CITY OF PHILADELPHIA
MUNICIPAL PENSION FUND
Philadelphia, Pennsylvania

FINANCIAL STATEMENTS
June 30, 2012

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CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditors' Report

The Board of Pensions and Retirement
City of Philadelphia
Municipal Pension Fund
Philadelphia, Pennsylvania

We have audited the accompanying statement of plan net assets of the City of Philadelphia Municipal Pension Fund (the Fund) as of June 30, 2012 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Fund as of June 30, 2012 and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2013, on our consideration of the Fund's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Schedules of Funding Progress and Employer Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with

auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

CliftonLarsonAllen LLP

Philadelphia, Pennsylvania
February 5, 2013

Our discussion and analysis of the City of Philadelphia Municipal Pension Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the year ended June 30, 2012. Please read it in conjunction with the Fund's financial statements, which begin on page 6.

USING THIS ANNUAL REPORT

The discussion and analyses herein are intended to serve as an introduction to the Fund's financial statements. In addition to management's discussion and analysis, the annual report includes:

The Statement of Plan Net Assets, which reports the Fund's assets, liabilities, and resultant net assets where Assets – Liabilities = Net Assets available at the end of the plan year.

The Statement of Changes in Plan Net Assets, which reports Fund transactions that occurred during the fiscal year where Additions – Deductions = Net Change in Net Assets.

The notes to the financial statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The required supplemental information following the notes to the financial statements provides information on (a) the actuarial value of assets, the actuarial accrued liability, and the relationship between the two over time and (b) a schedule of employer contributions that provides information about the employer's annual required contributions (ARC) and the percentage of the ARC recognized by the Fund as contributed.

BRIEF DESCRIPTION

The City of Philadelphia (the City) maintains two single employer, defined benefit plans for its employees and employees of its component units. The two plans maintained by the City are the Municipal Pension Fund (the Fund) and the Gas Works Plan.

The City is required by the Philadelphia Home Rule Charter to maintain an actuarially sound pension and retirement system (PERS). The Fund covers all officers and employees of the City and the officers and employees of certain other governmental and quasi-governmental organizations.

Effective January 1, 1987, the City adopted a new Plan (Plan 87), which is part of the City of Philadelphia Municipal Pension Fund. The City intended to cover employees hired on or after January 8, 1987, as well as members in the current plan that elected to transfer to Plan 87. Except for elected officials, Plan 87 provides for less costly benefits and reduced employee contributions. For elected officials, Plan 87 provides for enhanced benefits, with participating elected officials required to pay for the additional normal cost.

The City, under the Home Rule Charter requirement, must make contributions to the pension system sufficient to fund the accrued normal costs, the amortization in level installments (which include interest) over a period of 40 years of certain unfunded prior service costs, and interest on the remaining unfunded accrued liability of the Fund.

BRIEF DESCRIPTION (CONTINUED)

Employee contributions are required by City ordinance, and the City is required to contribute the remaining amounts necessary to fund the Fund using an acceptable actuarial basis as specified by the Home Rule Charter, City Ordinance, and State Statutes. For Fund members, employee contribution rates are fixed on a per-employee basis by Council ordinance.

FINANCIAL HIGHLIGHTS

- The net assets of the Fund decreased by $107.4 million, while benefit payments and refunds exceeded employee and employer contributions by $106.7 million.
- As of July 1, 2011, the latest valuation date, the Fund is actuarially funded at 47%, consistent with that of July 1, 2010.
- The Fund's return on investments of 0.03% was slightly higher than the benchmark loss of -0.12%.

The following are summary comparative statements of the Fund:

Summary Comparative Statements of Plan Net Assets
(in thousands)

	June 30, 2012	Increase (Decrease)	June 30, 2011
Assets			
Cash and cash equivalents	$ 202,479	$ 184,723	$ 17,756
Receivables	266,657	(376,165)	642,822
Investments	3,716,593	(322,698)	4,039,291
Security lending collateral	405,148	(78,305)	483,453
Total assets	4,590,877	(592,445)	5,183,322
Liabilities			
Accrued expenses and other liabilities	261,052	(406,706)	667,758
Security lending obligations	407,008	(78,340)	485,348
Total liabilities	668,060	(485,046)	1,153,106
Net assets	$ 3,922,817	$ (107,399)	$ 4,030,216

BRIEF DESCRIPTION AND FINANCIAL HIGHLIGHTS (CONTINUED)

Summary Statements of Changes in Plan Net Assets
(in thousands)

	June 30, 2012	Increase/ (Decrease)	June 30, 2011
Additions			
Employer contributions	$ 556,031	$ 85,876	$ 470,155
Member contributions	49,979	(2,727)	52,706
Dividends and interest	86,168	5,246	80,922
Net appr./(depr.) in FV of investments	(59,580)	(695,149)	635,569
Net securities lending income/(loss)	1,224	1,609	(385)
Investment expenses	(13,291)	1,975	(15,266)
Total additions	620,531	(603,170)	1,223,701
Deductions			
Benefit payments	706,184	24,275	681,909
Refund of contributions	6,500	1,375	5,125
Administrative expenses	15,246	7,193	8,053
Total deductions	727,930	32,843	695,087
Change in net assets	$ (107,399)	$ (636,013)	$ 528,614

Net assets for the fiscal year ended June 30, 2012, decreased by $107.4 million. The decrease in net assets reflects flat investment returns and the excess of the benefit payments over contributions. The increase in cash reflects the timing differences between year-end benefit payments made in 2012 compared to 2011. The receivable decrease is due to a decrease unsettled trade activity at the end of the year. There was an increase in benefits due to the variable nature of the distributions. The increase in contributions is due mainly to the Act 44 contribution deferral as described in Note 1.

Securities Lending

At June 30, 2012, the Fund had a cumulative unrealized loss of approximately $1.9 million on securities purchased with the cash collateral received through the security lending program. Management has continued to monitor this loss.

FINANCIAL STATEMENTS

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND
STATEMENT OF PLAN NET ASSETS
June 30, 2012
(In Thousands)

ASSETS

Cash and cash equivalents		$ 202,479
Contributions receivable from plan members		3,052
Accrued interest and other receivables		263,605
Investments, at fair value:		
Equity investments		1,641,664
Fixed income investments		1,022,953
Private market		538,535
Real estate		180,100
Hedge funds		333,341
Total investments		3,716,593
Collateral on loaned securities	407,008	
Less: allowance for unrealized loss	(1,860)	
Total collateral on loaned securities at fair value		405,148
Total assets		4,590,877

LIABILITIES

Accrued expenses and other liabilities	261,052
Due on return of securities loaned	407,008
Total liabilities	668,060
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 3,922,817

The accompanying notes are an integral part of these financial statements.

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
Year Ended June 30, 2012
(In Thousands)

ADDITIONS	
Contributions:	
Employer	$ 556,031
Plan members	49,979
Total contributions	606,010
Investment income:	
Interest and dividend income	86,168
Net depreciation in fair value of investments	(59,580)
	26,588
Less: investment expenses	(13,291)
Net investment income	13,297
Securities lending income	2,076
Less: securities lending expense	(852)
Net income from security lending activities	1,224
Total additions	620,531
DEDUCTIONS	
Benefit payments	706,184
Refunds of contributions	6,500
Administrative expenses	15,246
Total deductions	727,930
DECREASE IN NET ASSETS	(107,399)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, BEGINNING OF YEAR	4,030,216
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	$ 3,922,817

The accompanying notes are an integral part of these financial statements.

NOTE 1 – PENSION FUND DESCRIPTION

General Description

The City of Philadelphia (the City) maintains two single employer, defined benefits plans for its employees and employees of its component units. The two plans maintained by the City are the Municipal Pension Fund (the Fund) and the Gas Works Plan.

The City is required by the Philadelphia Home Rule Charter to maintain an actuarially sound pension and retirement system (PERS). The Fund covers all officers and employees of the City, and the officers and employees of certain other governmental and quasi-governmental organizations.

As of the latest available actuarial valuation (July 1, 2011), the Fund's membership consisted of:

Retirees and beneficiaries receiving benefits	36,354
Terminated members entitled to benefits but not yet receiving them	1,324
Active members	26,671
Total	64,349

Effective January 1, 1987, the City adopted a new Plan (Plan 87), which is part of the City of Philadelphia Municipal Pension Fund. The City intended to cover employees hired on or after January 8, 1967, as well as members in the current plan that elected to transfer to Plan 87. Except for elected officials, Plan 87 provides for less costly benefits and reduced employee contributions. For elected officials, Plan 87 provides for enhanced benefits, with participating elected officials required to pay for the additional normal cost. District Council 33 challenged Plan 87 in court and, as a result, none of their members were covered by Plan 87 until October 1, 1992. In addition, due to contract provisions, police and fire personnel were not included in Plan 87 until July 1, 1988. Employees represented by Local 2187 of District Council 47, by order of an arbitration award dated August 11, 1992, were transferred to the City's primary plan effective from their dates of hire. As of July 1, 2011, there were 22,361 participants in Plan 87.

Contributions

Court decisions have interpreted the Home Rule Charter requirement to mean that the City must make contributions to the pension system sufficient to fund:

a. Accrued normal costs which are actuarially computed amounts necessary to be contributed to the pension fund to provide, in the future, the pension and survivor benefits earned by the work force during the year.

b. Amortization in level installments (which include interest) over a period of 30 years, as a result of the *Fresh Start Valuation*, pursuant to State laws.

NOTE 1 – PENSION FUND DESCRIPTION (CONTINUED)

Contributions (Continued)

In fiscal year 2012, the City contribution included (1) accrued normal costs, amortization on the remaining unfunded accrued liability plus (2) the scheduled amounts sufficient to amortize the remaining unfunded actuarial accrued liability as of July 1, 1985 over 34 years, determined on the basis of a formula which produces amounts expected to be level as a percentage of each year's aggregate payroll; plus (3) amounts necessary to amortize any subsequent actuarial gains and losses over 20 years in level dollar payments; plus (4) amounts necessary to amortize any increase in actuarial accrued liability due to benefit increases to nonactive employees made after July 1, 1985 over 20 years in level dollar payments; plus (5) amounts necessary to amortize any increase in actuarial liability due to benefit increases to active employees made after July 1, 1985 over 20 years in level dollar payments; plus (6) amounts necessary to amortize any changes in actuarial assumptions over 20 years in level dollar payments. Under this method, the unfunded accrued liability decreased between July 1, 2010 and July 1, 2011, and will continue to decrease annually thereafter unless there are further actuarial losses, plan changes, or other assumption changes. As of July 1, 2011, the unfunded liability was $5.0 billion.

Employee contributions are required by City ordinance, and the City is required to contribute the remaining amounts necessary to fund the Fund, using an acceptable actuarial basis as specified by the Home Rule Charter, City Ordinance, and State Statute. For Fund members, employee contribution rates are fixed on a per-employee basis by Council ordinance. Covered Fund employees in Plan 67 who participate in the Social Security System contribute 3.75% of their total compensation up to the taxable wage base and 6% of total compensation above the taxable wage base to the Fund. Each employee who does not participate in the Social Security System contributes 6% of their total compensation to the Fund. Plan 87 member contribution rates are defined for the membership as a whole by Council ordinance and individual contribution rates are determined annually by the Pension Board based on the valuation done by the actuary. For members of Plan 87 municipal division, the total employee contribution is fixed by Council ordinance at 30% of gross normal cost for all members. For members of Plan 87 uniformed division, hired either before 1/1/2010 (Police) or 10/15/2010 (Fire), the total employee contribution rate is set at 5% of total compensation, but with a floor and ceiling of 30% and 50%, respectively, of the total gross normal costs for all members. Eligible employees who opt out of Plan 10, a hybrid defined contribution defined benefit Plan, become members of Plan 87 uniform division, hired either on or after 1/1/2010 (Police) or 10/15/2010 (Fire), the total employee contribution rate is set at 6% of total compensation, but with a floor and ceiling of 30% and 50%, respectively, of the total gross normal costs for all members.

In fiscal year 2012, the City and other employers' contributions of $556.0 million did not meet the annual required contribution (ARC) of $682.7 million. To the extent that the City elects to contribute less than the funding policy, an experience loss will be created to equal the shortfall in contributions. That shortfall will be amortized over 15 years.

NOTE 1 – PENSION FUND DESCRIPTION (CONTINUED)

Contributions (Continued)

The Minimum Municipal Obligation (MMO) is the required minimum amount that the City must contribute as required by the Commonwealth of Pennsylvania's Acts 205 and 189. The City was able to defer (with interest) $150 million and $80 million of the MMO for the years ended June 30, 2010 and 2011, respectively, as a result of the Commonwealth of Pennsylvania's Act 44 (House Bill No. 1828). Act 44 also allowed the City to temporarily impose an additional local sales tax of 1.00%, through 2015, to fund future MMO payments. The City's contribution for fiscal year 2012 of $556.0 million was greater than the MMO excluding deferred contribution interest of $507.0 million and MMO including the deferred contribution interest and repayment of $534.0 million.

Benefits

The Fund, as established by the Home Rule Charter and City ordinances, provides retirement benefits as well as death and disability benefits. Retirement benefits vest after 10 years of credited service except those municipal employees eligible to vest upon attaining 5 years of credited service. New Municipal employees hired on or after January 8, 1987 have the option of electing to vest upon attaining 5 years of credited service. New Municipal employees hired on or after January 13, 1999, must participate in the 5-year vesting. Such employees shall be charged, for the additional benefits by such earlier vesting period, a proportionate contribution. Employees who retire are entitled to an annual retirement benefit payable monthly for life.

a. Uniformed personnel (police and fire) who retire at or after age 45 are eligible to receive a service pension equal to 2.5% of the employee's average final compensation, multiplied by his or her years of credited service, subject to a maximum of 100% of average final compensation. Those uniformed personnel who are covered under Plan 87 and who retire at or after age 50 with 10 or more years of credited service are eligible to receive a service pension equal to 2.2% of the employee's average final compensation, multiplied by years of service to a maximum of 20 years, plus 2% of the employee's average final compensation, multiplied by years of credited service in excess of 20.

b. Municipal employees who retire at or after age 55 are eligible to receive a service pension equal to 2.5% of the employee's average final compensation multiplied by his or her years of credited service to a maximum of 20 years plus 2% of the employee's average final compensation multiplied by his or her years of credited service in excess of 20; limited to a maximum 80% (100% for Plan Y only) of the employee's average final compensation. Municipal employees who are covered under Plan 87 and who retire at or after age 60 with 10 or more years of credited service are eligible to receive a service pension equal to 2.2% of the employee's average final compensation for the first 10 years of credited service plus average final compensation multiplied by 2% for the years of service in excess of 10.

NOTE 1 – PENSION FUND DESCRIPTION (CONTINUED)

Benefits (Continued)

A Pension Adjustment Fund (PAF) is funded with 50% of the excess earnings that are between 1% and 6% above the actuarial assumed earnings rate. Each year within sixty days of the end of the fiscal year, by majority vote of its members, the Board of Directors of the Fund (the Board) shall consider whether sufficient funds have accumulated in the PAF to support an enhanced benefit distribution (which may include, but is not limited to, a lump sum bonus payment, monthly pension payment increases, ad-hoc cost-of-living adjustments, continuous cost-of-living adjustments, or some other form of increase in benefits as determined by the Board) to retirees, their beneficiaries and their survivors. As of July 1, 2011, there was $986,676 in the PAF and the Board voted to make distributions of $0 during the fiscal year ended June 30, 2012.

The Fund includes a Deferred Retirement Option Plan (DROP Plan). The DROP Plan allows a participant to declare that they will retire within 4 years. During the 4-year period, the City will make no further contributions for the participant. The participant would continue to work and to receive their salary; however, any increases would not be counted towards their pension benefit. During the 4-year period the individual participates in the DROP Plan, their pension benefits will be paid into an escrow account in the participant's name. After the 4-year period, the participant would begin to receive their pension benefits and the amount that has been accumulated in the escrow account in a lump sum payment.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Financial statements of the Fund are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the Fund.

Method Used to Value Investments

The Fund’s investments are reported at fair value. Fair value is the amount that the Fund can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are carried at cost, which approximates fair value, unless they have published market prices or quotations from national security exchanges or securities pricing services, in which case they are valued at the published market price. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges or securities pricing services. Securities which are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Method Used to Value Investments (Continued)

Directly-owned real estate investments are primarily valued based on appraisals performed by independent appraisers and for properties not appraised, the present value of the projected future net income stream is used.

For private market investments which include private equity, private debt, venture capital, hedge funds and equity real estate investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. Futures contracts, foreign exchange contracts, and options are marked-to-market daily with changes in market value recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Investment expenses consist of investment manager fees and those administrative expenses directly related to the Fund's investment operations. Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are included in investment purchases and other liabilities.

Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned on an accrual basis.

Income Taxes

The Fund qualifies under Section 401(a) of the Internal Revenue Code (IRC) and is exempt from income taxation as allowed by Section 501(a) of the IRC.

Related Parties

The Board of Pensions and Retirement (the Board) is the custodian of the investments of the Fund. The City's Department of Finance provides cash receipt and cash disbursement services to the Fund. The City's Solicitor's office provides legal services to the Fund. Other administrative services are also provided by the City. No amounts were paid or were payable related to these services.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Commitments

At June 30, 2012, the Fund had unfunded private market and real estate commitments of approximately $186.5 million and $49.9 million, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk and Uncertainties

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Plan Net Assets.

Contributions are prepared based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these statements and assumptions in the near term would be material to the financial statements.

Administrative Expenses

Administrative expenses of the Fund are paid for by the Fund.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING

Legal Provisions

The Fund is authorized to invest in "prudent investments", including obligations of the U.S. Treasury, agencies and instrumentalities of the United States, investment grade corporate bonds, common stock, real estate, private market, etc. City ordinances contain provisions which preclude the Fund from investing in organizations that conduct business in certain countries and also impose limitations on the amounts invested in certain types of securities.

Interest Rate Risk

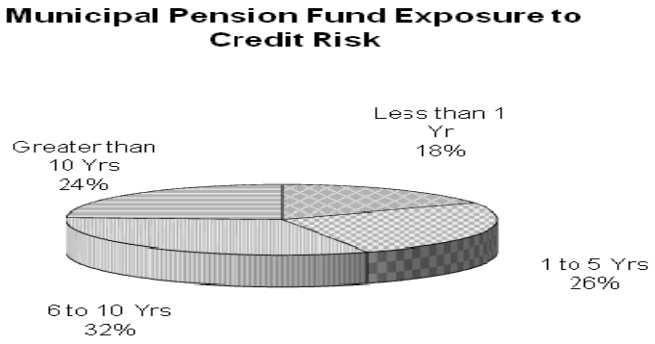
Interest rate risk is the largest risk faced by an investor in the fixed income market. The price of a fixed income security generally moves in the opposite direction of the change in interest rates. Securities with long maturities are highly sensitive to interest rate changes.

Duration is a measure of the approximate sensitivity of a bond’s value to interest rate changes. The higher the duration, the greater the changes in fair value when interest rates change. The Fund measures interest rate risk using option-adjusted duration, which recognizes the fact that yield changes may change the expected cash flows due to embedded options.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Interest Rate Risk (Continued)

The chart below details the exposure to interest rate changes based upon maturity dates of the fixed income securities at June 30, 2012:



Custodial Credit Risk

In the event of counter-party failure, the Fund may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities held by the counterparty or counterparty's trust department, are uninsured and are not registered in the name of the Fund. The Fund requires that all investments be clearly marked as to ownership, and to the extent possible, be registered in the name of the Fund. Certain investments may be held by the managers in the Fund's name.

Concentration of Credit Risk

Currently, the Fund is invested primarily in equity securities (44%). The Fund's resources are put in the hands of investment managers with different investment styles who invest according to specific objectives developed for each manager. The Chief Investment Officer of the Fund is charged with reviewing the portfolios for compliance with those objectives and guidelines. Of the fixed income type investments held by the pension fund, 56% had Standard & Poor ratings of AAA to A and 60% had Moody's rating of AAA to A1.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Foreign Currency Risk

The Fund's exposure to foreign currency risk derives from its position in foreign currency-denominated cash, equity, private market and fixed income investments. The foreign currency investment in equity securities is 40% of the total investment in equities.

The Fund's exposure to foreign currency risk at June 30, 2012 was as follows:

Equities Securities
Subject to Foreign Currency Rate ($000's)

Currency	Fair Value	Percentage
Euro Currency	$ 135,856	27.45%
Japanese Yen	87,656	13.48%
Pounds Sterling	97,963	15.06%
Australian Dollar	22,324	3.43%
All others	269,861	40.58%
Total	$ 613,660	100.00%

Fixed Income Securities and Other Investments
Subject to Foreign Currency Rate ($000's)

Description	Currency	Fair Value	Percentage
Currency	Euro Currency	$ 5,104	1.64%
Currency	Japanese Yen	(676)	-0.22%
Currency	All others	4,291	1.38%
Fixed income	Euro	27,200	8.74%
Fixed income	Pounds Sterling	37,378	12.02%
Fixed income	Mexican Pesos	11,712	3.77%
Fixed income	All others	183,313	58.93%
Real estate and private equity	Euro	42,726	13.74%
Total		$ 311,048	100.00%

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Derivatives

The Fund may invest in derivatives as permitted by guidelines established by the Board of Pensions. Pursuant to such authority, the Fund may invest in foreign currency forward contracts, options, futures (S&P Fund) and swaps. No derivatives were purchased with borrowed funds.

Derivatives are generally used to provide market exposure in the equity portfolio and to hedge against foreign currency risk and changes in interest rates, improve yield and adjust the duration of the Fund's fixed income portfolio. These securities are subject to changes in value due to changes in interest rates or currency valuations. Credit risk for derivatives results from the same considerations as other counterparty risk assumed by the Fund, which is the risk that the counterparty might be unable to meet its obligations.

Derivative instruments such as swaps, options, futures and forwards are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities.

The Fund enters into a variety of financial contracts, which include options, futures, forwards and swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury strips. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. The Fund is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The Fund generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The Fund is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by Board approved guidelines, through buying or selling instruments or entering into offsetting positions. The notional or contractual amounts of derivatives indicate the extent of the Fund's involvement in the various types and uses of derivative financial instruments and do not measure the Fund's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Derivatives (Continued)

The following table summarizes the derivative financial instruments for the Fund at June 30, 2012.

List of Derivatives Aggregated by Investment Type

	Changes in Fair Value (4)		Fair Value at June 30, 2012		
	Classification	**Amount (1)**	**Classification**	**Amount (2)**	**Notional (3)**
Investment Derivatives					
Forward Currency Contracts	Net appreciation/(depreciation) in investments	$ 2,362,305	Accrued expenses and other liabilities	$ (293,483)	$ 469,518,219
Futures	Net appreciation/(depreciation) in investments	(3,341,717)	Accrued interest and other receivables	125,230	117
Swaps	Net appreciation/(depreciation) in investments	331,407	Accrued expenses and other liabilities	(284,636)	9,363,000
Grand Totals		**$ (648,005)**		**$ (452,889)**	

A Derivatives Policy Statement identifies and allows common derivative investments and strategies, which are consistent with the Investment Policy Statement of the Fund. The guidelines identify transaction-level and portfolio-level risk control procedures and documentation requirements. Managers are required to measure and monitor exposure to counterparty credit risk. All counterparties must have credit ratings available from nationally recognized rating institutions such as Moody, Fitch, and S&P.

The details of other risks and financial instruments in which the Fund involves are described below:

Credit risk. The Fund is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Fund's policy to require counterparty collateral posting provisions in its non-exchange-traded hedging derivative instruments. These terms require full collateralization of the fair value of hedging derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty's credit rating fall below **AA** as issued by Fitch Ratings and Standard & Poor's or **Aa** as issued by Moody's Investors Service. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The Fund has never failed to access collateral when required.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Derivatives (Continued)

It is the Fund's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

The aggregate fair value of hedging derivative instruments in asset positions at June 30, 2012, was $125,230. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. This maximum exposure is reduced by ($578,119) of collateral or liabilities included in netting arrangements with those counterparties, resulting in a net exposure to credit risk of $452,889.

Swap agreements. provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. During the year ended June 30, 2012, the Fund entered into interest rate swaps. Under the receive-fixed interest rate type swap arrangements, the Fund receives the fixed interest rate on certain equity or debt securities or indexes in exchange for a fixed charge. There were not any total receive fixed interest Swaps this year. On its pay-variable, received-fixed interest rate swap, as LIBOR increases, the Fund's net payment on the swap increases. Alternatively, on its pay-fixed, receive-variable interest rate swap, as LIBOR or the SIFMA swap index decreases, the Fund's net payment on the swap increases.

Futures contracts. types of contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the Fund enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. Although the Fund has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed.

Forward contracts. The Fund is exposed to basis risk on its forward contract because the expected fund purchase being hedged will price based on a pricing point different than the pricing point at which the forward contract is expected to settle.

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Derivatives (Continued)

Termination risk. The Fund or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, the Fund is exposed to termination risk on its receive-fixed interest rate swap. The Fund is exposed to termination risk on its rate cap because the counterparty has the option to terminate the contract if the SIFMA swap index exceeds 12%. If, at the time of termination, a hedging derivative instrument is in a liability position, the Fund would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Rollover risk. The Fund is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the Fund will be re-exposed to the risks being hedged by the hedging derivative instrument.

In addition, the Fund also was involved in other financial instruments such as rights and warrants that were worth $3,993 and 19,626,337 at June 30, 2012, respectively.

Security Lending Program

The Fund, pursuant to a Securities Lending Authorization Agreement, has authorized J.P. Morgan Bank and Trust Company ("J.P. Morgan") to act as Fund's agent in lending Fund's securities to approved borrowers. J.P. Morgan, as agent, enters into Securities Loan Agreements with borrowers.

During the fiscal year, J.P. Morgan lent, on behalf of the Fund, certain securities of the Fund held by J.P. Morgan as custodian and received cash or other collateral including securities issued or guaranteed by the United States government. J.P. Morgan does not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 100% of the market value of the loaned securities.

Pursuant to the Securities Lending Authorization Agreement, J.P. Morgan had an obligation to indemnify the Fund in the event of default by a borrower. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the Fiscal Year that resulted in a declaration or notice of default of the borrower.

During the fiscal year, the Fund and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in collective investment funds comprised of a liquidity pool and a duration pool. As of June 30, 2012 the J.P. Morgan Global Securities Lending Euro Trust liquidity pool had an average duration of 11 days and an average weighted final maturity of 30 days for USD collateral. As of this date the duration pool had an average duration of 41 days and an average weighted final maturity of 1149 days for USD collateral. Because the securities lending transactions were terminable at

NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)

Security Lending Program (Continued)

will their duration did not generally match the duration of the investments made with the cash collateral received from the borrower.

On June 30, 2012 the Fund had no credit risk exposure to borrowers.

As of June 30, 2012, the fair value of securities on loan was $397.1 million. Associated collateral totaling $407.0 million was comprised of cash which was invested in the J.P. Morgan Global Securities Lending Euro Trust liquidity pool. As of June 30, 2012, the invested cash collateral had a fair value of $405.1 million.

During the fiscal year ended June 30, 2012, certain securities purchased with cash collateral by the lending agent increased in value, resulting in an unrealized gain during the fiscal year to the Fund from the invested cash collateral of $35,000.

NOTE 4 – INVESTMENT ADVISORS

The Fund utilizes investment advisors to manage long-term debt, real estate, and equity portfolios. To be eligible for consideration, investments must meet criteria set forth in governing laws and regulations.

NOTE 5 – FUNDED STATUS AND ANNUAL REQUIRED CONTRIBUTIONS (ARC)

As of July 1, 2011, the most recent actuarial valuation, the Fund was 47% funded with actuarial accrued benefit liabilities of $9.5 billion and an actuarial asset value of $4.5 billion. This results in an underfunded accrued liability of $5.0 billion. The covered payroll of active members was $1.4 billion. The ratio of underfunded accrued liabilities to the covered payroll was 365%.

For the fiscal year ended June 30, 2012, the ARC was $682.7 million and the MMO including deferred contribution interest and repayment was $534.0 million. The actual employer contribution was $556.0 million which was 81% of the ARC and 104% of the MMO.

The Schedule of Funding Progress and the Schedule of Employer Contributions included as Required Supplemental Information on page 24 provide a multi-year presentation of the Fund's funding status and ARC.

NOTE 5 – FUNDED STATUS AND ANNUAL REQUIRED CONTRIBUTIONS (ARC) (CONTINUED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage Closed
Asset Valuation Method	5-year smoothed before 7/1/09 10-year smoothed after 7/1/09
Actuarial Assumptions:	
Investment rate of return	8.10%
Projected salary increases	Age-based salary table
Includes inflation at	None
Cost-of-living adjustments	3.5%

NOTE 6 – GUARANTEE OF BENEFITS

Benefits under the Fund are guaranteed by statute. In the event that employee contributions do not equal required benefits, the City's General Fund must provide any shortfall.

NOTE 7 – PARTICIPATION IN THE PENSION FUND

The trustees for the Fund are also members of the Fund and as such, are subject to the provisions of the Fund as described in the notes to these financial statements.

NOTE 8 – SUBSEQUENT EVENTS

Management evaluated subsequent events through February 5, 2013, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to February 5, 2013 that provided additional evidence about conditions that existed at June 30, 2012, have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2012.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF PHILADELPHIA MUNICIPAL PENSION FUND
Year Ended June 30, 2012
(Dollars in Millions)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2006	$ 4,168	$ 8,084	$ 3,915	52%	$ 1,319	297%
7/1/2007	4,422	8,197	3,776	54%	1,352	279%
7/1/2008	4,624	8,402	3,779	55%	1,457	259%
7/1/2009	4,042	8,975	4,933	45%	1,463	337%
7/1/2010	4,381	9,317	4,936	47%	1,421	347%
7/1/2011	4,489	9,488	4,998	47%	1,371	365%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contributions	Annual Employer Contributions	Percentage Contribution
2007	$ 527.9	$ 432.4	81.9%
2008	536.9	426.9	79.5%
2009	539.5	455.4	84.4%
2010	581.1	312.6	53.8%
2011	715.5	470.2	65.7%
2012	682.7	556.0	81.4%