



City of San Jose Federated City Employees' Retirement System

INTRODUCTION

The Federated City Employees' Retirement System (System) is pleased to present the Popular Annual Financial Report (PAFR) which summarizes the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. The financial data presented in the PAFR is derived from the CAFR and is consistent with Accounting Principles Generally Accepted in the United States of America (U.S. GAAP). The PAFR provides a concise summary of the System's financial position, investment performance and key accomplishments throughout the fiscal year. The System consists of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan.

For fiscal year 2016, the Defined Benefit Pension Plan returned (0.3%) gross of fees and (0.7%) net of fees, while the Policy Benchmark return for the same time period was 1.3%. The System's fiscal year performance was below the actuarial rate of return of 7.0%, which has occurred in three of the past six fiscal years. For fiscal year 2016, the Postemployment Healthcare Plan returned (2.7%) net of fees.

The System engages an independent actuary to conduct annual actuarial valuations. The June 30, 2015 actuarial valuations show that the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are 56% and 26% funded, respectively. The Defined Benefit Pension Plan sponsor paid 100 percent of the Actuarially Determined Contributions in fiscal year 2016, while the Postemployment Healthcare Plan sponsor paid 71% of the Annual Required Contributions.

This report is not intended to replace the CAFR, which provides a more complete overview of the System's financial position and operating results. For more in-depth information, we encourage you to read the CAFR by visiting www.sjretirement.com and clicking on the Reports tab.

Board of Administration

The System's Board of Administration oversees the Chief Executive Officer of the Office of Retirement Services and staff in the performance of their duties. The System's Board Members as of June 30, 2016 were:

Matt Loesh	Chair	Employee representative
Lara Druyan	Vice Chair	Public member
Martin Dirks	Trustee	Public member
Michael Armstrong	Trustee	Public member
Edward F. Overton	Trustee	Retired plan member
Udaya Rajbhandari	Trustee	Employee representative
Bettina Rounds	Trustee	Public member



Net Position Held in Trust

As of June 30, 2016, the System's total plan net position for the Defined Benefit Pension Plan totaled \$1.86 billion, while the Postemployment Healthcare Plan net position totaled \$221.0 million. The funded ratio for the Defined Benefit Plan and Postemployment Healthcare Plan is 56% and 26%, respectively, as of June 30, 2015, the date of the System's most recent actuarial valuation.

NET POSITION FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN *As of June 30, 2016 and 2015 (In Thousands)*

	2016	2015	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	\$ 15,114	\$ 10,674	\$ 4,440	41.6 %
Investments at fair value	1,846,167	1,917,708	(71,541)	(3.7)%
Capital assets	893	61	832	1,363.9 %
Total Assets	1,862,174	1,928,443	(66,269)	(3.4)%
Current liabilities	3,292	2,669	623	23.3 %
Total Liabilities	3,292	2,669	623	23.3 %
Plan Net Position	\$ 1,858,882	\$ 1,925,774	\$ (66,892)	(3.5)%

NET POSITION FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN *As of June 30, 2016 and 2015 (In Thousands)*

	2016	2015	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Receivables	\$ 4,119	\$ 1,036	\$ 3,083	297.6 %
Investments at fair value	221,839	209,417	12,422	5.9 %
Capital assets	44	3	41	1,366.7 %
Total Assets	226,002	210,456	15,546	7.4 %
Current liabilities	156	695	(539)	(77.6)%
Total Liabilities	156	695	(539)	(77.6)%
Plan Net Position	\$ 225,846	\$ 209,761	\$ 16,085	7.7 %

Changes in Net Position for the years ended June 30, 2016 and 2015

As of June 30, 2016, the net position restricted for pension benefits decreased by \$66.9 million or 3.5% over 2015, primarily due to changes in the fair market value of investments. Net investment loss for the year ended June 30, 2016, totaled \$35,010,000.

CHANGES IN PLAN NET POSITION FOR THE DEFINED BENEFIT PENSION PLAN

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

	2016	2015	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	\$ 15,920	\$ 13,621	\$ 2,299	16.9 %
Employer contributions	129,456	114,751	14,705	12.8 %
Net investment loss*	(35,010)	(16,642)	(18,368)	(110.4)%
Total Additions	110,366	111,730	(1,364)	(1.2)%
Retirement benefits	160,499	152,119	8,380	5.5 %
Death benefits	11,530	10,724	806	7.5 %
Refund of contributions	1,289	1,719	(430)	(25.0)%
Administrative expenses	3,940	3,898	42	1.1 %
Total Deductions	177,258	168,460	8,798	5.2 %
Net Increase in Plan Net Position	(66,892)	(56,730)	(10,162)	17.9 %
Beginning Net Position	1,925,774	1,982,504	(56,730)	(2.9)%
Ending Net Position	\$ 1,858,882	\$ 1,925,774	\$ (66,892)	(3.5)%

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

As of June 30, 2016, the net position restricted for postemployment healthcare benefits increased by 7.8% over 2015, due to a combination of an increase in employee and employer contributions of \$3,506,000, and a decrease in investment loss of \$3,475,000.

CHANGES IN PLAN NET POSITION FOR THE POSTEMPLOYMENT HEALTHCARE PLAN

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

	2016	2015	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Employee contributions	\$ 17,881	\$ 18,645	\$ (764)	(4.1)%
Employer contributions	30,465	26,959	3,506	13.0 %
Net investment loss*	(2,447)	(5,922)	3,475	58.7 %
Total Additions	45,899	39,682	6,217	15.7 %
Healthcare insurance premiums	29,577	29,443	134	0.5 %
Administrative expenses	237	254	(17)	(6.7)%
Total Deductions	29,814	29,697	117	0.4 %
Net Increase in Plan Net Position	16,085	9,985	6,100	61.1 %
Beginning Net Position	209,761	199,776	9,985	5.0 %
Ending Net Position	\$ 225,846	\$ 209,761	\$ 16,085	7.7 %

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

The primary sources (additions) used to fund benefits provided by the System are accumulated through employee and employer contributions and by investment earnings (net of investment expenses). The primary uses (deductions) of the System's assets include benefit payments to retirees and beneficiaries, contribution refunds to terminated employees and the costs of administering the System.

Membership (as of June 30, 2016)

PENSION	Tier 1	Tier 2	Tier 2B	Tier 2C	Total
Retirees and beneficiaries currently receiving benefits*	4,002	-	-	1	4,003
Terminated and/or vested members not yet receiving benefits**	1,038	52	114	2	1,206
Active members***	2,162	212	910	13	3,297
Total	7,202	264	1,024	16	8,506
HEALTHCARE					
Retirees and beneficiaries currently receiving benefits****	3,461	-	-	-	3,461
Terminated vested members not yet receiving benefits	151	-	-	-	151
Active members*****	2,162	212	13	-	2,387
Total	5,774	212	13	-	5,999

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

* 1 deferred vested member in Tier 2 have a portion of their benefit under Tier 1

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

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

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

***** 18 active members in Tier 2A and 13 active members in Tier 2C have a portion of their benefit under Tier 1

Average Benefit Payments

The Average Benefit Payment chart is a broad representation of average benefits paid to retirees and survivors. All tiers are combined in the calculation. The chart includes all members who have retired through June 30, 2016.

PENSION	Years of Service Credit						
Time Periods	0-5	6-10	11-15	16-20	21-25	26-30	31+
Average monthly benefit*	\$1,031	\$1,544	\$2,534	\$3,393	\$4,725	\$5,966	\$6,630
Average final average monthly salary	\$6,009	\$5,602	\$5,714	\$5,617	\$6,313	\$6,243	\$6,329
Number of retired members**	154	459	525	667	637	914	136

HEALTHCARE	Years of Service Credit						
Time Periods	0-5	6-10	11-15	16-20	21-25	26-30	31+
Average health subsidy	\$605	\$354	\$589	\$629	\$707	\$741	\$593
Number of health participants*	24	44	260	595	594	874	130
Average dental subsidy**	\$79	\$80	\$84	\$86	\$89	\$90	\$83
Number of dental participants*	64	250	390	572	576	877	137

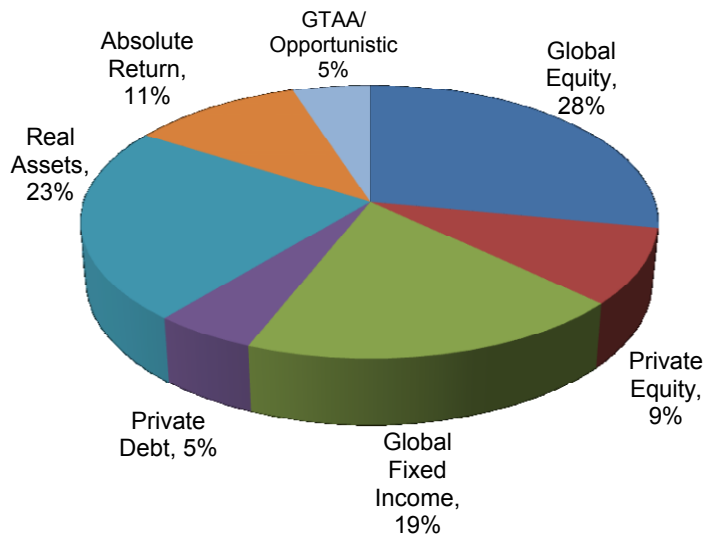
* Includes cost of living increases

**Does not include survivors and ex-spouses

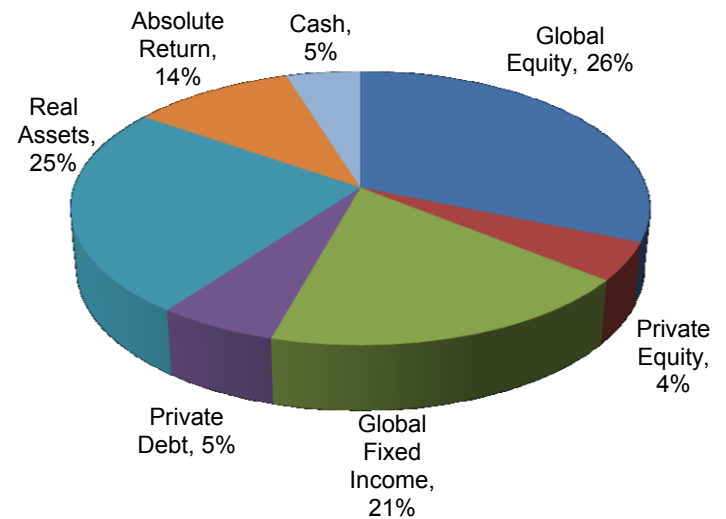
Asset Allocation (as of June 30, 2016)

The allocation of the System's assets is an integral part of the System's investment policy. As such, the System engages in frequent reviews of its asset allocation policy to ensure that assets are diversified in a manner which achieves the best risk adjusted returns for the System. In addition, the asset allocation is intended to minimize the volatility of System assets and mitigate the risk of large investment losses during times of prolonged market stress. The System's Chief Investment Officer and investment consultant, Meketa, assist the Board in designing the asset allocation and strategic diversification strategies within asset classes.

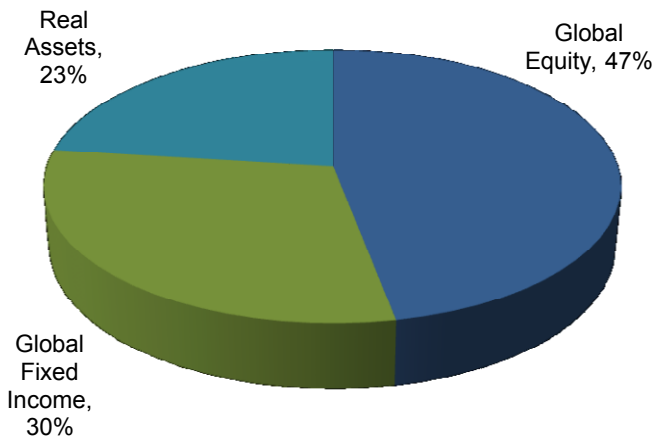
PENSION - TARGET ASSET ALLOCATION



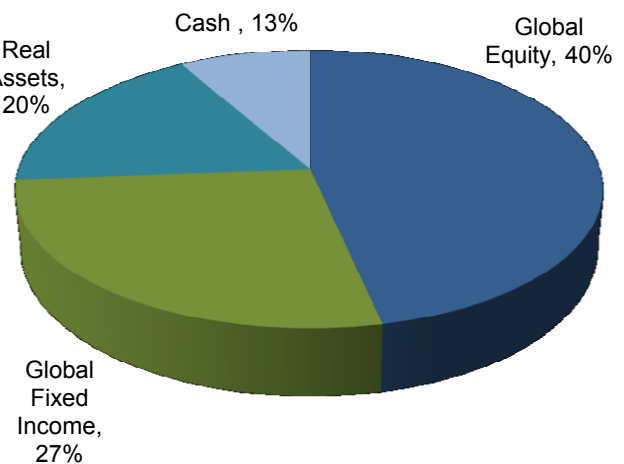
PENSION - ACTUAL ASSET ALLOCATION



HEALTHCARE - TARGET ASSET ALLOCATION



HEALTHCARE - ACTUAL ASSET ALLOCATION



Investment Returns Based on Fair Value* (as of June 30, 2016)

PENSION	One Year	Three Years	Five Years	Ten Years	HEALTHCARE	One Year	Three Years	Since Inception
Global equity	-4.3%	5.8%	5.3%	N/A	Global equity	-5.5%	5.8%	9.0%
Private equity	2.4%	11.5%	10.8%	7.0%	Global fixed income	4.3%	3.1%	2.2%
Absolute return	0.0%	3.3%	N/A	N/A	Real assets	-6.7%	-6.1%	-8.9%
Real assets	-1.9%	-1.6%	-3.4%	N/A	Total fund (net)	-2.7%	3.2%	3.8%
Global fixed income	2.2%	2.0%	N/A	N/A				
Private debt	3.6%	5.9%	7.7%	N/A				
Total fund (gross)	-0.3%	4.2%	3.4%	4.2%				

* Using time-weighted rate of return based on the market rate of return

As stated in the System's Investment Policy, "the primary objective of the investment portfolio is to satisfy the System's obligations to pay benefits to members of the System and their beneficiaries. To do so, the Fund will seek to achieve long-term net returns in excess of the actuarial investment return assumption while maintaining a reasonable level of investment risk." In order to achieve this objective, the Investment Policy further states that "the System's fund will be managed as an ongoing concern with a long-term investment time horizon, consistent with the demographic profile of the System's members and beneficiaries." As such, "Investments shall be diversified with the intent to minimize the risks of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual asset classes, issues, issuers, geographics, or industries. Furthermore, assets will be assigned to a variety of investment managers that employ a range of investment management strategies." For the year ended June 30, 2016, the Defined Benefit Pension Plan returned (0.3%) gross of fees and (0.7%) net of fees, while the Policy Benchmark return for the same period was 1.3%.

Funding Status

In order to determine whether the Net Position for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan will be sufficient to meet future obligation, the actuarial funding status needs to be calculated. An actuarial valuation is similar to a budgeting process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid for each member.

The purpose of the valuation is to determine what future contributions by the members and by the employers need to be budgeted to pay all expected future benefits.

SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT PENSION PLAN (Unaudited)

(Amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
June 30, 2015	\$2,004,481	\$3,569,898	\$1,565,417	56%	\$251,430	623%
June 30, 2014	\$1,911,773	\$3,235,065	\$1,323,292	59%	\$234,677	564%
June 30, 2013	\$1,783,270	\$3,013,763	\$1,230,493	59%	\$225,779	545%
June 30, 2012	\$1,762,973	\$2,841,000	\$1,078,027	62%	\$225,859	477%
June 30, 2011	\$1,788,660	\$2,770,227	\$981,567	65%	\$228,936	429%

SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

(Amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AL)	Unfunded AL	Funded Ratio	Covered Payroll	Unfunded AL as a % of Covered Payroll
June 30, 2015	\$209,761	\$817,673	\$607,912	26%	\$251,430	242%
June 30, 2014	\$199,776	\$729,406	\$529,630	27%	\$234,677	226%
June 30, 2013	\$157,695	\$870,872	\$713,177	18%	\$226,098	315%
June 30, 2012	\$137,798	\$1,096,620	\$958,822	13%	\$225,859	425%
June 30, 2011	\$135,454	\$1,145,359	\$1,009,905	12%	\$228,936	441%

Schedule of Employer and Employee Contributions

Employer and employee basic and COLA (Cost of Living Adjustment) contributions are based on statute and rates recommended by an independent actuary and adopted by the Retirement Board. The rates are set to provide a retirement benefit equal to a fractional part of the highest year(s) salary, depending on membership and tier.

(In Thousands)	PENSION		HEALTHCARE	
	Employer Contributions	Employee Contributions	Employer Contributions	Employee Contributions
Year Ended				
June 30, 2016	\$129,456	\$15,920	\$30,465	\$17,881
June 30, 2015	\$114,751	\$13,621	\$26,959	\$18,645
June 30, 2014	\$107,544	\$13,596	\$19,298	\$17,494
June 30, 2013	\$103,109	\$12,652	\$21,251	\$15,979
June 30, 2012	\$87,082	\$10,555	\$25,834	\$14,995
June 30, 2011	\$59,180	\$24,602	\$17,146	\$16,041

The System's actuarial valuations are calculated as of June 30 of each year. Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.

Noteworthy Accomplishments

The System held its Annual Stakeholders' meeting in September 2015, with attendees receiving first-hand information about their retirement fund investments, the financial outlook and overall health of the Plan, and the impact of new legislation on retiree benefits.

In December 2014, Measure G became effective and modified the Board of Administration's governance structure. The Board and Staff of the Office of Retirement Services worked together to implement Measure G. The Office of Retirement Services also kicked off the upgrade of its pension administration system in March 2015, the implementation of which is expected to last approximately 42 months and is estimated at \$9 million. The implementation continued as planned during fiscal year 2016 and will be completed by the fall of 2018.

Awards for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded the System Certificates of Achievement for Excellence in Financial Reporting for our CAFR for every year from 2000 through 2016. This certificate is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government reports.

The System has also earned the Public Pension Coordinating Council's (PPCC) Public Standards Award for 2003, 2007, and 2009 through 2015. The Public Pensions Standards are intended to reflect the minimum expectations for public retirement system management and administration, and to serve as a benchmark by which all defined benefit public plans should be measured.