to the following:

1. System asset allocation change
2. limited market opportunity
3. style drift
4. violation of policies or guidelines
5. key personnel turnover
6. failure to achieve performance or risk objectives
7. legal or regulatory action
8. any change deemed likely to impact or impair investment performance
9. any other material adverse events, whether reputational or financial, that could be expected to cause significant headline risk

Termination of private funds is typically not possible. If the CIO wishes to exit a private fund, they may evaluate opportunities for secondary market sales of fund interests.

The CIO will report any termination actions at the next Committee meeting, detailing the rationale for action.

XIII. RISK POLICY

Purpose and scope

The purpose of this Risk Policy is to ensure that the total portfolio investment risk is consistent with the investment beliefs and strategic goals set forth by the San Jose Federated City Employees' Retirement System Board. This document defines the roles and responsibilities for maintaining this Risk Policy, management of the investment risks of the System, and monitoring the results. It also articulates the Board's philosophy towards investment risk. The System intends to use risk management to make more informed decisions and improve the likelihood of achieving its strategic goals and objectives within the appendix, specific risk targets and limits are established.

The Risk Policy will cover investment risk, liquidity risk, credit risk, and funding risk. The Risk Policy will not cover enterprise risk concepts such as operational risk, regulatory risk, legal risk, and counterparty risks.

Objectives

The objectives of the risk management program are:

- **A.** To communicate the System's commitment to risk management and the central role in achieving System goals and objectives;
- **B.** To formalize and communicate a consistent approach for managing risk;
- **C.** To ensure the investment risks assumed by the System are appropriate given the financial health of the Sponsor;
- **D.** To ensure the System operates within the agreed risk tolerance and risk limits.

Definitions

To aid with the interpretation of this policy, a glossary of terms is included in the Appendix D, which defines all the technical terms used in this policy.

PENSION (continued)

Governance

Consistent with the Board's governance model, which delegates specific authority, responsibility, and accountability to others based on areas of expertise, this Risk Policy defines the following roles and responsibilities. The Board retains sole responsibility of governing the System, setting investment policy and risk policy, and monitoring the Investment Program. The Board delegates specific areas of responsibility while retaining appropriate oversight of the delegated activity.

Board of Administration

The Board maintains the sole and plenary authority and fiduciary responsibility for the Investment Program. The Board also understands it may delegate certain responsibilities under the Investment Program for purposes of administrative efficiency and expertise. The areas of the Investment Program the Board may not delegate include:

- **A.** Engaging Board consultants and service providers
- **B.** The governance model of the Investment Program
- **C.** Monitoring the Investment Program
- **D.** Establishing and maintaining investment policy, including:
    - **1.** The Investment Policy Statement ("IPS")
    - **2.** This Risk Policy
    - **3.** Investment objectives
    - **4.** Strategic asset allocation
    - **5.** Allocation-level performance benchmarks
    - **6.** Risk philosophy

Investment Committee

The Investment Committee ("IC") is a subset of the Board assigned to review investment related matters in greater detail. The IC has been assigned authority to assist the Board in its duties by meeting on at least a quarterly basis regarding matters of investment policy, risk management, portfolio structure, vendor selection, real estate operations, human resources, reporting, and monitoring. Please refer to the IC Charter for specific detail.

Staff

San Jose Retirement Services Staff ("Staff"), including the Chief Executive Officer (CEO) and Chief Investment Officer (CIO), is broadly responsible for supporting the Board in the effective execution of the Investment Program. The CIO has been delegated authority to execute specific elements of the Investment Program as outlined herein. Staff risk operating zones are defined in Appendix C.

General Investment Consultant

The General Investment Consultant ("GC") is appointed by the Board to provide independent, objective investment advice. The GC is a fiduciary to the System under California law. The GC works with Staff and specialty consultants in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The GC provides advice without discretionary authority to execute on its advice. With regard to this Risk Policy, the GC contributes to the following:

- **A.** Asset allocation recommendations among classes and subclasses
- **B.** Investment manager selection, evaluation, and termination
- **C.** Investment performance monitoring
- **D.** Investment risk monitoring

PENSION (continued)

E. Capital markets projections

F. Coordination with the System's actuary in conducting periodic asset/liability studies and other required reporting

G. Recommend changes to the actual portfolio to achieve compliance with this Risk Policy

H. Board education

Specialty Investment Consultants

A. Absolute Return Consultant

The Absolute Return Consultant ("AC") is appointed by the Board to provide independent, objective investment advice. The AC is a fiduciary to the System under California law. The AC works with Staff and the other consultants in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The AC provides advice without discretionary authority to execute on its advice. With regard to this Risk Policy, the AC contributes to the following:

1. Assists with providing transparency into the absolute return investment strategies, including recent holdings and transactions.
2. Assists with the analysis of recommended investment strategies that have not yet been incorporated into the System including recent holdings and transactions.
3. Board education

B. Risk Advisory Consultant

The Risk Advisory Consultant ("RC") is appointed by the Board to provide independent, objective investment advice. The RC is a fiduciary to the System under California law. The RC works with Staff and the other consultants in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The RC provides advice without discretionary authority to execute on its advice. With regard to this Risk Policy, the RC contributes to the following:

1. Asset allocation recommendations among classes and subclasses
2. Investment manager evaluation
3. Risk policy development and maintenance
4. Investment risk monitoring
5. Recommend changes to the actual portfolio to achieve compliance with this Risk Policy
6. Board education

Investment Managers

Investment Managers are delegated the responsibility of investing and managing System assets in accordance with the IPS, Risk Policy, and all other applicable laws and the terms of the applicable investment documents evidencing the System's acquisition of an interest in an investment vehicle, and other controlling documents. Investment Managers are responsible for making all investment decisions on a discretionary basis regarding assets placed under their jurisdiction and will be accountable for achieving their investment objectives. Such discretion shall include decisions to buy, hold, and sell investments in amounts and proportions that are reflective of the stated investment mandate.

PENSION (continued)

Custodian Bank

The Custodian Bank, selected by the Board to act as the principal custodian of assets of the trust, is delegated the responsibility of holding the assets and evidence of interests owned by the System in investment vehicles and cash (and equivalents). The Board may authorize the Custodian Bank to invest in temporary short-term fixed income investments both for the investment strategies and as a part of the cash portion of System assets. Such investments will be managed in general accordance with short-term fixed income investment guidelines as detailed in the Custodial Agreement. Cash managed for investment strategies shall be considered to be sub-portions of the assets managed by the directing Investment Managers.

Philosophy

An institutional investment program is inherently exposed to many types of risk. This Risk Policy focuses primarily on the investment risks caused by the markets to which the System is exposed (e.g. domestic equities, real estate, domestic fixed income, and others). Related risks such as counterparty, geo-political, and fraudulent or unethical behavior, among others, are not addressed in this Risk Policy.

This Risk Philosophy represents the foundational principles on which the Investment Program is based. Every investment decision should be made with these foundational principles in mind to promote the fulfillment of fiduciary obligations. The statements below set forth the Board's Risk Philosophy, in order of importance:

Investment Risk Policy Should Consider the Financial Health of the Sponsor

Contribution volatility (i.e. the volatility of annual contributions made to the System by the Sponsor) represents a significant budgetary constraint on the Sponsor's financial planning with important implications for taxpayers. The Investment Program shall, therefore, assume a level of volatility that can be tolerated by the Sponsor in both normal as well as stressed market conditions.

The funded status (i.e. funded ratio), viewed as a general proxy for the health of the System, is reviewed on both actuarial and market value of assets bases. While a higher funded ratio is always preferred, the Investment Program shall not accept a level of risk that for a given probability could cause the funded ratio to fall below the limit identified in Appendix B.

The System will manage funding risk in three main ways:

A. **Actuarial review:** The actuary will periodically review the System's liabilities

B. **Asset/Liability studies:** The general consultant will periodically perform this study to identify changes in the relationship between assets and liabilities

C. **Asset Allocation**: The System will periodically conduct asset allocation studies to ensure:
   1. portfolio diversification
   2. expected portfolio returns over the long-term (i.e. 10 years or more) in combination with projected contributions are sufficient to meet expected liabilities

Volatility and Drawdown are the Primary Measures of Investment Risk

Because the System must satisfy long-term liabilities and receives regular contributions from the Sponsor, the Investment Program invests for the long-term appreciation of assets. It is, therefore, able to withstand short-term volatility spikes without undue impairment of capital. For this reason, long-term volatility (i.e. 8 years or more) is considered the appropriate timeframe. Volatility is forecasted through the System's strategic asset allocation and risk reporting processes and is measured and monitored as outlined in Appendix B and C.

PENSION (continued)

Market corrections due to economic recession, geo-political instability, and other causes have historically proven detrimental to the funded status of the System. Drawdown and tail-risk metrics are designed to assess potential investment returns during such periods of market stress. Historical drawdown scenario analysis provides insight into how the portfolio would respond if it were exposed to prior stressed market conditions. Tail-risk analysis provides insight into the probabilities of experiencing a negative investment return with a small (e.g. 5%) probability. These metrics provide insight into how much may be lost during a stressed market environment. Because market corrections are statistically infrequent and typically caused by unforeseen events, neither approach can be used with certainty, but each provides insight into the potential impact a worst-case scenario may represent to the System and Sponsor.

Active Risk, Factor Exposures, and Liquidity must be Monitored

Implementation of any strategic asset allocation introduces deviations between the System's actual portfolio and its policy index. While it is generally desired to minimize these differences to achieve efficiency, deviations from the policy index may be desirable for various reasons. To ensure the actual portfolio is appropriately adhering to the policy index, active risk must be measured and monitored through tracking error statistics.

Factor exposures capture the underlying economic drivers supporting asset class returns. While the policy index and actual portfolio are constructed primarily through asset class forecasts, factor exposures provide important insight into the underlying economic drivers supporting the Investment Program. Each security owned within each investment strategy has some exposure to various economic drivers. The Investment Program's total exposure to the economic drivers is, therefore, driven by the exposures inherent in those securities as well as the correlations across the factor exposures. To understand better the System's exposure to the economic drivers and anticipate how the Investment Program will perform under various economic environments, factor exposures must be measured and monitored.

In addition to benefit payments, the System must meet its obligations to pay its expenses and satisfy capital calls. Generally, these cash outflows are predictable and can be met through the normal administration of the System. Under stressed market conditions, however, liquidity within the Investment Program can change significantly and with little advance notice while the System must continue to meet its obligations. Liquidity must, therefore, be monitored and measured to ensure that the System can continue to meet its financial obligations during periods of market stress without being forced to sell assets at stressed prices.

Monitoring

Reporting processes are designed to provide the Board with the information needed to execute its oversight function. As such, the Board has developed the following monitoring structure.

The Investment Committee, CIO and RC will monitor the Investment Program's risk exposures quarterly. This detailed review process will include security-level exposure analysis of the Investment Program's factor exposures; asset class exposures; tracking error; tail-risk and drawdown scenario analysis, and geographic exposures.

The Board, Staff, and RC will monitor the Investment Program's adherence to this Risk Policy on a quarterly basis. This review process will summarize the detailed reporting used by the Investment Committee and also include the ranges and targets outlined in **Appendix B**.

Management

Aside from liquidity management responsibilities assigned to the CIO in the System's IPS, the Board retains full authority and responsibility for ensuring adherence of the Investment Program to this Risk Policy.

PENSION (continued)

The System's risk management function is expected to evolve through time. The objective of the risk management function is to ensure the System operates within the Board's agreed risk tolerance and limits. The main goals of the risk management function are:

- **A.** Identify: risks that will impact the System's ability to meet its goals and objectives;
- **B.** Estimate the significant risks to which the System is exposed;
- **C.** Manage: risk must be managed and should be commensurate with the rewards;
- **D.** Communicate: risks must be reported and monitored on a regular basis.

To a large extent, many factors that impact future benefits and contributions are uncontrollable, however, the potential impacts are considered in strategy development. The System uses three approaches (actuarial valuation, asset/liability studies, and asset allocation studies, as discussed above) to address and manage risk.

The Board may delegate authority to the CIO and Staff for certain functions as detailed below. Delegation of authority will be coordinated with workflow, compliance and reporting procedures that are clearly defined, reviewed, and approved. The Board shall be notified timely of all investment decisions made by the CIO and their implications to the System.

A. Rebalancing

Portfolio rebalancing may occur by adjusting allocations to individual investment strategies or managers or through the use of an overlay provider using derivatives.

B. Relative Risk

While the Board recognizes that the majority of investment risk over the long term is dependent on the asset allocation decision, it recognizes the cost of precisely matching the strategic asset allocation is considerable and not always optimal. In addition to asset class weightings versus policy, annualized tracking error will be used to measure the disparity of returns between the actual positions in the Investment Program compared to the strategic asset allocation. Annualized tracking error, as measured quarterly by the RC, shall adhere to the targets and ranges outlined in **Appendix C.**

IX. INVESTMENT COSTS

The Board members intend to monitor and control investment costs at every level of the San Jose Federated City Employees' Retirement 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 System restructurings to eliminate unnecessary turnover expenses.
- **D.** Managers will be instructed to minimize brokerage and execution costs.

PENSION (continued)

Appendix A

ASSET ALLOCATION TARGETS[1]

	Target (%)	SAAP Asset Class Benchmarks	LCPP Asset Class Benchmarks	Tracking Error Target Range (basis points)
Growth	**75**			
Public Equity	49	Custom Public Equity Benchmark[2]	LCPP Custom Public Equity Benchmark[2]	0 - 400
Total Private Markets	21	Actual Return		N/A
Private Equity	8		Russell 3000	
Venture/Growth Capital	4		Russell 3000	
Private Debt	3		Bloomberg Barclays Aggregate	
Growth Real Estate	3		Global NAREIT	
Private Real Assets	3		S&P Global Natural Resources	
Emerging Market Bonds	3	50/50 JPM EMBI GD/JPM GBI-EM GD	50/50 JPM EMBI GD/JPM GBI-EM GD	0 - 300
High Yield Bonds	3	Bloomberg Barclays High Yield	Bloomberg Barclays High Yield	0 - 300
Low Beta	**8**			
Market Neutral Strategies	3	LIBOR 3-Month	LIBOR 3-Month + 1%	0 - 1,000
Bonds (Immunized Cash Flows)	5	Actual Return	ICE BofAML 3-Month T-Bills	N/A
Other	**17**			
TIPS	2	Bloomberg Barclays 0-5 Year TIPS	Bloomberg Barclays 0-5 Year TIPS	0 - 100
Core Real Estate	5	NCREIF ODCE Equal Weighted	Global NAREIT	0 - 400
Investment Grade Bonds	3	Custom IG Bonds Benchmark[3]	Custom IG Bonds Benchmark[3]	0 - 200
Long-Term Government Bonds	2	Bloomberg Barclays Treasury 10+	Bloomberg Barclays Treasury 10+	0 - 100

LIABILITY BENCHMARK PORTFOLIO: Bloomberg Barclays U.S. Long Treasury Index.

[1] Approved by the Board of Administration in March 2020.
[2] 25% MSCI US IMI, 12% MSCI World ex US IMI, 12% MSCI EM IMI.
[3] 25% Bloomberg Barclays 1-3 Year Government/Credit, 56% US Aggregate, 19% US Securitized MBS/ABS/CMBS Index.

PENSION (continued)

Appendix B

SCHEDULE OF OPERATING RANGES AND LIMIT TARGETS

Characteristic	Measurement	Operating Min.	Range Max.	Board Approved Limit
Funded ratio	Probability that the Actuarial funded ratio will fall below the Board Approved Limit	80%	n.m.	5% probability of falling below 60%
Sponsor contributions	Probability that Sponsor contributions in a single year will exceed a specified limit	$160mm	$220mm	5% probability of exceeding $335mm
Interest on UAL	Probability that the Interest cost of unfunded actuarial liability will increase above a specified limit	$35mm	$80mm	5% probability of exceeding $150mm
Total fund absolute volatility	Forecast Annualized standard deviation of returns of the actual portfolio	8%	10%	12%
Total fund relative volatility	Forecast Tracking error of the actual portfolio vs. the strategic asset allocation policy index	1%	2%	4%
Drawdown exposure	Average of three worst historical scenario drawdown events	n/a	n/a	(30)%
Liquidity	Liquidity Coverage Ratio (LCR) 5-yr projection	2.0	3.0	1.2

Appendix C

FORECASTED RISK OPERATING ZONES

Risk Guideline	CIO	IC	Board
Total Portfolio Forecast Risk	8-11%	<8%; 11-12%	>12%
Total Portfolio Forecast Beta	0.5-0.8	0.3-0.5; 0.8-1	<0.3; >1
Total Portfolio Duration	0-3 years	3-5 years	>5 years
Total Portfolio Credit Spread Duration	0-3 years	3-5 years	>5 years
Total Portfolio Relative Risk	<|10%|	|10%|-|20%|	>|20%|
Equity Factor Relative Risk	<|10%|	|10%|-|20%|	>|20%|
Interest Rate Factor Relative Risk	<|10%|	|10%|-|20%|	>|20%|
Credit Factor Relative Risk	<|10%|	|10%|-|20%|	>|20%|
Currency Factor Relative Risk	<|10%|	|10%|-|20%|	>|20%|
Portfolio Active Risk	0.5%-3%	0-0.5%; 3-4%	>4%
Average Drawdown risk	0-25%	25-30%	<-30%

Appendix D

DEFINITIONS

Actuarial Assumptions: Assumptions made by the actuary that influence the valuation of liabilities

Active Risk: Measures the volatility of an investment strategy versus its benchmark.

Concentration Risk: Lack of diversification in exposure to markets or managers.

Confidence Interval: A range of values so defined that there is a specified probability that the value of a parameter lies within it.

Counterparty Risk: The risk that a party in a transaction does not fulfill its contractual obligation. Both sides of a contract are exposed to this risk.

Credit Risk: Also referred to as default risk. This is the risk the borrower fails to repay a loan or meet a contractual obligation.

Currency Risk: The potential loss on the price of an asset due to fluctuating foreign currency exchange rates.

Drawdown: A measure of both returns and time over which an investment experienced a decline in value from a peak to a trough. It is based on actual historical results.

Duration: Measures how long (in years) it takes to be repaid the bond's price by the bond's total cash flows. This measure is used to determine the interest rate sensitivity of the portfolio.

Funded Ratio: The ratio of assets to liabilities. Assets can be defined in terms of the market value of assets or the actuarial value of assets. Liabilities are defined as all future benefit payments discounted at the actuarial assumed return.

Funding Risk: Also referred to as surplus risk, this is the risk of assets and liabilities not matching.

Inflation Risk: The risk that general prices of goods and services are rising, which erodes the purchasing power of money.

Interest Rate Risk: The risk than an investment will decline in value as a result of a change in interest rates. This risk is measured by its duration.

Investment Risk: The risk associated with investing in capital markets.

Liquidity: Is comprised of both the time required to complete the transaction and the impact that the transaction has on the price of the asset. There are two types of liquidity risk: Market liquidity risk and funding liquidity risk. Market liquidity risk refers to the risk that an asset cannot be sold without loss of value. Funding liquidity risk refers to the risk that the System will not be able to meet financial obligations as they come due.

Liquidity Coverage Ratio: The ratio of liquidity available to liquidity needs.

PENSION (continued)

Portfolio Construction Engine: A software program relying on mean-variance portfolio optimization. Portfolio optimization requires inputs of asset class returns, standard deviations, and correlations in order to develop an output of total portfolio expected returns and standard deviations, which can be compared along with their Sharpe ratios.

Risk: The uncertainty of an event occurring.

Standard Deviation: The square root of the average squared deviation of the returns from its mean.

Strategic Asset Allocation: The asset classes and weights that are targeted for the policy benchmark.

Tail Risk: Tail-risk measures both the probability and expected returns of a significant loss. When assuming normally distributed returns, tail-risk is the left tail of the return distribution. The normal distribution used for mean-variance optimization underestimates the risk of rare events when markets exhibit fat tails (for example, during the Global Financial Crisis).

Volatility: The standard deviation of returns. Standard deviation (SD) is the square root of the average squared deviation of the returns from its mean.

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.

   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.

Statement of Investment Policy *(continued)*

HEALTHCARE (continued)

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 4/19/2018 is set out below:

Broad Asset Class	Minimum	Target	Maximum
Global equity	40%	55%	54%
Fixed income	20%	28%	40%
Real assets	15%	17%	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.

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.

HEALTHCARE (continued)

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.

    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.

HEALTHCARE (continued)

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;

   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.

HEALTHCARE (continued)

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.

   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.

HEALTHCARE (continued)

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, 2020

PUBLIC EQUITY		
Artisan Partners	Dimensional Fund Advisors	Northern Trust
Cove Street Capital	GQG Partners	Oberweis Asset Management
PRIVATE EQUITY		
Great Hill Partners	Northern Trust	Pathway Capital
Innovation Endeavors	Pantheon Ventures	
Neuberger Berman	Partners Group	
GROWTH REAL ESTATE		
DRA Advisors	Torchlight Investors	
GEM Realty Capital	Tristan Capital Partners	
PRIVATE DEBT		
Arbour Lane Capital Management	Crestline Investors Inc.	Medley Capital LLC
Blackstone Group	Cross Ocean Partners	Octagon Credit Investors
Crestline Investors	Eagle Point	White Oak Global Advisors
PRIVATE REAL ASSETS		
Global Infrastructure Partners	Lime Rock Partners	
MARKET NEUTRAL STRATEGIES		
D.E. Shaw & Co, LP	JD Capital	Pine River Capital Management LP
Hudson Bay Capital Management	Kepos Capital LP	
EMERGING MARKET BONDS		
Blue Bay Asset Management	Wellington Management	
HIGH YIELD DEBT		
	BNY Mellon Asset Management	
BONDS (IMMUNIZED CASH FLOWS)		
	Insight Investment	
TREASURY INFLATION-PROTECTED SECURITIES		
	Northern Trust	
CORE REAL ESTATE		
BlackRock Financial Management Inc.	Clarion Partners	
COMMODITIES		
	Credit Suisse Asset Management	
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, 2020

	One Year	Three Years	Five Years	Ten Years
Total Fund (net of manager fees)	**3.6%**	**4.6%**	**4.1%**	**5.5%**
Policy Benchmark	3.9%	5.1%	4.9%	6.4%
Inv Metrics Public DB > $1 Billion (Net Median)	1.3%	5.0%	5.4%	7.8%
Public Equity	**(1.0)%**	**4.0%**	**4.8%**	**8.5%**
Public Equity Benchmark	0.2%	5.4%	6.1%	9.1%
Private Equity	**2.9%**	**8.8%**	**7.8%**	**10.8%**
San Jose Custom Private Equity Benchmark	(1.8)%	8.6%	8.9%	11.5%
Investment Grade Bonds	**N/A**	**N/A**	**N/A**	**N/A**
Custom IG Bonds Benchmark	N/A	N/A	N/A	N/A
Core Real Estate	**3.6%**	**6.1%**	**7.7%**	**10.4%**
NCREIF ODCE Equal Weighted (Net)	1.7%	5.1%	6.7%	10.0%
.				
Immunized Cash Flows	**3.9%**	**N/A**	**N/A**	**N/A**
Immunized Cash Flows Benchmark	3.9%	N/A	N/A	N/A
Market Neutral Strategies	**(2.0)%**	**3.4%**	**2.3%**	**N/A**
Market Neutral Strategies Benchmark	1.6%	1.5%	0.8%	N/A
Private Debt	**(10.5)%**	**(6.8)%**	**(3.0)%**	**N/A**
S&P Global Leveraged Loan Index +2%	(0.1)%	3.7%	4.9%	N/A
.				
Growth Real Estate	**7.2%**	**14.2%**	**15.8%**	**N/A**
NCREIF Property Index	2.7%	5.4%	6.8%	N/A
.				
Emerging Market Bonds	**5.5%**	**3.4%**	**3.6%**	**N/A**
50% JPM EMBI GD / 50% JPM GBI-EM	(1.1)%	2.4%	3.9%	N/A
.	-	-	0	0
Treasury Inflation-Protected Securities	**2.5%**	**2.4%**	**1.8%**	**N/A**
BBgBarc U.S. TIPS 0-5 Years	3.4%	2.7%	2.0%	N/A
High Yield Bonds	**N/A**	**N/A**	**N/A**	**N/A**
BBgBarc US Corporate High Yield TR	N/A	N/A	N/A	N/A
Long Term Government Bonds	**N/A**	**N/A**	**N/A**	**N/A**
BBgBarc US Govt Long TR	N/A	N/A	N/A	N/A
Private Real Assets	**(12.4)%**	**3.3%**	**3.1**	**N/A**

Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Fund Evaluation Report dated June 30, 2020

Schedule of Investment Results for Healthcare Trust

NET PERFORMANCE SUMMARY BY ASSET CLASS

For Period Ended June 30, 2020

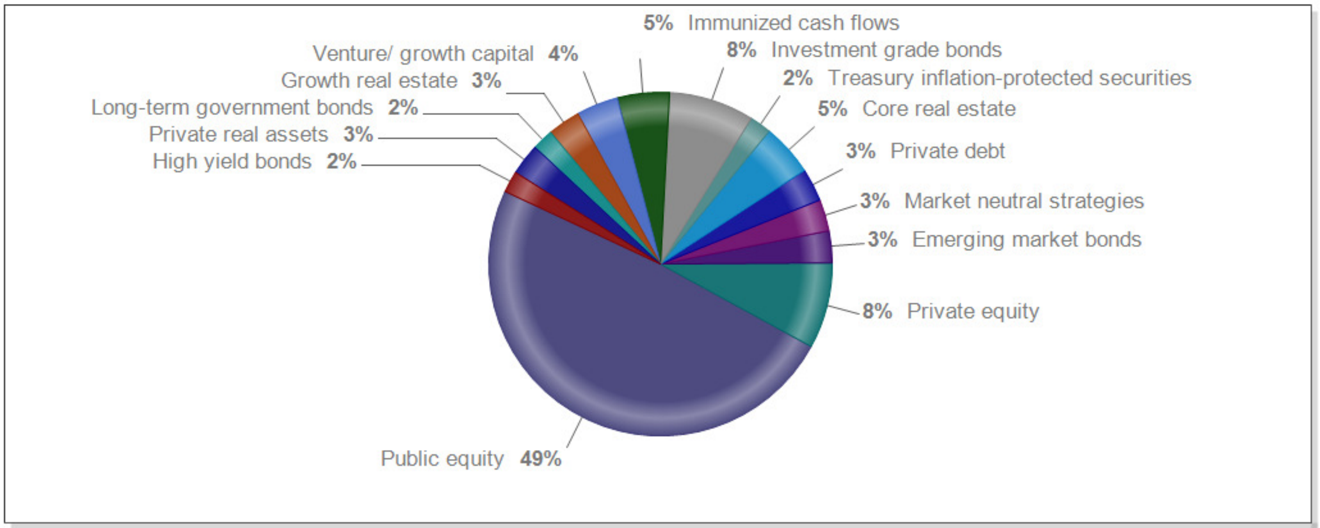
	One Year	Three Years	Five Years	Ten Years
Total Fund (net of manager fees)	**(0.1)%**	**3.0%**	**2.9%**	**N/A**
Policy Benchmark	0.9%	4.2%	4.5%	N/A
Public Equity	**(2.0)%**	**4.2%**	**5.2%**	**N/A**
Public Equity Benchmark	1.2%	5.8%	6.3%	N/A
Short-Term Investment Grade Bonds	**1.7%**	**N/A**	**N/A**	**N/A**
ICE BofA 91 Days T-Bills TR	1.6%	N/A	N/A	N/A
Core Real Estate	**3.4%**	**5.8%**	**6.2%**	**N/A**
NCREIF ODCE Equal Weighted (Net)	1.7%	5.1%	6.7%	N/A
Commodities	**(8.2)%**	**(1.9)%**	**(4.5)%**	**N/A**
Bloomberg Commodity Index TR USD	(17.4)%	(6.1)%	(7.7)%	N/A

Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Fund Evaluation Report dated June 30, 2020

TARGET ASSET ALLOCATION

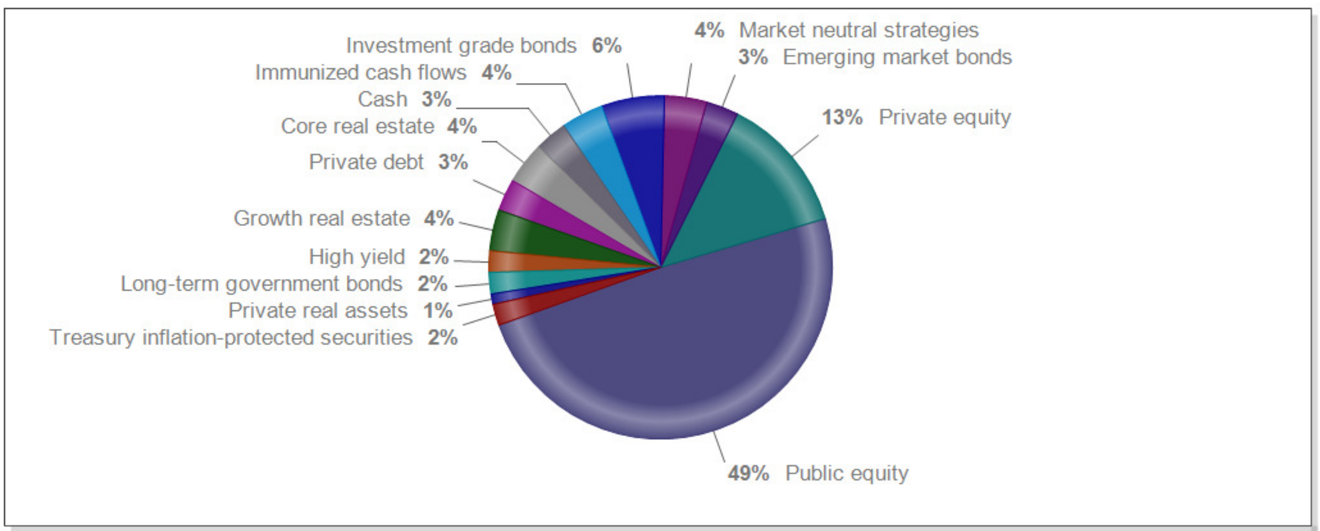
As of June 30, 2020



ACTUAL ASSET ALLOCATION

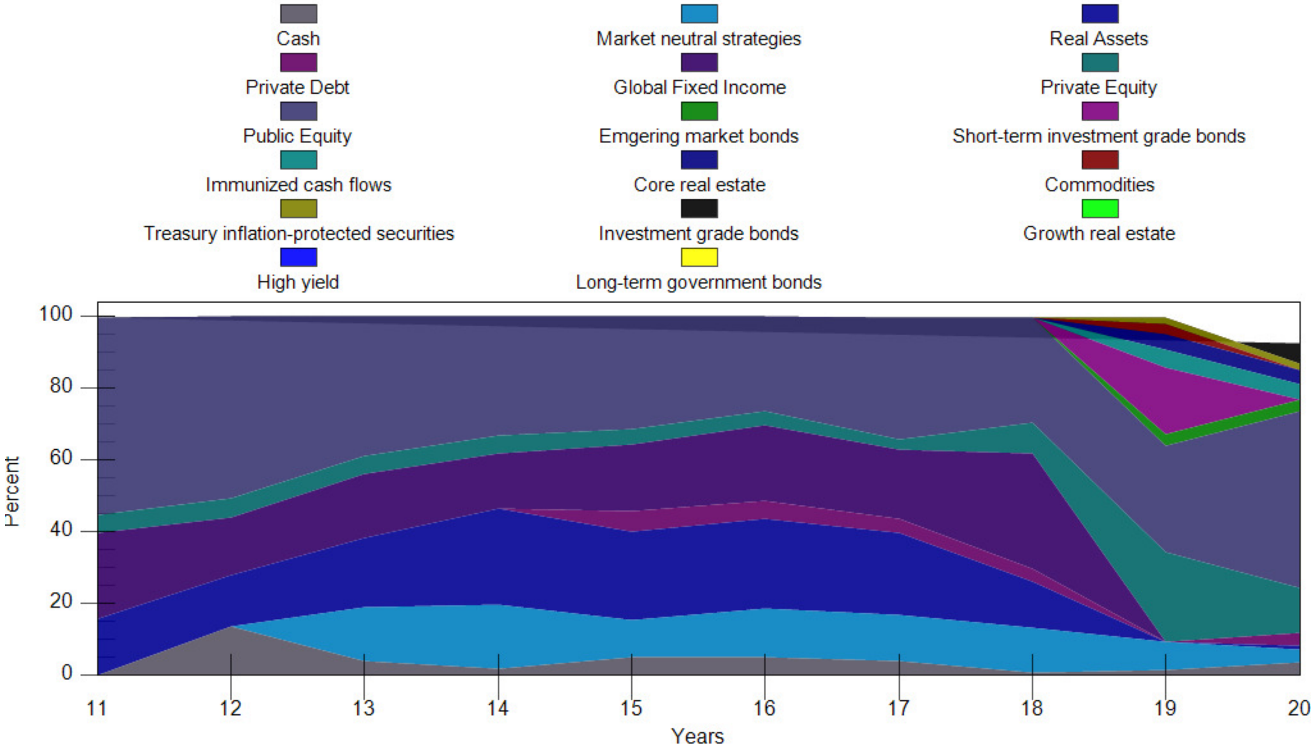
As of June 30, 2020

Non-GAAP Basis

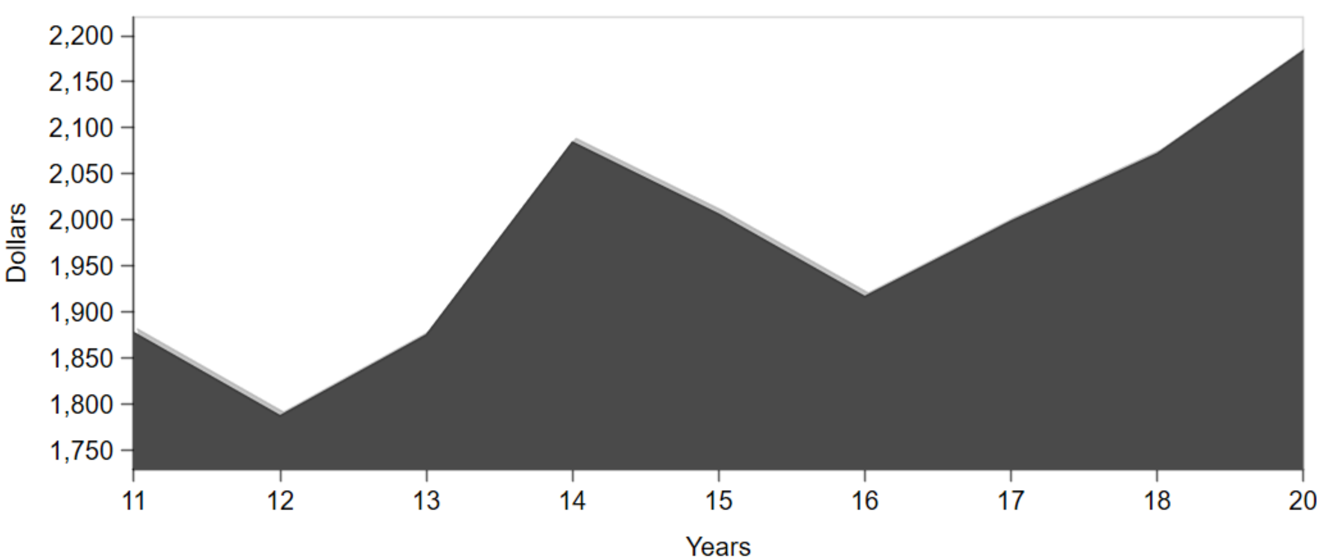


Asset Class	$ In Millions	Asset Class	$ In Millions
Public equity	$ 1,075.7	Core real estate	$ 86.8
Private equity	280.5	Private debt	76.7
Emerging market bonds	67.4	Growth real estate	80.0
Market neutral strategies	82.0	High yield	43.5
Investment grade bonds	119.2	Long-term government bonds	43.4
Immunized cash flows	93.3	Private real assets	20.1
Cash	71.1	Treasury inflation-protected securities	43.6
TOTAL			**$ 2,183.3**

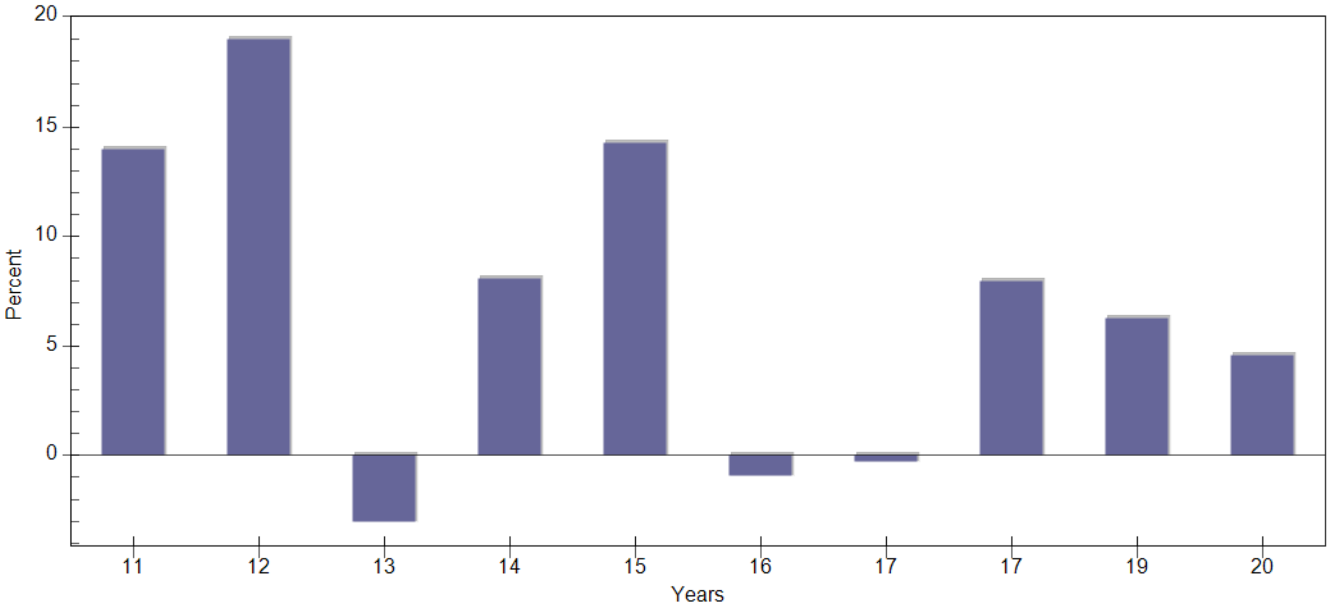
HISTORICAL ASSET ALLOCATION (Actual)
As of June 30, 2011 - June 30, 2020



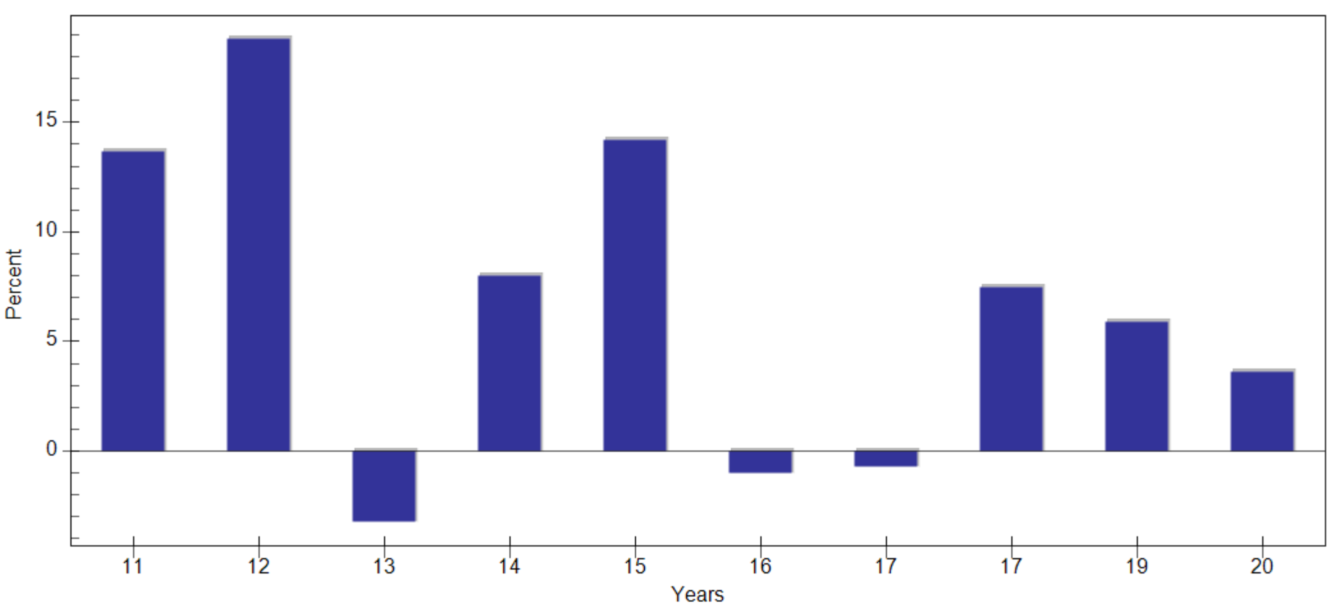
MARKET VALUE GROWTH OF PLAN ASSETS
For Ten Years Ended June 30, 2020
(Dollars in Millions)



HISTORY OF GROSS PERFORMANCE
For Fiscal Years 2011 - 2020
(Based on Fair Value)



HISTORY OF NET PERFORMANCE
For Fiscal Years 2011 - 2020
(Based on Fair Value)

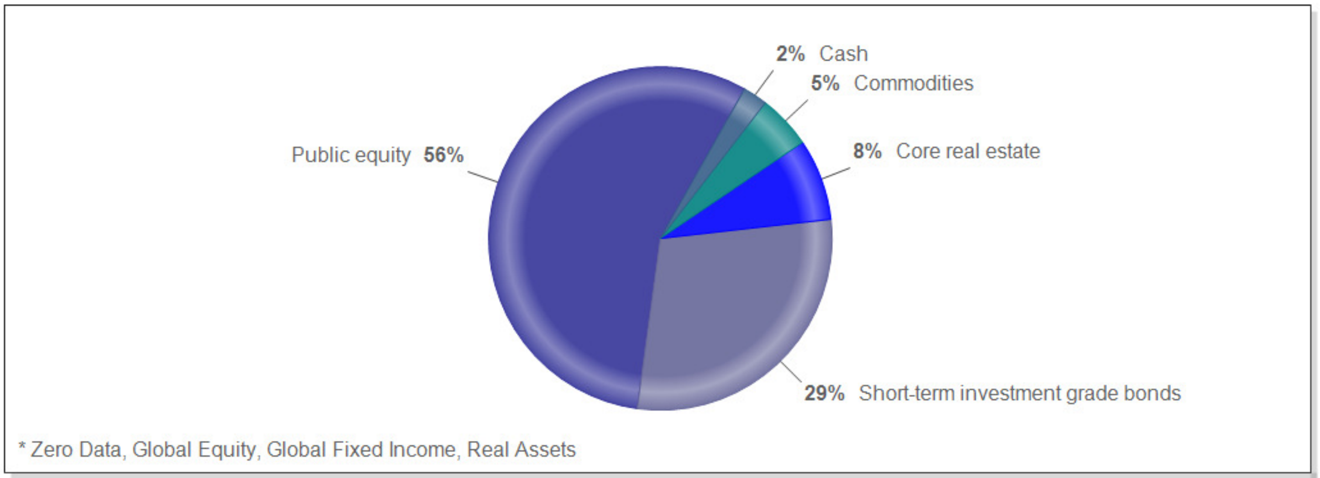


Investment Review

HEALTHCARE

TARGET ASSET ALLOCATION

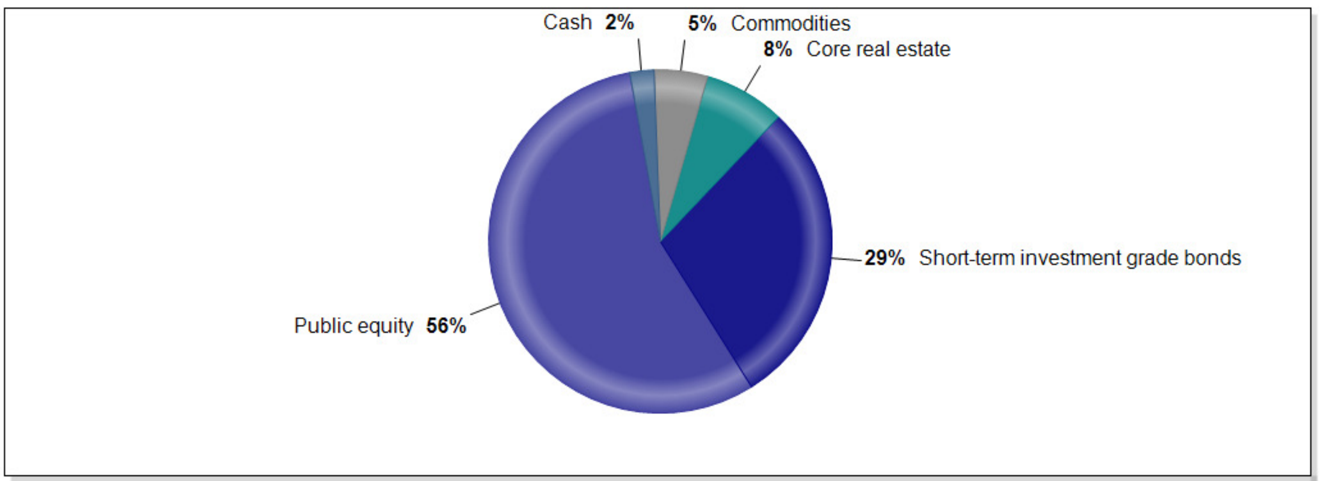
As of June 30, 2020



Actual Asset Allocation

As of June 30, 2020

Non-GAAP Basis

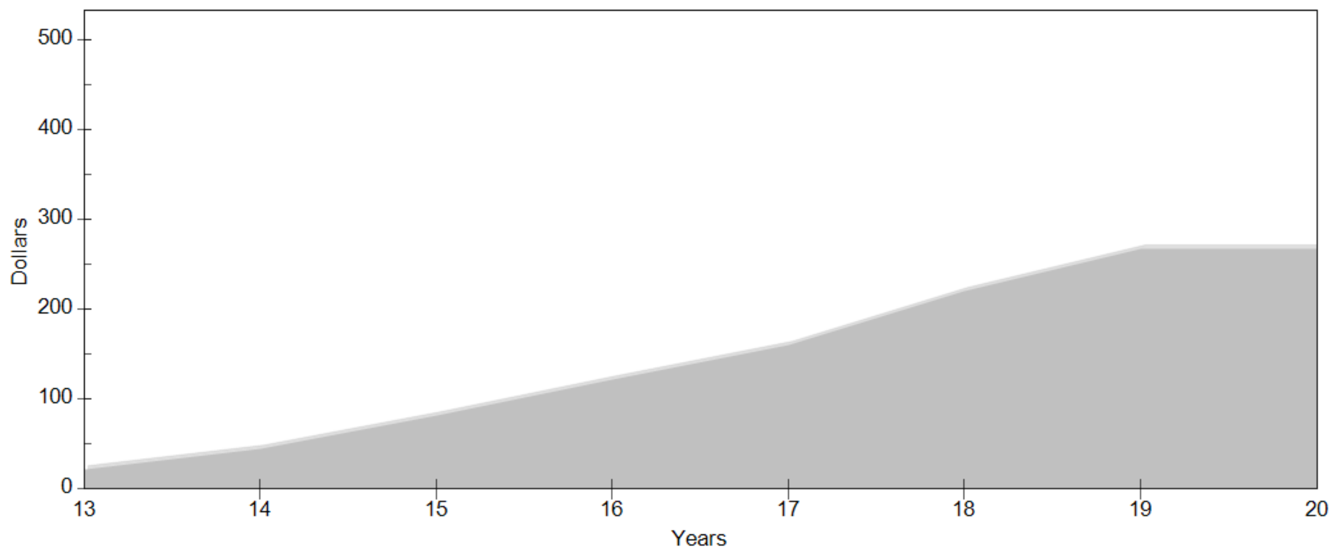


Asset Class	$ In Millions
Public equity	$ 172.8
Short-term investment grade bonds	88.9
Core real estate	23.3
Commodities	15.5
Cash	6.9
TOTAL	**$ 307.4**

HEALTHCARE (continued)

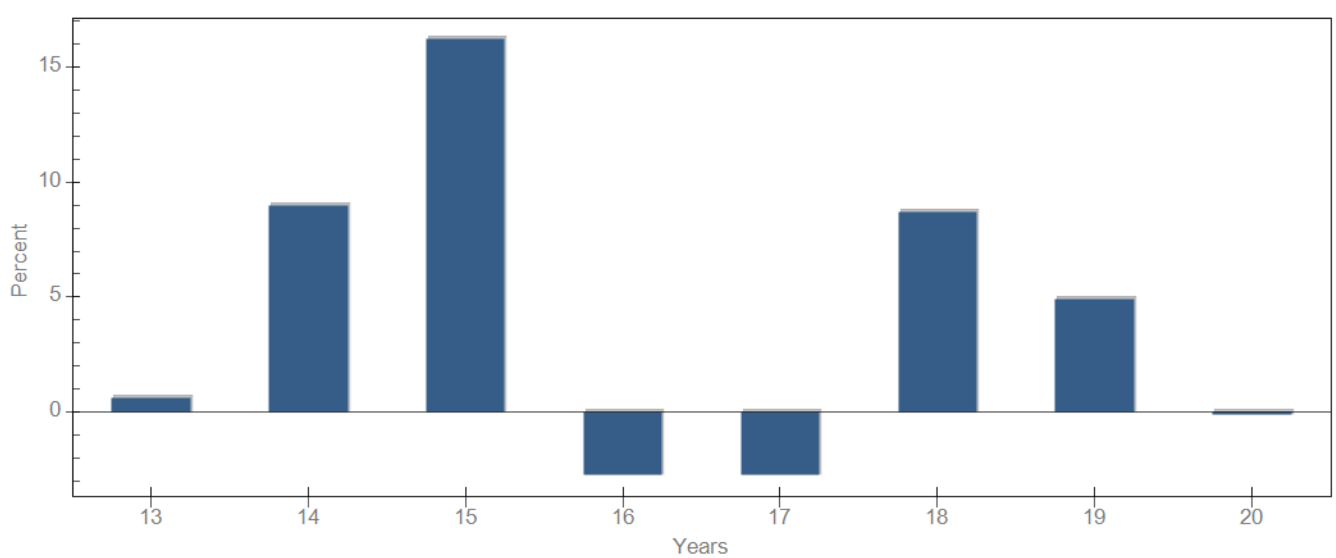
MARKET VALUE GROWTH OF PLAN ASSETS

For Eight Years Ended June 30, 2020 (Dollars in Millions)



HISTORY OF NET PERFORMANCE

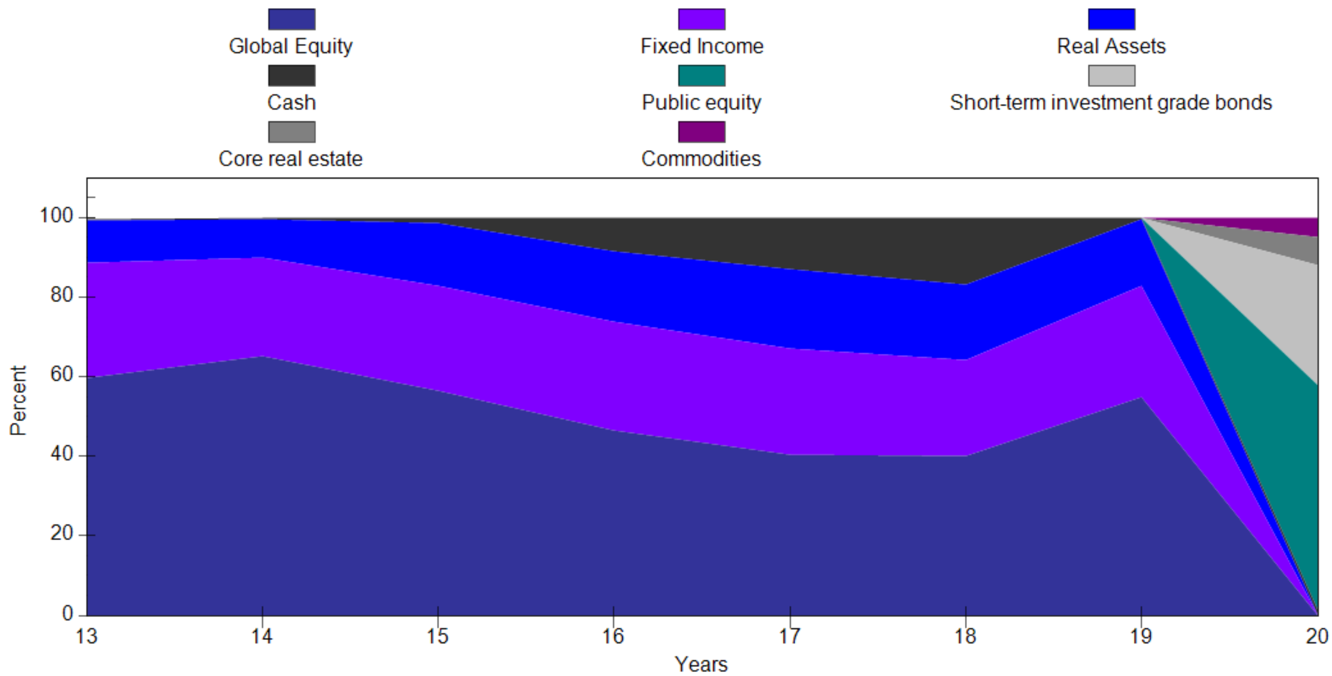
For Fiscal Years 2013 - 2020
(Based on Fair Value)



HEALTHCARE (continued)

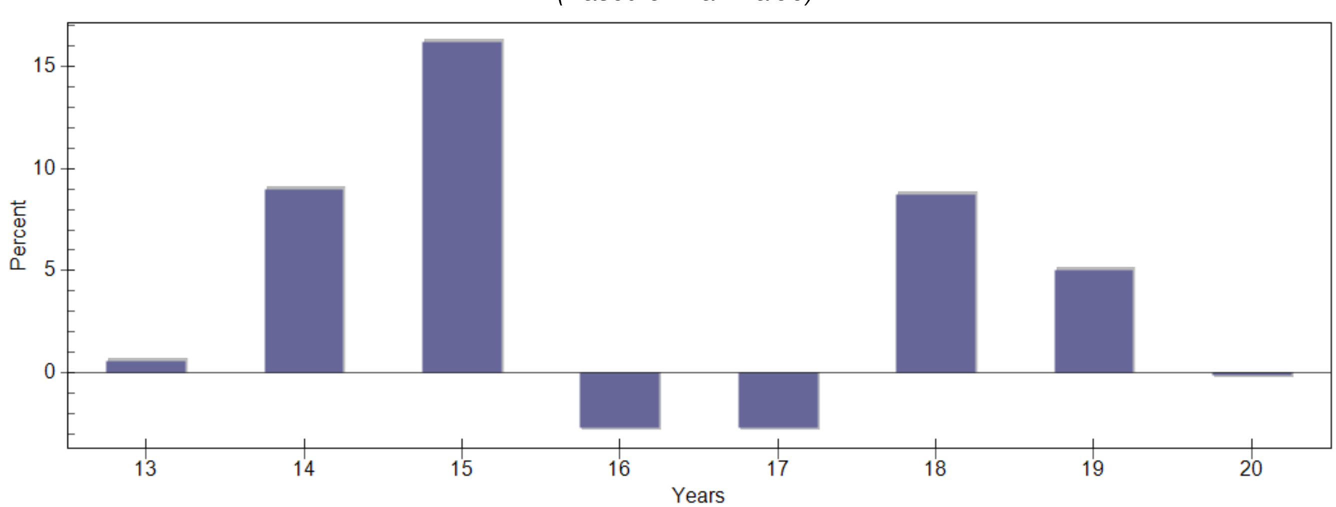
HISTORICAL ASSET ALLOCATION (Actual)

As of June 30, 2013 - June 30, 2020



HISTORY OF GROSS PERFORMANCE

For Fiscal Years 2013 - 2020
(Based on Fair Value)



List of Largest Assets Held

LARGEST DISCLOSABLE STOCK HOLDINGS (By Fair Value) For Pension

As of June 30, 2020

Description	Country	Shares	Fair Value ($US)
SAMSUNG ELECTRONICS CO LTD	KOREA, REPUBLIC OF	131,838	$5,787,127
FACEBOOK INC CLASS A	UNITED STATES	21,427	$4,865,429
UBS GROUP AG REG	SWITZERLAND	408,977	$4,706,763
COGNIZANT TECH SOLUTIONS A	UNITED STATES	79,522	$4,518,440
FEDEX CORP	UNITED STATES	32,203	$4,515,504
CIE FINANCIERE RICHEMONT REG	SWITZERLAND	68,385	$4,361,974
ORACLE CORP	UNITED STATES	78,765	$4,353,341
BANK OF NEW YORK MELLON CORP	UNITED STATES	111,863	$4,323,504
ALPHABET INC CL A	UNITED STATES	2,978	$4,222,952
NXP SEMICONDUCTORS NV	NETHERLANDS	36,546	$4,167,705

A complete list of portfolio holdings is available upon request.

LARGEST DISCLOSABLE BOND HOLDINGS (By Fair Value) For Pension

As of June 30, 2020

Security Name	Country	Maturity Date	Interest Rate	Shares	Fair Value ($US)
FANNIE MAE	UNITED STATES	1/19/2023	2.375%	4,285,000	$4,526,803
US TREASURY N/B	UNITED STATES	2/28/2023	1.500%	4,356,700	$4,510,187
US TREASURY N/B	UNITED STATES	9/30/2022	1.875%	4,324,000	$4,489,523
STRIPS	UNITED STATES	11/15/2022	0.000%	4,323,000	$4,303,719
STRIPS	UNITED STATES	8/15/2022	0.000%	4,318,000	$4,301,808
US TREASURY N/B	UNITED STATES	2/15/2023	2.000%	4,010,000	$4,201,277
US TREASURY N/B	UNITED STATES	8/31/2022	1.875%	3,927,000	$4,071,671
FEDERAL HOME LOAN BANK	UNITED STATES	6/10/2022	2.750%	3,160,000	$3,311,301
US TREASURY N/B	UNITED STATES	10/31/2021	2.000%	3,203,000	$3,281,089
FEDERAL HOME LOAN BANK	UNITED STATES	3/11/2022	2.500%	3,150,000	$3,271,496

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

For Fiscal Year Ended June 30, 2020

Includes the 401 (h) and 115 Trust

	Assets Under Management at Fair Value [1]	Fees	Basis Points
Investment Managers' Fees			
Public equity	$ 1,249,000,000	$ 1,912,265	15
Private equity	281,000,000	1,054,156	38
Emerging market bonds	67,000,000	-	-
Private debt	77,000,000	866,159	112
Short-term investment grade bonds	89,000,000	68,445	8
Core real estate	110,000,000	876,814	80
Commodities	16,000,000	203,782	127
Market neutral strategies	82,000,000	1,238,399	151
Immunized cash flows	93,000,000	51,174	6
Investment grade bonds	119,000,000	80,081	7
Growth real estate	80,000,000	1,678,122	210
High yield	44,000,000	5,223	1
Long-term government bonds	43,000,000	-	-
Private real assets	20,000,000	624,976	312
Treasury inflation-protected securities	44,000,000	16,703	4
Cash	78,000,000	-	-
TOTAL INVESTMENT MANAGERS' FEES	**$ 2,492,000,000**	**$ 8,676,299**	**35**

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

	Fees
Other Investment Fees	
Investment consultants	$ 580,000
Custodian bank	246,027
Investment legal fees	78,592
Other investment fees	16,630
TOTAL OTHER INVESTMENT FEES	**$ 921,249**

Schedule of Commissions

For the Fiscal Year Ended June 30, 2020

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost / Share
A			
APEX CLEARING CORPORATION	9,095.00	122.80	0.0135
B			
BANCO SANTANDER CENTRAL HISPANO	179,615.00	3,592.30	0.0200
BANK CREDIT ANALYST	68.00	0.54	0.0079
BANK J.VONTOBEL UND CO. AG	1,000.00	156.71	0.1567
BANK OF AMERICA CORPORATION	353.00	18.60	0.0527
BANK OF AMERICA MERRILL LYNCH SECUR INC	1,143.00	17.41	0.0152
BARCLAYS CAPITAL	235,056.00	2,155.49	0.0092
BARCLAYS CAPITAL INC.	15,625.00	409.06	0.0262
BMO CAPITAL MARKETS CORP	11,422.00	301.58	0.0264
BNP PARIBAS SECURITIES SERVICES	326,018.00	811.34	0.0025
BNP PARIBAS SECURITIES SERVICES AUSTR BR	191,292.00	879.58	0.0046
BNP PARIBAS SECURITIES SERVICES SA	43,300.00	677.11	0.0156
BOFA SECURITIES, INC.	135,984.000	46,036.77	0.3385
BTIG, LLC	5,300.000	106.00	0.0200
C			
CACEIS BANK DEUTSCHLAND GMBH	4,464.00	325.39	0.0729
CANACCORD GENUITY CORP.	31,200.00	477.09	0.0153
CANTOR CLEARING SERVICES	100.00	2.00	0.0200
CANTOR FITZGERALD & CO	3,593.00	29.43	0.0082
CARNEGIE A.S.	16,500.00	222.60	0.0135
CARNEGIE INVESTMENT BANK AB	64,600.00	3,002.52	0.0465
CARNEGIE SECURITIES FINLAND	8,200.00	290.03	0.0354
CHINA INTERNATIONAL CAPITAL CO	143,000.00	1,020.14	0.0071
CICC US SECURITIES INC	2,073.00	82.92	0.0400
CITIBANK N.A.	14,090.00	298.79	0.0212
CITIGROUP GLOBAL MARKETS INC.	71,852.00	154.80	0.0022
CITIGROUP GLOBAL MARKETS LIMITED	70,669.00	440.16	0.0062
CLSA SECURITIES KOREA LTD.	1,742.00	215.83	0.1239
CLSA SINGAPORE PTE LTD.	17,500.00	996.45	0.0569
COWEN AND COMPANY, LLC	32,437.00	703.36	0.0217
CRAIG - HALLUM	1,600.00	32.00	0.0200
CREDIT INDUSTRIEL ET COMMERCIA	17,100.00	367.20	0.0215
CREDIT LYONNAIS SECURITIES (ASIA)	86,500.00	511.54	0.0059
CREDIT LYONNAIS SECURITIES (USA) INC	14,835.00	421.86	0.0284
CREDIT MUTUEL-CIC BANQUES	22,500.00	885.67	0.0394
CREDIT SUISSE SECURITIES (EUROPE) LTD	114,400.00	1,018.30	0.0089

Schedule of Commissions *(continued)*

For the Fiscal Year Ended June 30, 2020

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost / Share
CREDIT SUISSE SECURITIES (USA) LLC	945,061.00	6,963.62	0.0074
D			
DAIWA SECURITIES AMERICA INC	222,100.00	11,740.03	0.0529
DAIWA SECURITIES COMPANY LTD	6,658.00	382.76	0.0575
DANSKE BANK AS	30,500.00	1,021.42	0.0335
DNB MARKETS CUSTODY, A BUSINESS UNIT OF	6,499.00	46.67	0.0072
E			
ELECTRONIC BROKERAFE SYSTEMS LLC	9,764.00	78.12	0.0080
EXANE S.A.	8,003.00	429.19	0.0536
G			
GOLDMAN SACHS & CO LLC	2,449,281.00	12,147.26	0.0050
GOLDMAN SACHS INTERNATIONAL	15,487.00	202.04	0.0130
H			
HAITONG INTL SECS COMPANY LTD	10,100.00	192.24	0.0190
HSBC BANK PLC	531,108.00	2,283.02	0.0043
I			
ICHIYOSHI SECURITIES CO.,LTD.	35,400.00	2,399.03	0.0678
INDUSTRIAL AND COMMERCIAL BANK	100.00	2.00	0.0200
INSTINET	1,322,875.00	13,338.75	0.0101
INSTINET	179,736.00	1,797.36	0.0100
INSTINET PACIFIC LIMITED	235,700.00	932.67	0.0040
INSTINET U.K. LTD	36,382.00	1,742.08	0.0479
INVESTEC BANK PLC	2,028.00	59.41	0.0293
J			
J.P. MORGAN SECURITIES INC	12,632.00	261.08	0.0207
J.P. MORGAN CLEARING CORP.	88,760.00	710.04	0.0080
J.P. MORGAN SECURITIES LIMITED	4,067.00	159.02	0.0391
J.P. MORGAN SECURITIES LLC	4,251.00	34.00	0.0080
J.P. MORGAN SECURITIES PLC	740,502.00	10,087.55	0.0136
J.P. MORGAN SECURITIES (FAR EAST) LTD SEOUL	1,394.00	50.01	0.0359
JEFFERIES & COMPANY INC	187,390.00	3,258.80	0.0174
JEFFERIES HONG KONG LIMITED	78,600.00	156.92	0.0020
JEFFERIES INTERNATIONAL LTD	164,669.00	468.60	0.0028
JOH. BERENBERG, GOSSLER & CO. KG	80,295.00	2,819.56	0.0351
JONESTRADING INSTITUTIONAL SERVICES LLC	5,300.00	159.00	0.0300
JONESTRADING INSTITUTIONAL SERVICES LLC	15,500.00	230.87	0.0149
JPMORGAN SECURITIES(ASIA PACIFIC)LTD	157,400.00	691.72	0.0044

Schedule of Commissions *(continued)*
For the Fiscal Year Ended June 30, 2020

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost / Share
K			
KEPLER EQUITIES PARIS	33,486.00	1,524.54	0.0455
KOREA INVESTMENT AND SECURITIES CO., LTD	1,535.00	190.48	0.1241
L			
LIQUIDNET CANADA INC	376,110.00	3,697.23	0.0098
LIQUIDNET EUROPE LIMITED	818,261.00	3,826.43	0.0047
LIQUIDNET INC	89,400.00	1,208.00	0.0135
M			
MACQUARIE BANK LIMITED	491,600.00	2,950.72	0.0060
MACQUARIE CAPITAL (USA) INC	1,044.00	41.76	0.0400
MAINFIRST BANK DE	814.00	105.28	0.1293
MERRILL LYNCH INTERNATIONAL	1,341,795.00	8,575.88	0.0064
MITSUBISHI UFJ SECURITIES (USA)	28,000.00	1,372.39	0.0490
MIZUHO SECURITIES USA INC	41,700.00	2,113.31	0.0507
MIZUHO SECURITIES USA INC	2,148.00	85.92	0.0400
MORGAN STANLEY AND CO INTERNATIONAL	969.00	13.04	0.0135
MORGAN STANLEY CO INCORPORATED	1,163,254.00	7,263.46	0.0062
N			
NATIONAL FINANCIAL SERVICES CORPORATION	22,336.00	126.75	0.0057
NBC CLEARING SERVICES INCORPORATED	2,900.00	43.38	0.0150
NEEDHAM & COMPANY LLC	10,000.00	200.00	0.0200
NOMURA FINANCIAL INVESTMENT KOREA CO LTD	15,571.00	1,286.78	0.0826
NUMIS SECURITIES INC	250,800.00	2,732.02	0.0109
O			
ODDO ET CIE	39,984.00	482.97	0.0121
P			
PAREL	21,067.00	1,041.05	0.0494
PEEL HUNT LLP	112,500.00	1,103.61	0.0098
PERSHING SECURITIES LIMITED	454,883.00	5,591.58	0.0123
PIPER JAFFRAY & CO	300.00	6.00	0.0200
PIPER JAFFRAY & HOPWOOD	607.00	12.14	0.0200
R			
RBC DOMINION SECURITIES INC.	3,076.00	95.10	0.0309
REDBURN (EUROPE) LIMITED	48,921.00	790.74	0.0162
ROBERT W. BAIRD CO INCORPORATE	13,841.00	350.48	0.0253
ROYAL BANK OF CANADA EUROPE LTD	816.00	77.79	0.0953
S			
SAMSUNG SECURITIES CO LTD	646.00	125.27	0.1939
SANFORD C. BERNSTEIN AND CO. LLC	18,173.00	425.53	0.0234

Schedule of Commissions *(continued)*

For the Fiscal Year Ended June 30, 2020

Brokerage Firm	Shares / Par	Base Commissions	Base Comm Cost / Share
SANFORD C BERNSTEIN LTD	4,662.00	435.65	0.0934
SANTANDER SECURITIES SERVICES, S.A	1,799,885.00	4,033.63	0.0022
SCOTIA CAPITAL (USA) INC	2,639.00	52.78	0.0200
SCOTIA CAPITAL INC	4,718.00	37.41	0.0079
SKANDINAVISKA ENSKILDA BANKEN	36,200.00	1,042.73	0.0288
SKANDINAVISKA ENSKILDA BANKEN LONDON	11,800.00	331.06	0.0281
SMBC SECURITIES INC	59,000.00	3,057.18	0.0518
SOCIETE GENERALE	9,874.00	167.12	0.0169
SOCIETE GENERALE LONDON BRANCH	1,291,914.00	10,977.22	0.0085
STIFEL NICOLAUS & CO INC	18,716.00	403.08	0.0215
STIFEL, NICOLAUS AND COMPANY, INCORPORAT	700.00	7.56	0.0108
SUNTRUST CAPITAL MARKETS, INC	5,900.00	118.00	0.0200
SVENSKA HANDELSBANKEN	74,014.00	1,257.64	0.0170
T			
THE HONGKONG AND SHANGHAI BANK	32,940.00	573.44	0.0174
TORONTO DOMINION SECURITIES INC	16,500.00	247.51	0.0150
U			
UBS AG	11,667.00	580.95	0.0498
UBS AG LONDON BRANCH	4,330.00	385.40	0.0890
UBS SECURITIES PTE.LTD., SEOUL	47,683.00	2,909.02	0.0610
W			
WELLS FARGO BANK N.A.	77,335.00	1,768.00	0.0229
WILLIAM BLAIR & COMPANY L.L.C	2,184.00	87.36	0.0400
WINTERFLOOD SECURITIES LTD	12,972.00	26.14	0.0020
TOTAL	**18,413,938.00**	**$ 217,586.72**	**$ 0.0118**

Investment Summary

PENSION - INCLUDES THE 401 (H) INVESTMENTS

As of June 30, 2020 (Dollars in Thousands)

Type of Investments		Fair Value	% of Portfolio
Public equity	$	1,075,690	49.3 %
Private equity		280,540	12.8
Emerging market bonds		67,399	3.1
Market neutral strategies		82,005	3.8
Investment grade bonds		119,159	5.5
Immunized cash flows		93,307	4.3
Cash and cash equivalents		71,100	3.1
Core real estate		86,840	4.0
Growth real estate		79,993	3.7
High yield		43,541	2.0
Long-term government bonds		43,397	2.0
Private real assets		20,078	0.9
Private debt		76,772	3.5
Treasury inflation-protected securities		43,560	2.0
TOTAL FAIR VALUE	**$**	**2,183,381**	**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, 2020 (Dollars in Thousands)

Type of Investments		Fair Value	% of Portfolio
Public equity	$	172,868	56.2 %
Short-term investment grade bonds		88,789	28.9
Cash		6,940	2.2
Core real estate		23,305	7.6
Commodities		15,527	5.1
TOTAL FAIR VALUE	**$**	**307,429**	**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.

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Actuarial Section

CITY OF SAN JOSE CAPITAL OF SILICON VALLEY

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, 2020 and June 30, 2019

CHEIRON

Classic Values, Innovative Advice

September 18, 2020

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, and the most recent actuarial valuation was performed as of June 30, 2019. 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, 2019 actuarial valuation.

- 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
- Schedule of Funded Liabilities by Type
- Schedule of Funding Progress
- Summary of Plan Provisions

The funding ratios shown in the schedule of funded liabilities by type and the schedule of funding progress exhibits 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 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. In our opinion, the assumptions and methods used in the actuarial valuation for funding purposes are consistent with applicable Actuarial Standards of Practice. The actuarial cost method and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes.

www.cheiron.us 1.877.CHEIRON (243.4766)

Board of Administration
September 18, 2020
Page 2

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2019 actuarial valuation updated to the measurement date of June 30, 2020. The Board changed some economic and demographic assumptions for the June 30, 2019 valuation based on an experience study. These changes are detailed in the actuarial assumptions and methods attachment of this letter. These changes are reflected effective July 1, 2019 for financial reporting purposes. Consequently, the update was based upon the Total Pension Liability as of the valuation date reflecting the new assumptions, and projected to the measurement date with the addition of service cost and interest cost offset by actual benefit payments.

Please refer to our GASB 67/68 report as of June 30, 2020 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, 2020, 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 Office 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.

This letter and the schedules named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. 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.

CHEIRON

Board of Administration
September 18, 2020
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

Steven M. Hastings, FSA, EA, FCA, MAAA
Consulting Actuary

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

Actuarial Assumptions and Methods

DEFINED BENEFIT PENSION

Actuarial Assumptions

The wage inflation assumption, amortization payment growth rate, price inflation, and discount rate were adopted by the Board of Administration with our input at the October 17, 2019 Board meeting. All other assumptions were adopted at the November 21, 2019 Board meeting based on recommendations from our experience study covering plan experience through June 30, 2019. Please refer to the full experience study report for details, including the rationale for each assumption.

1) Discount Rate

6.75%. The Board expects a long-term rate of return of 7.6% based on Meketa's 2019 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 3.00%, compounded annually

3) Amortization Payment Growth 2.75%, compounded annually

4) Price Inflation 2.50%, compounded annually

5) Administrative Expenses

$500 per member for FYE 2020, increasing at the wage inflation assumption of 3.00% per annum.

6) Salary Increase Rate

In addition to the wage inflation component of 3.00% shown above, the following merit component is added based on an individual member's years of service:

Table B-1 Salary Merit Increases					
Years of Service	Merit / Longevity	Years of Service	Merit / Longevity	Years of Service	Merit / Longevity
0	3.75%	6	1.40%	12	0.45%
1	3.00%	7	1.20%	13	0.30%
2	2.50%	8	1.00%	14	0.20%
3	2.15%	9	0.85%	15+	0.10%
4	1.85%	10	0.70%		
5	1.60%	11	0.55%		

7) Rates of Termination

Sample rates of termination are shown in the following Table B-2.

Table B-2 Rates of Termination					
Years of Service	Termination Rate	Years of Service	Termination Rate	Years of Service	Termination Rate
0	15.00%	6	7.75%	12	3.75%
1	12.75%	7	6.50%	13	3.50%
2	11.75%	8	5.50%	14	3.25%
3	10.75%	9	4.75%	15+	3.25%
4	9.75%	10	4.25%		
5	8.75%	11	4.00%		

Termination rates do not apply once a member is eligible for retirement

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION *(continued)*

8) Rate of Reciprocity

30% of terminating employees that are assumed to subsequently work for a reciprocal employer and receive 3.00% pay increases per year.

9) Rates of Refund

Tier 1:

Rates of vested terminated and reciprocal employees electing a refund of contributions are shown in the following Table B-3.

Table B-3							
Rates of Refund							
Years of Service	Under Age 35	Ages 35 - 44	Ages 45 and Older	Years of Service	Under Age 35	Ages 35 - 44	Ages 45 and Older
0 - 4	100.0 %	100.0 %	100.0 %	**11**	17.5 %	10.0 %	0.0 %
5	25.0 %	15.0 %	18.0 %	**12**	15.0 %	10.0 %	0.0 %
6	20.0 %	12.5 %	15.0 %	**13**	10.0 %	10.0 %	0.0 %
7	20.0 %	10.0 %	12.0 %	**14**	10.0 %	7.5 %	0.0 %
8	20.0 %	10.0 %	9.0 %	**15**	10.0 %	5.0 %	0.0 %
9	20.0 %	10.0 %	6.0 %	**16**	10.0 %	2.5 %	0.0 %
10	20.0 %	10.0 %	3.0 %	**17+**	10.0 %	0.0 %	0.0 %

Refund rates do not apply once a member is eligible for retirement.

Tier 2:

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

10) Deferred Vested Member Retirement Age

Tier 1 terminated vested members are assumed to retire from age 57 and Tier 2 terminated vested members are assumed to retire at age 62.

11) Rates of Retirement for Tier 1 Members

Rates of retirement for Tier 1 members are based on age according to the following Table B-4 – Tier 1.

Table B-4 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	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%	**61**	10.0%	20.0%	30.0%
51	0.0%	0.0%	70.0%	**62**	15.0%	20.0%	30.0%
52	0.0%	0.0%	70.0%	**63**	20.0%	20.0%	30.0%
53	0.0%	0.0%	70.0%	**64**	20.0%	20.0%	30.0%
54	0.0%	0.0%	70.0%	**65**	20.0%	20.0%	30.0%
55	10.0%	35.0%	50.0%	**66**	25.0%	30.0%	30.0%
56	10.0%	20.0%	45.0%	**67**	25.0%	35.0%	30.0%
57	10.0%	20.0%	40.0%	**68**	25.0%	35.0%	30.0%
58	5.0%	15.0%	35.0%	**69**	25.0%	35.0%	30.0%
59	5.0%	15.0%	30.0%	**70 & over**	100.0%	100.0%	100.0%
60	5.0%	15.0%	30.0%				

DEFINED BENEFIT PENSION *(continued)*

12) Rates of Retirement for Tier 2 Members

Rates of retirement for Tier 2 members are based on age and service as shown in the following Table B-4 – Tier 2. These rates are based on CalPERS retirement rates for its 2.0% at age 62 formula with adjustments based on professional judgement for differences between the CalPERS benefits and the benefits provided to Tier 2 members.

Table B - 4 Tier 2 Rates of Retirement by Age and Service									
	Age								
Years of Service	55	56	57	58	59	60 - 61	62	63 - 69	70 & over
5-10	3.00%	2.00%	2.50%	3.00%	3.50%	4.00%	7.50%	5.00%	100.00%
11-20	5.00%	3.50%	4.50%	5.50%	7.00%	8.50%	12.50%	10.00%	100.00%
21-25	7.00%	4.00%	5.00%	7.00%	9.00%	10.00%	17.50%	15.00%	100.00%
26-34	10.00%	7.00%	8.50%	11.00%	13.50%	14.50%	25.00%	25.00%	100.00%
35+	15.00%	10.50%	12.75%	16.50%	20.25%	21.75%	100.00%	100.00%	100.00%

13) Rates of Disability

Disability rates are equl to the 0.973 times the CalPERS 2017 non-industrial disability incidence rates for miscellaneous state agencies, blended 55% male and 45% female. Sample disability rates of active members are provided in Table B-5.

Table B-5 Rates of Disability at Selected Ages								
Age	25	30	35	40	45	50	55	60+
Disability	0.0272	0.0303	0.0613	0.1366	0.2519	0.3240	0.2631	0.2191

45% of disabilities are assumed to be duty related, and 55% are assumed to be non-duty related.

14) Base Rates of Mortality

Base mortality rates are based on the sex-distinct employee and retiree mortality tables show below.

Table B-6 Base Mortality Tables		
Category	Male	Female
Healthy Annuitant	0.995 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees	0.960 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees
Healthy Non-Annuitant	0.992 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Employees	1.084 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Employees
Disabled Annuitant	1.051 times the CalPERS 2009 Ordinary Disability Mortality Table	0.991 times the CalPERS 2009 Ordinary Disability Mortality Table

15) Rates of Mortality Improvement

Future mortality improvements are reflected by applying the most recent projection scale issued by the Society of Actuaries on a generational basis from the base year of 2010 for the Pub2010 tables and 2009 for the CalPERS tables. The projection scale used for the June 30, 2019 valuation is MP-2019.

DEFINED BENEFIT PENSION *(continued)*

16) Family Composition

Percentage married is shown in the following Table B-7. Male retirees are assumed to be three years older than their partner, and femaile retirees are assumed to be two years younger than their partner.

Table B-7 Percentage Married		
	Males	Females
Percentage	80%	60%

17) Changes Since Last Valuation

Economic and demographic assumptions were updated based on the most recent experience study covering the period through June 30, 2019. Please refer to the full experience study report for detail on the specific changes.

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 Tier 1 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. Tier 1 actuarial gains and losses and plan changes are amortized over 20-year periods and Tier 1 assumption changes are amortized over 25-year periods beginning with the valuation date in which they first arise. Effective June 30, 2017, all prior assumption amortization base periods were increased by 5 years so they have the same remaining period as if they had originally been amortized over 25 years. Amortization payments are scheduled to increase 2.75% each year while aggregate payroll is expected to grow 3.00% each year.

DEFINED BENEFIT PENSION *(continued)*

The Tier 2 unfunded actuarial liability as of June 30, 2017 is amortized over a closed 10-year period. Future Tier 2 actuarial gains and losses, assumption changes, and plan changes will be amortized over 10-year periods beginning with the valuation date in which they first arise. Amortization payments are scheduled to increase 2.75% each year while aggregate payroll is expected to grow 3.00% each year.

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. Contributions are generally made on a payroll-by-payroll basis although the City retains an option to make its contribution as of the beginning of the year.

The total contribution rate is the sum of the normal cost rate, assumed administrative expenses, and the UAL rate. Under Measure F, the total contribution rate cannot be less than the normal cost 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. Tier 1 members who were rehired into Tier 2 and then returned to Tier 1 under Measure F also pay half of the increased cost attributable to their Tier 2 service.

For Tier 2, the members and the City each pay half of the total contribution rate. However, the member's UAL contribution rate cannot increase by more than 0.33% of pay each year. The City contributes any amounts in excess of this cap that would otherwise be contributed by the member.

5) Changes Since Last Valuation

None.

DEFINED BENEFIT PENSION *(continued)*

SCHEDULE OF ACTIVE MEMBER DATA				
Valuation Date	**Active Count**	**Annual Payroll**	**Average Annual Pay**	**Percent Change in Average Pay**
2019	3,617	$ 313,310,000	$ 86,622	3.0 %
2018	3,554	298,985,000	84,126	-0.2
2017	3,410	287,339,000	84,264	4.1
2016	3,297	266,823,000	80,929	4.2
2015	3,236	251,430,000	77,698	3.3
2014	3,121	234,677,000	75,193	3.0
2013	3,094	225,779,000	72,973	-0.6
2012	3,076	225,859,000	73,426	5.0
2011	3,274	228,936,000	69,925	-11.2
2010	3,818	300,811,000	78,788	-0.5

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS										
	Beginning of Period		**Added to Rolls**		**Removed from Rolls**		**End of Period**			
Period	**Count**	**Annual Allowances**	**Count**	**Annual Allowances**	**Count**	**Annual Allowances**	**Count**	**Annual Allowances**	**% Increase in Annual Allowances** [1]	**Average Annual Allowances**
2018-2019	4,225	$ 198,157	230	$ 10,394	96	$ 3,634	4,359	$ 210,350	6.2%	$ 48
2017-2018	4,115	187,714	223	9,133	113	3,994	4,225	198,157	5.6	47
2016-2017	4,003	177,751	225	8,843	113	3,894	4,115	187,714	5.6	46
2015-2016	3,901	168,917	212	7,907	110	3,904	4,003	177,751	5.2	44
2014-2015	3,800	159,124	200	8,266	99	3,122	3,901	168,917	6.2	43
2013-2014	3,711	150,934	194	7,274	105	3,405	3,800	159,124	5.4	42
2012-2013	3,602	142,063	198	7,036	89	2,360	3,711	150,934	6.2	41
2011-2012	3,428	129,869	250	14,158	76	1,964	3,602	142,063	9.4	39
2010-2011	3,111	112,660	398	19,615	81	2,406	3,428	129,869	15.3	38
2009-2010	2,930	101,194	206	10,700	79	2,204	3,111	112,660	11.3	36

Dollar amounts in thousands

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION *(continued)*

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, 2019	$ (88,845)	$ 31,811	$ (57,034)	$ 2,935	$ (54,099)
June 30, 2018	(49,921)	4,702	(45,219)	(56,306)	(101,525)
June 30, 2017	(44,650)	(13,819)	(58,468)	1,813	(56,655)
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

SCHEDULE OF FUNDED LIABILITIES BY TYPE							
Actuarial Liability for:							
Valuation Date	Active Member Contributions	Retirees, Beneficiaries and Other Inactives	Remaining Active Members' Liabilities	Reported Assets [1]	Portion of Actuarial Liability Covered by Reported Assets		
June 30,	(A)	(B)	(C)		(A)	(B)	(C)
2019	$ 228,905	$ 3,150,673	$ 821,130	$ 2,228,802	100 %	63 %	0 %
2018	230,282	3,002,012	868,527	2,179,488	100	65	0
2017	236,819	2,830,143	857,004	2,101,435	100	66	0
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	2,164,153	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

[1] *Actuarial Value of Assets* — *Dollar amounts in thousands*

Actuarial Assumptions and Methods *(continued)*

DEFINED BENEFIT PENSION *(continued)*

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, 2019[10]	$ 2,228,802	$ 4,200,708	$ 1,971,906	53%	$ 313,310	629%
June 30, 2018[9]	2,179,488	4,100,821	1,921,333	53%	298,985	643%
June 30, 2017[8]	2,101,435	3,923,966	1,822,531	54%	287,339	634%
June 30, 2016[7]	2,034,741	3,786,730	1,751,989	54%	266,823	657%
June 30, 2015[6]	2,004,481	3,569,898	1,565,417	56%	251,430	623%
June 30, 2014[5]	1,911,773	3,235,065	1,323,292	59%	234,677	564%
June 30, 2013[4]	1,783,270	3,013,763	1,230,493	59%	225,779	545%
June 30, 2012[3]	1,762,973	2,841,000	1,078,027	62%	225,859	477%
June 30, 2011[2]	1,788,660	2,770,227	981,567	65%	228,936	429%
June 30, 2010[1]	1,729,413	2,510,358	780,945	69%	300,811	260%

Dollar amounts in thousands

[1] *Increasing the discount rate from 7.75% to 7.95% decreased the AL by $59 million..*

[2] *Demographic and economic assumption changes, including reducing the discount rate from 7.95% to 7.5% increased the AL by $188 million.*

[3] *Elimination of the Supplemental Retirement Benefit Reserve reduced the AL by $43 million.*

[4] *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.*

[5] *Reducing the discount rate from 7.25% to 7.0% and eliminating the temporary 2% wage inflation increased the AL by $103 million.*

[6] *Demographic and economic assumption changes decreased the AL by $192 million.*

[7] *Reducing the discount rate from 7.00% to 6.875% increased the AL by $60 million.*

[8] *Measure F implementation increased the AL by $14 million and assumption changes decreased the AL by $16 million.*

[9] *Assumption changes increased the AL by $54 million.*

[10] *Assumption changes decreased the AL by $3 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, including members that are rehired after September 30, 2012 and had prior service under Tier 1 and did not take a return of contributions. In addition, any person accepting employment on or after September 30, 2012 who is otherwise eligible for this plan and who was a "classic" member in another California public retirement system with which this system has reciprocity, and who has a break in service of less than six months from that covered employment and employment with the City, shall be a Tier 1 member of this system.

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.

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.

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 except those who elect to participate in a defined contribution plan, had prior service under Tier 1 and did not take a return of contributions, or had prior service as a "classic" member in a reciprocal system with less than a six month break in service.

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. However, the member's UAL contribution rate cannot increase by more than 0.33% of pay each year. The City contributes any amounts in excess of this cap that would otherwise be contributed by the member.

The member contribution rate cannot be less than 50% of the normal cost rate.

5) City Contributions

50% of total Tier 2 contributions to the pension plan, including, but not limited to administrative expenses, normal cost, and unfunded actuarial liability. In addition, the City contributes any UAL amounts in excess of the member UAL cap until the member rate covers 50% of the UAL rate.

The City contribution rate cannot be less than 50% of the normal cost rate.

6) Unreduced Service Retirement

Eligibility:

Age 62 with five years of service.

Benefit – Member:

2.0% of Final Compensation for each year of credited service attributable to Tier 2, subject to a maximum of 70% of Final Compensation.

Benefit - Survivor:

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

7) Early Service Retirement

Eligibility:

Age 55 with five years of service.

Benefit - Member:

Benefit reduced by a factor of 5% for each year the member retires before age 62.

The early retirement reduction is applied to the benefit after the application of the maximum of 70% of final compensation.

8) Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

2.0% of Final Compensation for each year of credited service, subject to a minimum of 40% of Final Compensation and a maximum of 70% of Final Compensation, less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

9) 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, subject to a minimum of 20% of Final Compensation and a maximum of 70% of Final Compensation less the amounts specified in Section 3.28.1330 and Section 3.28.1340.

10) Death Before Retirement

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 70% 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.

11) 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 reduced for early retirement, and payable when retirement eligibility is reached.

12) Benefit Forms

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

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

13) 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 based on years of service as shown in the table below.

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

[1] 1.5% for members hired before Measure F effective date

The first COLA after retirement shall be prorated based on the number of months retired.

14) Changes Since the Last Valuation

None.

CHEIRON

Classic Values, Innovative Advice

September 21, 2020

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 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, and the most recent actuarial valuation was performed as of June 30, 2019. 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, 2019 actuarial valuation.

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

The funding ratios shown in the member benefit coverage information and the schedule of funding progress exhibits 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 sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligations.

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

Historically, member and City contributions to the Plan had been negotiated through collective bargaining and were not actuarially determined. With the implementation of Measure F, member contributions are now fixed at 7.5% of pay; the City's contribution toward the explicit subsidy is actuarially determined; and, the City also pays the implicit subsidy on a pay-as-you-go basis as a

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Board of Administration
September 21, 2020
Page 2

part of active health premiums. Finally, the City has an option to limit its contribution for the explicit subsidy to 14% of payroll.

The actuarial methods and assumptions used in the actuarial valuation are adopted by the Board of Administration with advice from the actuary. In our opinion, the assumptions and methods used in the actuarial valuation for funding purposes are consistent with applicable Actuarial Standards of Practice. 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, 2019 actuarial valuation updated to the measurement date of June 30, 2020. The Board changed some economic and demographic assumptions for the June 30, 2019 valuation based on an experience study. These changes are detailed in the actuarial assumptions and methods attachment of this letter. These changes are reflected effective July 1, 2019 for financial reporting purposes. Consequently, the update was based upon the Total OPEB Liability as of the valuation date reflecting the new assumptions, and projected to the measurement date with 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, 2020 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, 2020, 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 Office 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.

This letter and the schedules named above have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of

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Board of Administration
September 21, 2020
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Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. 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

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

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Actuarial Assumptions and Methods

POSTEMPLOYMENT HEALTHCARE

Economic Assumptions:

The expected return on plan assets and per person cost trend assumptions shown below were adopted by the Board of Administration with our input at the December 20, 2018 Board meeting.

1) Expected Return on Plan Assets:

6.75% per year. The Board expects a long-term rate of return of 7.60% based on Meketa's 20-year capital market assumptions and the System's current investment policy.

2) Per Person Cost Trends:

Medical trends were developed using the 2019 Getzen model published by the Society of Actuaries using the following paramenters:

Initial trend rate: Non-Medicare Eligible:	8.00%	Medicare Eligible:	4.00%
Inflation:	2.50%	*Real GDP per Capita:*	1.40%
Excess Medical Cost Growth:	1.00%	*Expected GDP Share in 2028:*	20.50%
Resistance Point:	20.00%	*Year limited to GDP growth:*	2075

	Annual Increase %														
Calendar Year	**2020[1]**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
Pre-Medicare	0.00	7.66	7.33	6.99	6.66	6.32	5.98	5.65	5.31	4.97	4.81	4.78	4.76	4.74	4.72
Medicare Eligible	0.00	4.11	4.22	4.32	4.43	4.54	4.65	4.76	4.87	4.97	4.81	4.78	4.76	4.74	4.72
Dental	0.00	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Calendar Year	**2035**	**2036**	**2037**	**2038**	**2039**	**2040**	**2041**	**2042**	**2043**	**2044**	**2045**	**2046**	**2047**	**2048**	**2049**
Pre-Medicare	4.71	4.69	4.68	4.66	4.65	4.64	4.63	4.61	4.60	4.59	4.58	4.57	4.56	4.55	4.55
Medicare Eligible	4.71	4.69	4.68	4.66	4.65	4.64	4.63	4.61	4.60	4.59	4.58	4.57	4.56	4.55	4.55
Dental	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Calendar Year	**2050**	**2051**	**2052**	**2053**	**2054**	**2055**	**2056**	**2057**	**2058**	**2059**	**2060**	**2061**	**2062**	**2063**	**2064**
Pre-Medicare	4.54	4.53	4.52	4.51	4.51	4.50	4.49	4.48	4.48	4.47	4.46	4.46	4.45	4.44	4.44
Medicare Eligible	4.54	4.53	4.52	4.51	4.51	4.50	4.49	4.48	4.48	4.47	4.46	4.46	4.45	4.44	4.44
Dental	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Calendar Year	**2065**	**2066**	**2067**	**2068**	**2069**	**2070**	**2071**	**2072**	**2073**	**2074**	**2075**	**2076+**			
Pre-Medicare	4.43	4.42	4.37	4.32	4.27	4.22	4.17	4.12	4.07	4.03	3.98	3.94			
Medicare Eligible	4.43	4.42	4.37	4.32	4.27	4.22	4.17	4.12	4.07	4.03	3.98	3.94			
Dental	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50			

[1] *Actual Premiums Used*

Actual premium increases for 2020 were reflected with the above rates applying after 2020. Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum (where applicable) are assumed to increase at the above trend rates.

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE *(continued)*

3) Changes Since Last Valuation:

The per-person cost trends were updated.

Demographic Assumptions:

The OPEB assumptions were adopted by the Board of Administration at the December 19, 2019 Board meeting based on our recommendations. The demographic assumptions shared with the pension plan shown below were adopted at the November 21, 2019 Board meeting based on recommendations from our experience study covering plan experience through June 30, 2019. Please refer to the full experience study report for details, including the rationale for each assumption.

1) Salary Increase Rate:

Wage inflation component: 3.00%

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	Years of Service	Merit / Longevity	Years of Service	Merit / Longevity
0	3.75%	**6**	1.40	**12**	0.45
1	3.00	**7**	1.20	**13**	0.30
2	2.50	**8**	1.00	**14**	0.20
3	2.15	**9**	0.85	**15+**	0.10
4	1.85	**10**	0.70		
5	1.60	**11**	0.55		

2) Rates of Termination:

Rates of termination are shown in the following table.

Rates of Termination					
Years of Service	Termination Rate	Years of Service	Termination Rate	Years of Service	Termination Rate
0	15.00%	**6**	7.75	**12**	3.75
1	12.75	**7**	6.50	**13**	3.50
2	11.75	**8**	5.50	**14**	3.25
3	10.75	**9**	4.75	**15+**	3.25
4	9.75	**10**	4.25		
5	8.75	**11**	4.00		

Termination rates do no apply once a member is eligible for retirement.

3) Rates of Refund:

Tier 1

Rates of vested terminated employees electing a refund of contributions are shown in the following table.

Rates of Refund							
Years of Service	Under Age 35	Ages 35 - 44	Ages 45 and Older	Years of Service	Under Age 35	Ages 35 - 44	Ages 45 and Older
0-4	100.00%	100.00%	100.00%	**11**	17.50%	10.00%	0.00%
5	25.00	15.00	18.00	**12**	15.00	10.00	0.00
6	20.00	12.50	15.00	**13**	10.00	10.00	0.00
7	20.00	10.00	12.00	**14**	10.00	7.50	0.00
8	20.00	10.00	9.00	**15**	10.00	5.00	0.00
9	20.00	10.00	6.00	**16**	10.00	2.50	0.00
10	20.00	10.00	3.00	**17+**	10.00	0.00	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) Deferred Vested Member Retirement Age:

Tier 1 terminated vested member are assumed to retire at age 57 and Tier 2 terminated vested members are assumed to retire at age 62.

5) 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	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%	**61**	10.0%	20.0%	30.0%
51	0.0	0.0	70.0	**62**	15.0	20.0	30.0
52	0.0	0.0	70.0	**63**	20.0	20.0	30.0
53	0.0	0.0	70.0	**64**	20.0	20.0	30.0
54	0.0	0.0	70.0	**65**	20.0	40.0	30.0
55	10.0	35.0	50.0	**66**	25.0	30.0	30.0
56	10.0	20.0	45.0	**67**	25.0	35.0	30.0
57	10.0	20.0	40.0	**68**	25.0	35.0	30.0
58	5.0	15.0	35.0	**69**	25.0	35.0	30.0
59	5.0	15.0	30.0	**70 & over**	100.0	100.0	100.0
60	5.0	15.0	30.0				

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

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE *(continued)*

These rates are based on CalPERS retirement rates for its 2.0% at age 62 formula with adjustments based on professional judgement for differences between the CalPERS benefits and the benefits provided to Tier 2 members.

TIER 2 Rates of Retirement by Age and Service									
	Age								
Years of Service	55	56	57	58	59	60-61	62	63 - 69	70 & over
5 - 10	3.00%	2.00%	2.50%	3.00%	3.50%	4.00%	7.50%	5.00%	100.00%
11 - 20	5.00	3.50	4.50	5.50	7.00	8.50	12.50	10.00	100.00
21 - 25	7.00	4.00	5.00	7.00	9.00	10.00	17.50	15.00	100.00
26 - 34	10.00	7.00	8.50	11.00	13.50	14.50	25.00	25.00	100.00
35+	15.00	10.50	12.75	16.50	20.25	21.75	100.00	100.00	100.00

6) Base Rates of Mortality:

Base mortality rates are based on the sex-distinct employee and retiree mortality tables shown below.

Base Mortality Tables		
Category	Male	Female
Healthy Annuitant	0.995 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees	0.960 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees
Healthy Non-Annuitant	0.992 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees	1.084 times the 2010 Public General Mortality Table (PubG-2010) for Healthy Retirees
Disabled Annuitant	1.051 times the CalPERS 2009 Employee Mortality Table	0.991 times the CalPERS 2009 Employee Mortality Table

7) Disability Rates:

Disability rates are equal to the 0.973 times the CalPERS 2017 non-industrial disability incidence rates for miscellaneous state agenies, blended 55% male and 45% female. Sample disability rates are shown in the following table.

Rates of Disability at Selected Ages								
Age	25	30	35	40	45	50	55	60+
Disability	0.0272	0.0303	0.0613	0.1366	0.2519	0.3240	0.2631	0.2191

45% of disabilities are assumed to be duty related, and 55% are assumed to be non-duty.

8) Rates of Mortality Improvement

Future mortality improvements are reflected by applying the most recent projection scale issued by the Society of Actuaries on a generational basis from the base year of 2010 for the Pub2010 tables and 2009 for the CalPERS tables. The projection scale used for the June 30, 2019 valuations is MP-2019.

9) Percent of Retirees Electing Coverage

85% of active members are assumed to elect coverage upon retirement and 15% are assumed to enter the In-Lieu credit program. 60% of term vested members are assumed to elect coverage upon retirement and 40% are assumed to enter the In-Lieu credit program. Retirees are assumed to continue in their current plan.

POSTEMPLOYMENT HEALTHCARE *(continued)*

Members who elect to receive the In-Lieu credits are assumed to remain in the In-Lieu credit program for five years, after which they are assumed to elect coverage and use their In-Lieu credits. Their medical tier election assumptions are provided in the following table.

Assumed Elections for Future Retirees[1]			
Pre-Medicare Retirees	**% Electing**	**Medicare-Eligible Retirees**	**% Electing**
Retiree only	40 %	Retiree only	60 %
Retiree Plus Spouse	15	Retiree Plus Spouse	40
Retiree Plus Family	45	Retiree Plus Family	0

[1] Eligible for coverage

The Sutter Health and Blue Shield plans will no longer be offered as of 1/1/2020. They are replaced with Anthem plan options effective 1/1/2020.

Retirees who are not yet age 65 are assumed to be eliglible 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 following table.

Assumed Plan Elections for Future Retirees[1]			
	% Electing		**% Electing**
Pre-Medicare Medical Plans		**Medicare-Eligible Medical Plans**	
Kaiser DHMO	11 %	Kaiser Senior Advantage	58 %
Kaiser $25 Co-pay	64	BS Medicare HMO	8
Kaiser HDHP	8	Anthem Medicare PPO	34
Anthem DHMO	1		
Anthem $20 Co-pay	4		
Anthem HDHP PPO	-	**Dental Plans (All Retirees)**	
Anthem Select PPO	-	Delta Dental PPO	97
Anthem Classic PPO	12	DeltaCare HMO	3

[1] Eligible for coverage and elect coverage

10) 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, 31% of males and 21% of females will cover children.

11) 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.

12) Married Percentage:

Percentage Married		
Gender	**Males**	**Females**
Percentage	80%	60%

13) Administrative Expenses:

$45 per member for FYE 2021, increasing at the wage inflation assumption of 3.00% per annum.

14) Changes Since Last Valuation

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE *(continued)*
In-Lieu elections were updated and an administrative expense assumption was added.

Demographic assumptions were updated based on the most recent experience study covering the period through June 30, 2019. Please refer to the full experience study report for detial on the specific changes.

Claim and Expense Assumptions:

The claim and expense assumptions shown below were adopted by the Board of Administration at the December 19, 2019 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 2019 and 2020. 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 2019 calendar year. The same process was used for Medicare adults, except only Medicare-eligible retirees were included. 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 decreases 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 separately 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, or regulations.

1) Average Annual Claims and Expense Assumptions:

The following claim and expense assumptions were developed as of July 1, 2019 based on the premiums for 2019 and 2020. 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.

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

SAMPLE CLAIMS COSTS						
	Kaiser DHMO		Kaiser $25 Co-Pay		Kaiser HDHP	
Age	Male	Female	Male	Female	Male	Female
40	$ 6,949	$ 8,844	$ 8,228	$ 10,438	$ 5,444	$ 6,782
45	7,402	8,866	8,730	10,347	5,655	6,689
50	8,149	9,340	9,575	10,963	6,073	6,914
55	9,370	10,210	10,973	11,952	6,827	7,419
60	11,305	11,015	13,203	12,865	8,083	7,879
64	13,566	11,033	15,817	12,865	9,591	7,804

Actuarial Assumptions and Methods *(continued)*

POSTEMPLOYMENT HEALTHCARE *(continued)*

SAMPLE CLAIMS COSTS - NON-MEDICARE ELIGIBLE						
	Sutter / Anthem DHMO		Sutter / Anthem $20 Co-pay		Blue Shield / Anthem PPO	
Age	Male	Female	Male	Female	Male	Female
40	$ 8,131	$ 10,317	$ 9,411	$ 11,684	$ 13,428	$ 17,178
45	8,630	10,318	9,736	11,492	14,389	17,286
50	9,468	10,841	10,414	11,842	15,931	18,287
55	10,853	11,821	11,661	12,668	18,412	20,073
60	13,061	12,727	13,763	13,416	22,306	21,732
64	15,650	12,729	16,300	13,263	26,830	21,819

SAMPLE CLAIMS COSTS - MEDICARE ELIGIBLE						
	Kaiser Senior Adv		BS / Anthem PPO		BS / Anthem HMO	
Age	Male	Female	Male	Female	Male	Female
65	$ 3,367	$ 2,971	$ 5,641	$ 4,977	$ 5,965	$ 5,262
70	3,576	3,029	5,991	5,074	6,335	5,365
75	4,110	3,406	6,885	5,706	7,281	6,034
80	4,667	3,863	7,819	6,471	8,267	6,842
85	5,040	4,221	8,444	7,071	8,929	7,477

SAMPLE CLAIMS COSTS - DENTAL				
	Delta Dental PPO		DeltaCare HMO	
Age	Male	Female	Male	Female
All	$ 684	$ 684	$ 309	$ 309

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.

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:

All claims costs were updated to reflect the changes in plan premiums and the populations covered.

POSTEMPLOYMENT HEALTHCARE *(continued)*

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, 2017 is amortized as a level dollar amount over a closed 20-year period. All future amortization bases will be amortized over 20-year periods with a 3-year phase-in and phase-out.

4) Contributions

The City will contribute the annual implicit subsidy as part of active employee health premiums and will prefund the explicit subsidy based on the normal cost, administrative expenses, and amortization payment described above less expected employee contributions. The City has the option to limit its contribution to no more than 14% of total payroll.

Active members that are eligible for full benefits will contribute 7.50% of pay.

5) Changes Since Last Valuation:

None.

SCHEDULE OF ACTIVE MEMBER DATA

Valuation Date As of June 30,	Active Member Counts			Annual Payroll	Average Annual Pay	Percentage Change in Average Pay
	Under Age 65	Age 65+	Total			
2019[2]	3,514	89	3,603	$299,001,886	$ 82,987	1.1 %
2018[2]	3,377	84	3,461	284,008,289	82,060	(2.6)
2017[2]	3,321	89	3,410	287,339,424	84,264	(0.9)
2016[1]	2,310	77	2,387	202,911,153	85,007	5.8
2015[1]	2,527	74	2,601	208,957,370	80,337	5.9
2014[1]	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	N/A

[1] *Does not include Tier 2B active employees.*

[2] *Includes members that are only eligible for catastrophic disability benefits.*

POSTEMPLOYMENT HEALTHCARE *(continued)*

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										
2018-19	2,923	$ 20,565,618	124	138	2,909	$ 21,588,408	(14)	$ 1,022,790	5.0 %	$ 7,421
2017-18	2,920	23,621,494	139	136	2,923	20,565,618	3	(3,055,876)	(12.9)	7,036
2016-17	2,821	21,844,128	210	111	2,920	23,621,494	99	1,777,366	8.1	8,090
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
Dental										
2018-19	3,375	$ 3,477,633	123	93	3,405	$ 3,502,331	30	$ 24,698	0.7 %	$ 1,029
2017-18	3,322	3,414,299	152	99	3,375	3,477,633	53	63,334	1.9	1,030
2016-17	3,264	3,224,133	170	112	3,322	3,414,299	58	190,166	5.9	1,028
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	(181,981)	(4.6)	1,206
2011-12	2,906	3,744,833	203	65	3,044	3,924,332	138	179,499	4.8	1,289
2010-11	2,588	3,017,473	413	95	2,906	3,744,833	318	727,360	24.1	1,289
2009-10	2,375	2,410,561	291	78	2,588	3,017,473	213	606,912	25.2	1,166

Annual subsidies are explicit amounts

MEMBER BENEFIT COVERAGE INFORMATION					
	Actuarial Liability				
Actuarial Valuation Date	Retirees, Beneficiaries and Other Inactives	Active Members	Reported Assets	Portion of Liability Covered by Reported Assets	
	(A)	(B)		(A)	(B)
6/30/2019	$ 422,108	$ 209,644	$ 294,489	70%	0%
6/30/2018	426,984	223,130	277,256	65	0
6/30/2017	408,627	221,825	248,583	61	0
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

Dollar amounts in thousands

POSTEMPLOYMENT HEALTHCARE *(continued)*

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
6/30/2019	$ (10,654)	$ (34,979)	$ (45,633)	$ 14,784	$ (30,849)
6/30/2018	(5,915)	26,064	20,149	(11,137)	9,012
6/30/2017	117	5,259	5,376	123,632	129,008
6/30/2016	(16,044)	(11,608)	(27,652)	99,545	71,893
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)

Dollar amounts in thousands

The schedule of funding progress compares the assets used for funding purposes to the comparable liabilities to determine how well the Plan is funded and how this status has changed over the past several years. The actuarial liability is compared to the actuarial value of assets to determine the funding ratio.

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL (UAL)	Funded Ratio	Annual Covered Payroll	UAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
6/30/2019	$ 294,489	$ 631,752	$ 337,263	47%	$ 299,002	113 %
6/30/2018	277,256	650,114	372,858	43	298,985	125
6/30/2017	248,583	630,452	381,869	39	287,339	133
6/30/2016	225,845	764,261	538,416	30	266,823	202
6/30/2015	209,761	817,673	607,912	26	251,430	242
6/30/2014	199,776	729,406	529,630	27	234,677	226
6/30/2013	157,695	870,872	713,177	18	226,098	315
6/30/2012	137,798	1,096,620	958,822	13	225,859	425
6/30/2011	135,454	1,145,360	1,009,906	12	228,936	441
6/30/2010	108,011	926,371	818,360	12	300,069	273

Dollar amounts in thousands

Summary of Key Substantive Plan Provisions

POSTEMPLOYMENT HEALTHCARE

Eligibility:

Employees hired before September 2013 that did not elect to opt-in to the Voluntary Employees' Beneficiary Association (VEBA).

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 has 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.

4) 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,
5) Both the member and the survivors were enrolled in the active dental plan immediately before death; and,
6) The survivor will receive a monthly pension benefit.

Benefits for Retirees:

Medical: The System, through the 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 the 115 trust, pays 100% of the dental insurance premiums.

Premiums: Monthly premiums for calendar years 2019 and 2020 are as follows.

2019 MONTHLY PREMIUMS				
	Single	Employee / Spouse	Employee / Child	Family
Non-Medicare Monthly Rates - Medical				
Kaiser DHMO	$ 528.20	$ 1,056.40	$ 924.36	$ 1,584.60
Kaiser $25 Co-pay	645.08	1,290.16	1,128.88	1,935.24
Kaiser HDHP	445.04	890.08	778.82	1,335.12
Blue Shield PPO $25 Co-pay	1,435.38	2,870.74	2,511.94	4,306.12
Sutter Health $20 Co-pay	652.28	1,304.56	1,141.44	1,956.78
Sutter Health DHMO	534.06	1,068.12	934.56	1,602.12
Sutter Health Vista	445.74	891.50	780.04	1,337.22
Medicare-Eligible Monthly Rates - Medical				
Kaiser Senior Advantage	$ 300.80	$ 601.60	$ 601.60	$ 902.40
Blue Shield Medicare PPO	528.57	1,057.14	1,057.14	1,585.71
Blue Shield Medicare HMO	602.56	1,205.12	1,205.12	1,807.68
Dental				
Delta Dental PPO	$ 50.88	$ 111.92	$ 122.12	$ 157.72
DeltaCareHMO	24.44	48.86	42.74	73.30

Blue Shield HMO Medicare family rates assume the children are on the Non-Medicare $20 Co-pay HMO

2020 MONTHLY PREMIUMS				
Plan	Single	Employee / Spouse	Employee / Child	Family
Non-Medicare Monthly Rates - Medical				
Kaiser DHMO	$ 574.36	$ 1,148.72	$ 1,005.14	$ 1,723.08
Kaiser $25 Co-pay	701.46	1,402.92	1,227.54	2,104.38
Kaiser HDHP	483.94	967.88	846.90	1,451.82
Anthem HMO $20 Co-pay	671.12	1,476.46	1,208.02	2,080.46
Anthem DHMO	517.42	1,138.34	931.36	1,604.02
Anthem HDHP	905.36	1,991.82	1,629.66	2,806.66
Anthem Select PPO	1,469.66	3,233.24	2,645.38	4,555.94
Anthem Classic PPO	1,571.82	3,458.02	2,829.28	4,872.66
Medicare-Eligible Monthly Rates - Medical				
Kaiser Senior Advantage	$ 289.14	$ 578.28	$ 578.28	$ 867.42
Anthem Medicare PPO	508.56	1,017.12	1,017.12	1,525.68
Anthem Medicare HMO	453.55	907.10	907.10	1,360.65
Dental				
Delta Dental PPO	$ 50.88	$ 111.92	$ 122.12	$ 157.72
DeltaCare HMO	24.44	48.86	42.74	73.30

Anthem HMO Medicare family rates assume the children are on the Non-Medicare $20 Co-pay Anthem HMO.

Summary of Key Substantive Plan Provisions *(continued)*

POSTEMPLOYMENT HEALTHCARE *(continued)*

SUMMARY OF 2020 BENEFIT PLANS								
Non-Medicare Plans:	Kaiser High Deductible	Kaiser DHMO	Kaiser $25 Co-pay	Anthem $20 Co-pay HMO	Anthem DHMO	Anthem Select PPO (In-Network)	Anthem Classic PPO (In-Network)	Anthem High Deductible (In Network)
Annual Out-of-Pocket Maximum (Single/Family)	$5,950 / $11,900	$4,000 / $8,000	$1,500 / $3,000	$1,500 / $3,000	$4,000/ $8,000	$2,100 / $4,200	$2,100 / $4,200	$4,000 / $8,000
Annual Deductible (Single/Family)	$3,000 / $6,000	$1,500 / $3,000	None	None	$1,500 / $3,000	$100 / $200	$100 / $200	$2,500 / $5,000
Office Visit Co-pay	30%[1]	$40	$25	$20	$20	$25	$25	20%[1]
Emergency Room Co-pay	30%[1]	30%[1]	$100	$100	30%[1]	$100	$100	20%[1]
Hospital Care Co-pay	30%[1]	30%[1]	$100	$100	30%[1]	10%[1]	10%[1]	20%[1]
Prescription Drug Retail Co-pay (30-day supply):								
Generic	$10	$10	$10	$10	$10	$10	$10	$10
Brand	$30	$30	$25	$30	$30	$25	$25	$30
Non-Formulary	N/A	N/A	N/A	$60	$60	$40	$40	$60

[1] *After deductible is paid.*

Medicare-Eligible Plans:	Kaiser	Anthem HMO	Anthem PPO
Annual Out-of-Pocket Maximum	Single $1,500 Family $3,000	$1,000 per member	-
Annual Deductible	None	None	None
Office Visit Co-pay	$25	$25	-
Emergency Room Co-pay	$50	$100	-
Hospital Care Co-pay	$250	$100	-
Prescription Drug Retail Co-pay (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 Jose 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.

VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA)

Eligibility: Employees who elected to opt-in to the Voluntary Employees' Beneficiary Association (VEBA).

Contributions: Employees are required to make mandatory contributions into the VEBA on a pre-tax basis.

Medical: VEBA funds can be used to reimburse members for eligible healthcare expenses.

VEBA members on service-connected disability will receive benefits from the Postemployment Healthcare Plan only up to age 65 once VEBA funds are exhausted.

Statistical Section

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

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, 2020 and June 30, 2019

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 covers 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 Plan'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.

Statistical Review

CHANGES IN PLAN NET POSITION FOR FISCAL YEARS 2011-2020 *(In Thousands)*

PENSION BENEFITS (Schedule 1a)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Additions										
Employee contributions	$ 25,082	$ 22,606	$ 20,501	$ 17,227	$ 15,920	$ 13,621	$ 13,596	$ 12,652	$ 10,555	$ 24,602
Employer contributions	181,327	173,006	156,770	138,483	129,456	114,751	107,544	103,109	87,082	59,180
Investment income/ (loss) [1]	90,909	76,855	117,493	146,010	(35,010)	(16,642)	263,688	146,367	(68,903)	287,179
Total additions to plan net position	**297,318**	**272,467**	**294,764**	**301,720**	**110,366**	**111,730**	**384,828**	**262,128**	**28,734**	**370,961**
Deductions										
Benefit payments	201,474	190,228	179,366	169,756	160,499	152,119	143,921	136,075	126,001	110,415
Death benefits	14,389	13,719	12,970	12,411	11,530	10,724	9,845	9,187	8,601	7,883
Refunds	865	1,119	1,064	1,263	1,289	1,719	2,170	1,545	2,195	1,980
Administrative expenses and other	4,725	4,582	4,823	4,380	3,940	3,898	3,201	3,024	3,306	2,867
Total deductions from plan net position	**221,453**	**209,648**	**198,223**	**187,810**	**177,258**	**168,460**	**159,137**	**149,831**	**140,103**	**123,145**
Changes in Plan Net Position	**$ 75,865**	**$ 62,819**	**$ 96,541**	**$ 113,910**	**$ (66,892)**	**$ (56,730)**	**$ 225,691**	**$ 112,297**	**$ (111,369)**	**$ 247,816**

[1] *Net of expenses*

POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 1b)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Additions										
Employee contributions	$ 10,692	$ 10,578	$ 15,545	$ 16,827	$ 17,881	$ 18,645	$ 17,494	$ 15,979	$ 14,995	$ 16,041
Employer contributions	26,533	26,410	32,397	31,905	30,465	26,959	19,298	21,251	25,834	17,146
Investment income/(loss) [1]	3,075	9,472	12,336	17,041	(2,447)	(5,922)	28,737	13,817	(5,140)	21,842
Total additions to plan net position	**40,300**	**46,460**	**60,278**	**65,773**	**45,899**	**39,682**	**65,529**	**51,047**	**35,689**	**55,029**
Deductions										
Healthcare insurance premiums	30,779	28,826	29,724	31,007	29,577	29,443	27,924	30,943	33,077	27,370
Administrative expenses and other	686	384	170	242	237	254	257	207	268	216
VEBA Transfer	13	19	13,497	-	-	-	-	-	-	-
Total deductions from plan net position	**31,478**	**29,229**	**43,391**	**31,249**	**29,814**	**29,697**	**28,181**	**31,150**	**33,345**	**27,586**
Changes in Plan Net Position	**$ 8,822**	**$ 17,231**	**$ 16,887**	**$ 34,524**	**$ 16,085**	**$ 9,985**	**$ 37,348**	**$ 19,897**	**$ 2,344**	**$ 27,443**

[1] *Net of expenses*

Source: Pension Administration System

BENEFIT AND REFUND DEDUCTIONS FROM PLAN NET POSITION BY TYPE *(In Thousands)*

PENSION BENEFITS (Schedule 2a)

Type of Benefit	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Age and Service Benefits										
Retirees - services	$ 169,617	$ 160,545	$ 151,977	$ 144,863	$ 137,392	$130,512	$124,399	$118,178	$ 109,662	$ 95,562
Retirees - deferred vested	22,632	20,573	18,445	16,486	14,961	13,507	12,017	10,692	9,261	8,047
Survivors - services	8,912	8,310	7,723	7,281	6,697	6,079	5,376	5,089	4,791	4,425
Survivors - deferred vested	345	275	276	284	287	279	272	232	161	130
Deaths in Service Benefits	3,212	3,244	3,010	2,878	2,776	2,702	2,610	2,413	2,349	2,202
Disability Benefits										
Retirees - Duty	4,935	4,355	4,235	4,241	4,017	3,980	3,624	3,505	3,609	3,493
Retirees - Non-Duty	2,411	2,407	2,418	2,246	2,258	2,336	2,278	2,164	2,011	2,039
Survivors - Duty	441	541	537	508	456	444	448	437	402	356
Survivors - Non-Duty	1,209	1,228	1,197	1,168	1,132	1,072	945	903	827	770
Ex-Spouse Benefits	2,107	2,469	2,518	2,212	2,053	1,932	1,797	1,649	1,529	1,274
Total benefits	**$ 215,821**	**$ 203,947**	**$ 192,336**	**$ 182,167**	**$ 172,029**	**$162,843**	**$153,766**	**$145,262**	**$ 134,602**	**$ 118,298**
Type of Refund										
Separation	865	1,119	1,064	1,263	1,289	1,719	2,170	1,545	2,195	1,980
Total refunds	**$ 865**	**$ 1,119**	**$ 1,064**	**$ 1,263**	**$ 1,289**	**$ 1,719**	**$ 2,170**	**$ 1,545**	**$ 2,195**	**$ 1,980**

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	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Age and Service Benefits										
Retirees - Service										
Medical	$18,168	$ 17,152	$ 18,089	$18,668	$ 17,734	$18,061	$ 16,002	$ 19,493	$ 20,262	$ 18,971
Dental	3,126	3,083	3,040	2,923	2,799	2,521	2,850	3,089	3,083	2,840
Retirees - Deferred Vested*										
Medical	1,703	1,543	1,635	1,641	1,477	1,455	1,243	1,436	1,418	1,241
Dental	10	13	10	10	10	12	18	21	23	24
Survivors - Service										
Medical	1,047	966	955	949	890	921	737	874	954	1,024
Dental	186	181	176	174	167	148	227	333	339	329
Survivors - Deferred Vested *										
Medical	23	19	20	26	33	31	28	32	24	18
Dental	1	1	1	1	2	2	3	5	2	-
Deaths in Service Benefits										
Medical	237	237	262	274	272	302	281	361	389	412
Dental	45	47	48	46	45	38	59	78	78	79
Disability Benefits										
Retirees - Duty										
Medical	848	838	949	957	938	981	920	1,133	1,217	1,253
Dental	114	116	121	116	115	109	130	146	157	162
Retirees - Non-Duty										
Medical	219	215	252	268	281	340	321	413	462	530
Dental	54	56	56	55	59	58	77	89	87	92
Survivors - Duty										
Medical	75	82	93	105	100	111	97	124	125	125
Dental	14	15	16	17	16	15	22	33	32	30
Survivors - Non-Duty										
Medical	137	150	153	172	179	177	142	178	192	195
Dental	24	25	25	26	26	23	32	44	45	45
Ex-Spouse Benefits										
Medical	4	4	4	3	3	3	3	3	4	-
Dental	1	1	1	1	1	1	1	1	1	-
Implicit Subsidy Medical										
Tier 1	4,743	4,082	3,818	4,577	4,430	3,811	4,165	3,057	4,383	-
Teir 2	-	-	-	-	-	323	415	-	-	-
Tier 3	-	-	-	-	-	-	151	-	-	-
Total Benefits	**$30,779**	**$ 28,826**	**$ 29,724**	**$31,009**	**$ 29,577**	**$29,443**	**$ 27,924**	**$ 30,943**	**$ 33,277**	**$ 27,370**

Source: Pension Administration System

Statistical Review (continued)

EMPLOYER AND EMPLOYEE CONTRIBUTIONS RATES FOR FISCAL YEARS 2011-2020 (Schedule 3)

	Employer Rate				Employee Rate		
	Tier 1	Tier 1	Tier 2 / 2B	All Tiers	Tier 1	Tier 2 / 2B	All Tiers
	Pension (%)	Minimum Dollar Amount	Pension (%)	OPEB $	Pension %	Pension %	OPEB %
2020	19.34 %	$ 90,779,270	8.33 %	$ 21,790,130	7.06 %	8.33 %	7.50 %
2019	99.16 %	N/A	8.28 %	$ 20,856,125	6.81 %	8.28 %	7.50 %

The City healthcare contributions are set as a flat dollar amount that is entirely UAL and covers all Tier 1 and Tier 2 members with healthcare.

	Fed Tier 1		Fed Tier 2		Fed Tier 2B	
	Employee Rate	Employer Rate	Employee Rate	Employer Rate	Employee Rate	Employer Rate
	%	%	%	%	%	%
2018	15.36	103.45	16.48	17.13	7.72	7.72
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 [1]	35.50	N/A	N/A	N/A	N/A
2011	10.30 [1]	29.59 [2]	N/A	N/A	N/A	N/A

[1] *Some bargaining units negotiated temporary higher rates.*

[2] *Some bargaining units negotiated temporary higher member contribution rates, which directly offset the City's contribution rate.*

Source: Pension Administration System

Retired Members by Type of Benefit

PENSION BENEFITS

As of June 30, 2020

		Type of Retirement [1]							Option Selected [2]			
Monthly Benefit Amount	Number of Retirees & Beneficiaries	1	2	3	4	5	6	7	A	B	C	Total
$1-500	-	0	-	-	0	0	0	0	0	0	0	-
$501-1,000	-	0	0	-	-	0	0	0	0	0	0	-
$1,001-1,500	-	0	0	0	0	0	0	0	0	0	0	-
$1,501-$2,000	-	0	0	0	0	0	0	0	0	0	0	-
$2,001-$2,500	-	0	0	0	0	0	0	0	0	0	0	-
$2,501-$3,000	-	0	0	0	0	0	0	0	0	0	0	-
$3,001-$4,000	-	0	0	0	0	0	0	0	0	0	0	-
$3,501-$4,000	-	0	0	0	0	0	0	0	0	0	0	-
$4,001-$4,500	-	0	0	0	0	0	0	0	0	0	0	-
$4,501-$5,000	-	0	0	0	0	0	0	-	0	0	0	-
$5,001-$5,500	-	0	0	0	0	0	0	0	0	0	0	-
$5,501-$6,000	-	0	0	0	0	0	0	-	0	0	0	-
$6,001-$6,500	-	0	0	0	0	0	0	-	0	0	0	-
$6,501-$7,000	-	0	-	-	-	0	0	-	0	0	0	-
Over $7,000	-	0	0	0	-	0	0	-	0	0	0	-
TOTAL	-	-	-	-	-	-	-	-	-	-	-	-

[1] **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

[2] **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, 2020

	Type of Subsidy	
Amount Monthly Benefit	Health	Dental
Ineligible/Deferred	-	-
$1 - 60	-	0
$61 - 250	0	0
$251 - 500	0	-
$501 - 750	0	-
$751 - 1000	0	-
Over $1,000	0	-
TOTAL	-	-

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

As of June 30, 2020

	Years of Service Credit						
Time Periods	**0 - 5**	**6 - 10**	**11 - 15**	**16 - 20**	**21 - 25**	**26 - 30**	**31+**
As of June 30, 2020							
Average monthly benefit[1]	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Average final average salary	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Number of retired members[2]	$ -	$ -	$ -	$ -	$ -	$ -	$ -
As of June 30, 2019							
Average monthly benefit[1]	$ 1,042	$ 1,679	$ 2,752	$ 3,743	$ 5,175	$ 6,327	$ 7,023
Average final average salary	$ 6,726	$ 5,947	$ 6,057	$ 6,178	$ 6,652	$ 6,574	$ 6,527
Number of retired members[2]	183	495	568	759	665	1,021	139
As of June 30, 2018							
Average monthly benefit[1]	$ 1,020	$ 1,642	$ 2,685	$ 3,603	$ 5,035	$ 6,202	$ 6,889
Average final average salary	$ 6,320	$ 5,872	$ 5,957	$ 6,000	$ 6,524	$ 6,461	$ 6,475
Number of retired members[2]	173	485	550	738	653	968	138
As of June 30, 2017							
Average monthly benefit[1]	$ 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[2]	160	473	545	702	642	945	138
As of June 30, 2016							
Average monthly benefit[1]	$ 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[2]	154	459	525	667	637	914	136
As of June 30, 2015							
Average monthly benefit[1]	$ 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[2]	153	443	503	664	631	878	136
As of June 30, 2014							
Average monthly benefit[1]	$ 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[2]	146	435	499	639	615	844	136
As of June 30, 2013							
Average monthly benefit[1]	$ 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[2]	117	413	454	629	608	854	159
As of June 30, 2012							
Average monthly benefit[1]	$ 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[2]	113	402	433	619	586	831	159
As of June 30, 2011							
Average monthly benefit[1]	$ 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[2]	$ 131	$ 371	$ 388	$ 566	$ 465	$ 726	$ 139

[1] *Includes cost-of-living increases*

[2] *Does not include survivors and ex-spouses*

Source: Pension Administration System

Average Benefit Payment Amounts *(continued)*

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2020

	Years of Service Credit						
Time Periods	**0 - 5**	**6 - 10**	**11 - 15**	**16 - 20**	**21 - 25**	**26 - 30**	**31+**
As of June 30, 2020							
Average health subsidy	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Number of health participants	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Average dental subsidy	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Number of dental participants	$ -	$ -	$ -	$ -	$ -	$ -	$ -
As of June 30, 2019							
Average health subsidy	$ 672	$ 567	$ 586	$ 585	$ 614	$ 680	$ 556
Number of health participants[1]	19	20	270	691	623	974	133
Average dental subsidy	$ 85	$ 85	$ 88	$ 88	$ 91	$ 94	$ 84
Number of dental participants[1]	56	238	389	629	583	972	139
As of June 30, 2018							
Average health subsidy	$ 642	$ 472	$ 570	$ 563	$ 597	$ 654	$ 550
Number of health participants[1]	18	25	266	686	618	936	133
Average dental subsidy	$ 85	$ 84	$ 89	$ 89	$ 92	$ 94	$ 84
Number of dental participants[1]	59	244	392	623	582	933	138
As of June 30, 2017							
Average health subsidy	$ 785	$ 569	$ 666	$ 667	$ 726	$ 776	$ 633
Number of health participants[1]	18	24	260	634	595	906	131
Average dental subsidy	$ 83	$ 84	$ 88	$ 89	$ 92	$ 94	$ 86
Number of dental participants[1]	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[1]	24	44	260	595	594	874	130
Average dental subsidy	$ 79	$ 80	$ 84	$ 86	$ 89	$ 90	$ 83
Number of dental participants[1]	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[1]	26	50	241	594	584	839	133
Average dental subsidy	$ 82	$ 84	$ 87	$ 86	$ 91	$ 90	$ 84
Number of dental participants[1]	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[1]	24	55	247	587	580	807	130
Average dental subsidy	$ 85	$ 84	$ 86	$ 86	$ 91	$ 90	$ 83
Number of dental participants[1]	63	244	372	548	565	811	135
As of June 30, 2013							
Average health subsidy	$ 582	$ 380	$ 589	$ 712	$ 778	$ 790	$ 680
Number of health participants[1]	27	64	226	576	562	817	148
Average dental subsidy	$ 100	$ 101	$ 101	$ 102	$ 100	$ 101	$ 100
Number of dental participants[1]	65	243	341	544	558	818	151

Source: Pension Administration System

Average Benefit Payment Amounts *(continued)*
POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2020

	Years of Service Credit						
Time Periods	**0 - 5**	**6 - 10**	**11 - 15**	**16 - 20**	**21 - 25**	**26 - 30**	**31+**
As of June 30, 2012							
Average health subsidy	$ 698	$ 426	$ 645	$ 797	$ 873	$ 902	$ 768
Number of health subsidy[1]	27	66	218	580	547	800	150
Average dental subsidy	$ 107	$ 107	$ 107	$ 108	$ 107	$ 107	$ 106
Number of dental participants[1]	63	245	325	540	542	800	151
As of June 30, 2011							
Average health subsidy	$ 866	$ 773	$ 764	$ 855	$ 898	$ 928	$ 848
Number of health subsidy[1]	21	39	191	544	448	711	138
Average dental subsidy	$ 108	$ 110	$ 109	$ 110	$ 110	$ 109	$ 108
Number of dental participants[1]	$ 64	$ 233	$ 300	$ 500	$ 430	$ 708	$ 139

[1] *Does not include survivors and ex-spouses*

Source: Pension Administration System

Retirements During Fiscal Year 2019-2020

SERVICE RETIREMENTS		
ALVAREZ, ANGEL	HARRIS, WILLIAM E.	PERASSO, DOUG
AMII, PATRICIA A.	HENRY, MICHAEL P.	PEREZ, RAUL V.
BARNES, ROSEMARY P.	HERNANDEZ, PAUL A.	PEREZ, RICARDO
BARTHOLDY, JOANNE M.	HOANG-MENDOZA, CATHERINE	PHILLIPS, MICHELE P.
BERMILLO, DAVID, JR	HONG, SUNG C.	POMEROY, JOSEPH P.
BEVER, MICHAEL	JOHNSON, CRISTINA F.	REYES, RANDALL W.
BORJA, JOSEPH B.	JOHNSON, DEMETRIUS	REYES, RUBEN E.
BURNETT, NELLITA S.	JONES, JOSEPH	ROUBINEAU, PASCAL
CALDERON, MICHAEL K.	JUAREZ, HENRY	SALANDANAN, JOCELYN
CARABAJAL, JESSE G., JR	KELLER, DANIEL P.	SCHAFF, DAVID E.
CARRELL, BRADLEY E.	KRUKAR, PAUL M.	SEDIN, BRAD J.
CHEN, ERIC	KULAS, JOSEPH P.	SHKOURATOFF, ALEXANDER
CLUTE, SHARON M.	LAWSON, JANE A.	SIFFERMAN, CHRIS T.
COLLISHAW, JAMES A.	LEVEQUE, DANIEL E.	SILVA, MARK P.
COLOSKY, MICHAEL T.	LINAN, RICHARD	SLEZAK, CAROLYN
CORRALES, JOE	LOERA, MARIA G.	SNELL, KRISTINE
CORTEZ, EDWIN	LOPEZ, SYLVIA	SON, HYUN S.
D'ARCY, MICHAEL	LOZANO, ROBERT P.	SUSON-NALE, MAGGIE F.
DAUGHERTY, MITCHELL E.	MARTIN, RAY B.	TAITANO, LISA C.
DAVISON, APRIL A.	MC LEOD, KATHLEEN	TANAKA, WES K.
DE CASTRO, FIDEL V.	MCCLAIN, CHARLES J.	TASI, ARIETA R.
DEL PONTE, JOHN I.	MCDONALD, JOEY L.	TORRES, RAMONA
DEL REAL, ANTONIO	MEHRKENS, CARLA R.	TRAN, CATHERINE L.
DICKINSON, JACK C.	MEINEKE, ROBERT S.	TRAN, PHUONG K.
DONNELLY, WILLIAM	MENDOZA, JOEL E.	TRANCHINA, JULIA R.
ERKEL, BRENT A.	MENGISTU, ABONESH	VILLANUEVA, ARLYN G.
ESTENSEN, MARC H.	MURILLO, MARIA J.	WARDEL, TRENNA L.
FLORES, JOSEPH	MURPHY, TONY J.	WARNE, JEANETTE Z.
FORMICO, PAUL F.	NEWTON, MATT E.	WILEY, CLAUDE
GALDO, CAROLYN	NGO, EVIN D.	WILL, MICHAEL E.
GALIGUIS, WILSON G.	NGUYEN, CONG T.	WILLIAMS, PETER D.
GALLARDO, LORI	NGUYEN, THUY	WILLIS, CHARLES L.
GARCIA, JOE A.	NUNEZ, REBECCA E.	WORKOVER, CAROLYN M.
GARDNER, SUSAN L.	OSBORN, STEVEN	YANG, PEY
GAUSE, KIMBLE A.	OSORIO, FRANCISCO S.	YOUNG, MICHELE K.
GONZALEZ JR, ANTONIO	PATEL, VARSHA	YU, TINA M.
GRIMM, BUDDY	PENTACOFF, DAVID C.	

Retirements During Fiscal Year 2019-2020 *(continued)*

DEFERRED VESTED RETIREMENTS		
ADAMS, STEVEN L.	ELLIOTT, GREG	PAUNIL, MARINO S.
ANDERSEN, HEIDI M.	ESCALANTE, EDWARD	PETERSON, JAMES L.
BALINGIT, JOSE S.	FREITAS, MARC S.	PHAM-NGUYEN, VIVIAN T.
BAUMAN, LEW C.	GADDIS, KIMBERLEE M.	RICHARDSON, DENNIS
BOLIN, CHERYL	GIMELLI, RENEE	RODRIGUEZ, KAREN A.
BORDEN, TIMM D.	HAGAN, LAURA L.	ROSSI, ILARIA
CALDON, DEBRA	HERNANDEZ, JESSE A.	SCHRIEFER, GEORGE
CATUNAO, VALERIAN M.	HOLBACK, KENNETH J.	SOLIDARIOS, STEVE G.
CHEW, PATRICK	HOM, RANDOLPH	STEWART, SANDRA J.
DANG, HUEY Q.	HOMEN, RONALD M.	STILES, JEFF G.
DAS, RAJIV P.	LANNIGAN, THERESA M.	TANAKA, DONNA
DEITSCHMAN, TRACY L.	LORENTE, REBECCA L.	TIRADO, VICTOR
DHANOTA, KHUSHVINDER S.	LUCAS, STACEY A.	TISDALE, LESLIE
DILLEY, RUSSELL A.	MAK, TONY W.	TORRES, MARTIN F.
EARL, DANIEL R.	MUNKRES, JASON R.	VALLE, FRANCISCO J.
EDMONDS-MARES, JULIE	MUNOZ, REBECCA	WALTRIP, TODD
ELLIOTT, DENISE A.	NAUSIN, MICHAEL C.	WRIGHT, MARIE A.
SERVICE CONNECTED DISABILITY RETIREMENTS		
	NONE	
NON-SERVICE CONNECTED DISABILITY RETIREMENTS		
	NONE	
EARLY RETIREMENTS		
	NONE	

Deaths During Fiscal Year 2019-2020

DEATHS AFTER RETIREMENT		
AGUILAR, VICTOR	GREER, RONALD G.	PAGE, LESTER W.
AGUSTIN, CARLOS	GUIDO, FELIX	PEREGRINO, RAUL
ALDAMA, AURELIA	HAUGHEY, MARILYN D.	PIRIE, ANNETTE
ALVARADO, JESS	HEIKKILA, BOBBY H.	PORROVECCHIO, SAM M.
AOKI, MARVIN	HILTY, GORDON B.	PRITCHARD, NANCY
ARANDA, AMELITA	HOWELL, MARILYN E.	RAO, HELEN
ATKINSON, JOHN H.	JATCZAK, ANNA J.	RODRIGUEZ, CARMEN
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GREEN, MARY E.	OXONIAN, ALBERTO C.	
DEATHS BEFORE RETIREMENT		
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IRAHETA, ALFREDO		

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