



2020

POPULAR ANNUAL

FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2020

Sacramento, California

Sacramento County Employees' Retirement System



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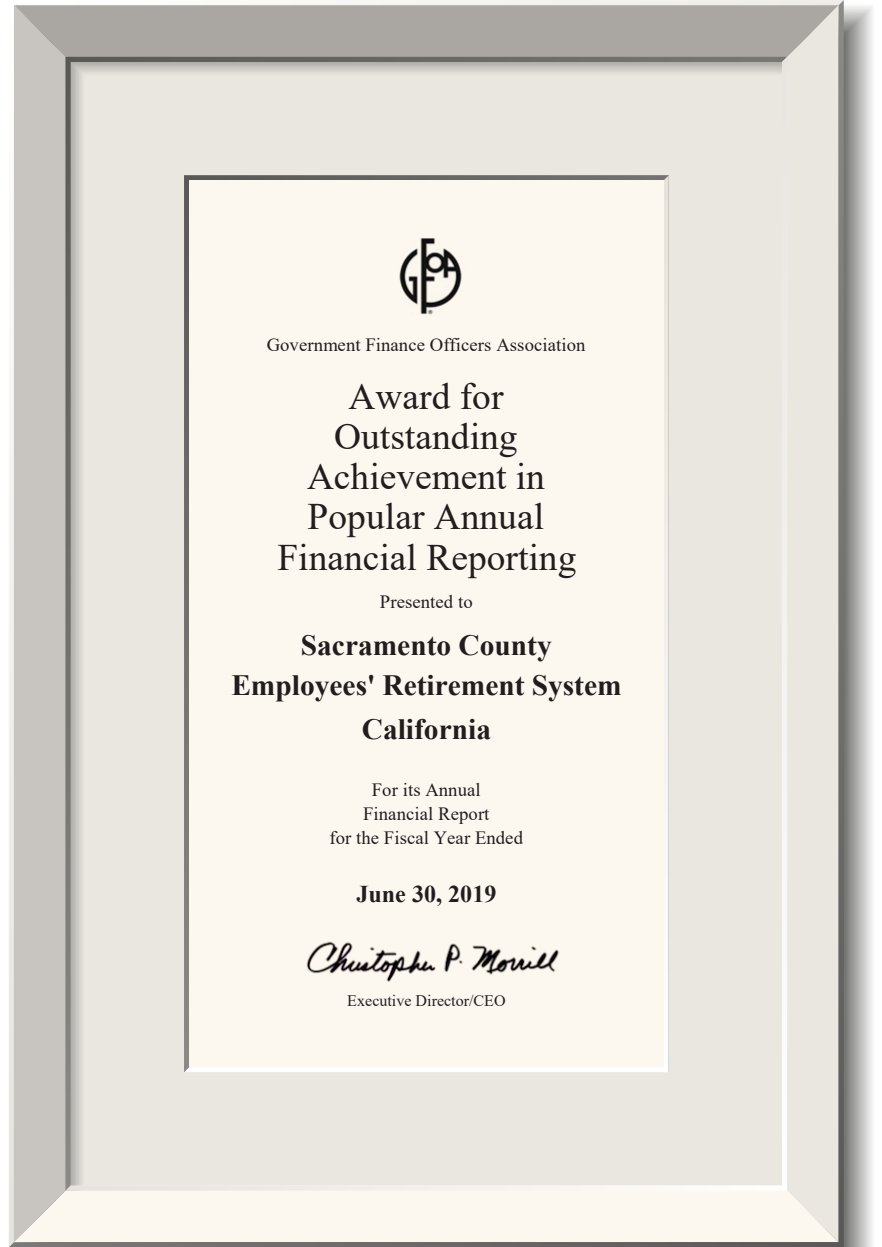
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AWARD: GFOA CERTIFICATE



MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



As Chief Executive Officer, I am pleased to issue the Popular Annual Financial Report (PAFR) on behalf of the Sacramento County Employees' Retirement System (SCERS or the System). The PAFR provides insight into the organization's services, financial results, investments, and membership information. The financial data presented in the PAFR is derived from SCERS' Comprehensive Annual Financial Report (CAFR) as of and for the fiscal years ended June 30, 2020 and 2019 and is presented in conformity with Generally Accepted Accounting Principles. The CAFR provides more detailed information and is available on SCERS' website at www.scers.org.

SCERS remains focused on maintaining a sustainable pension program for the long term. At June 30, 2020, SCERS was 78.6% funded at the fair value of assets totaling \$10.0 billion, and the total pension liability totaling \$12.7 billion. The funded status represents the percentage of future pension benefits covered by the System's assets. In general terms, this funded ratio means that as of June 30, 2020, SCERS had approximately 79 cents available for each dollar of anticipated future liability.

For the fiscal year ended June 30, 2020, SCERS' investments generated a 2.9% gross return, or \$371.6 million of net investment income and administrative expenses totaled \$8.5 million for the fiscal year. To our members, this continued growth and cost containment allow SCERS to put more of its assets to work for you while providing more efficient customer service.

SCERS' current strategic asset allocation model was established as a result of an asset allocation study conducted in the 2016-17 fiscal year. During the study, SCERS' Board of Retirement identified and prioritized several investment-related plan objectives, principles, and risks that played a role in the design of the strategic asset allocation. These included: (1) reducing portfolio volatility; (2) improving the funding status of the plan; (3) protecting against significant drawdowns; (4) improving the cash flow generation of the portfolio; and (5) determining a reasonable and realistic expected investment return for the portfolio.

SCERS has been working to improve the organization's technology to better serve our members with the new Pension Administration System (Ariel), which will speed the retirement application process and provide new online tools for members and employers. In fiscal year ended June 30, 2020, SCERS completed user-acceptance testing for the upcoming phases of Ariel. Ariel is expected to be fully implemented by the end of 2021.

I look forward to sharing our progress with you.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Eric Stern". The signature is stylized and fluid, written over a light blue circular background.

Eric Stern
Chief Executive Officer

FINANCIAL SUMMARY

(Dollar Amounts Expressed in Millions)

Net position restricted for pension benefits (net position) represents the accumulation of assets that exceed liabilities, which are available to meet SCERS' obligations to plan participants and beneficiaries.

The following table presents the statements of fiduciary net position:

STATEMENTS OF FIDUCIARY NET POSITION

As of June 30

	2020	2019	Increase/ (Decrease)	% Change
Assets				
Cash and short-term investments	\$420.4	\$441.9	(\$21.5)	(4.9) %
Receivables	161.7	118.4	43.3	36.6
Investments	9,573.0	9,416.3	156.7	1.7
Securities lending collateral	215.2	273.0	(57.8)	(21.2)
Other assets	0.4	0.4	-	-
Capital assets, net	10.6	6.8	3.8	55.9
Total assets	10,381.3	10,256.8	124.5	1.2
Liabilities				
Other liabilities	14.5	11.1	3.4	30.6
Investment purchases and other	176.3	156.1	20.2	12.9
Securities lending obligation	211.1	267.9	(56.8)	(21.2)
Total liabilities	401.9	435.1	(33.2)	(7.6)
Net position restricted for pension benefits	\$9,979.4	\$9,821.7	\$157.7	1.6%

As of June 30, 2020, the net position restricted for pension benefits totaled \$9,979.4 million, which represented an increase of \$157.7 million, or 1.6%, from the \$9,821.7 million in net position as of June 30, 2019. The increase in net position was primarily due to investment earnings offset to some degree by the benefits and expenses paid during the year exceeding the contributions received.

The following table presents a reserve summary for the fiscal years ended June 30, 2020 and 2019:

	2020	2019
Member reserve	\$984.5	\$906.9
Employer reserve	3,093.0	2,908.8
Retiree and death benefit reserves	6,008.3	5,757.8
Contingency reserve	144.0	129.8
Total allocated reserves and designations	10,229.8	9,703.3
Market stabilization reserve	(250.4)	118.4
Net position restricted for pension benefits	\$9,979.4	\$9,821.7



FINANCIAL SUMMARY (CONTINUED)

(Dollar Amounts Expressed in Millions)

The following table presents the statements of changes in fiduciary net position:

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Years Ended June 30

	2020	2019	Increase/ (Decrease)	% Change
Additions				
Member contributions	\$126.4	\$121.8	\$4.6	3.8%
Employer contributions	276.2	285.6	(9.4)	(3.3)
Net investment income	371.6	802.7	(431.1)	(53.7)
Net securities lending income	1.2	1.5	(0.3)	(20.0)
Investment fees and expenses	(71.4)	(131.3)	(59.9)	(45.6)
Other income	2.9	2.9	-	-
Total additions	<u>706.9</u>	<u>1,083.2</u>	<u>(376.3)</u>	<u>(34.7)</u>
Deductions				
Benefits paid	537.7	502.9	34.8	6.9
Withdrawal of contributions	3.0	2.9	0.1	3.4
Administrative expenses	8.5	7.6	0.9	11.8
Total deductions	<u>549.2</u>	<u>513.4</u>	<u>35.8</u>	<u>7.0</u>
Increase in net position	157.7	569.8	(412.1)	(72.3)
Net position restricted for pension benefits, beginning	9,821.7	9,251.9	569.8	6.2
Net position restricted for pension benefits, ending	<u><u>\$9,979.4</u></u>	<u><u>\$9,821.7</u></u>	<u><u>\$157.7</u></u>	<u><u>1.6%</u></u>



FINANCIAL SUMMARY (CONTINUED)

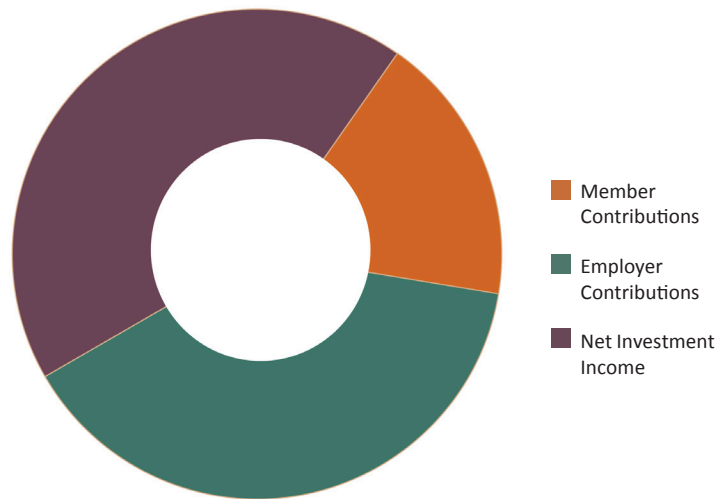
(Dollar Amounts Expressed in Millions)

The largest source of income is from investment earnings. Historically, more than 60 percent of retirement benefits have been funded by investment earnings. Annually SCERS establishes the contributions at actuarially-determined rates, expressed as percentages of covered payroll, that together with investment earnings are sufficient to accumulate adequate assets to pay benefits when due. The required member and employer contribution rates vary depending on the member's plan, tier, employer, and bargaining unit.

Additions by Source

Fiscal Year Ended June 30, 2020

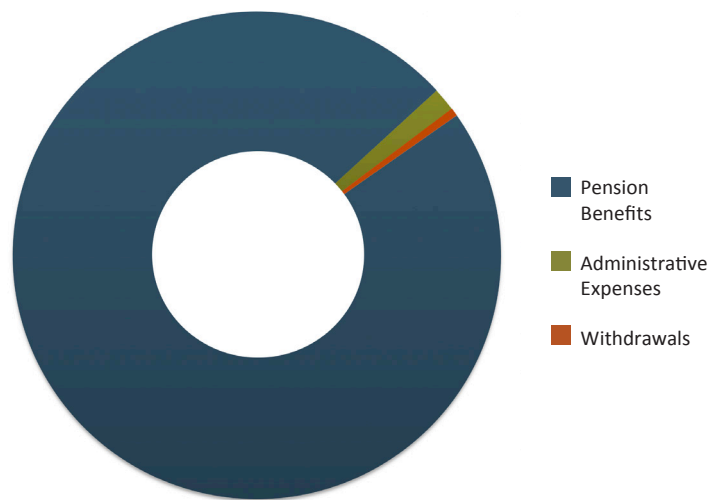
For fiscal year 2019-20, 43.0% of revenues were from investment income, 39.1% were from employer contributions, and 17.9% were from member contributions.



Deductions by Type

Fiscal Year Ended June 30, 2020

For fiscal year 2019-20, 98.0% of the total expenses were related to benefit payments, 1.5% were related to administrative expenses, and 0.5% were member contribution refunds.

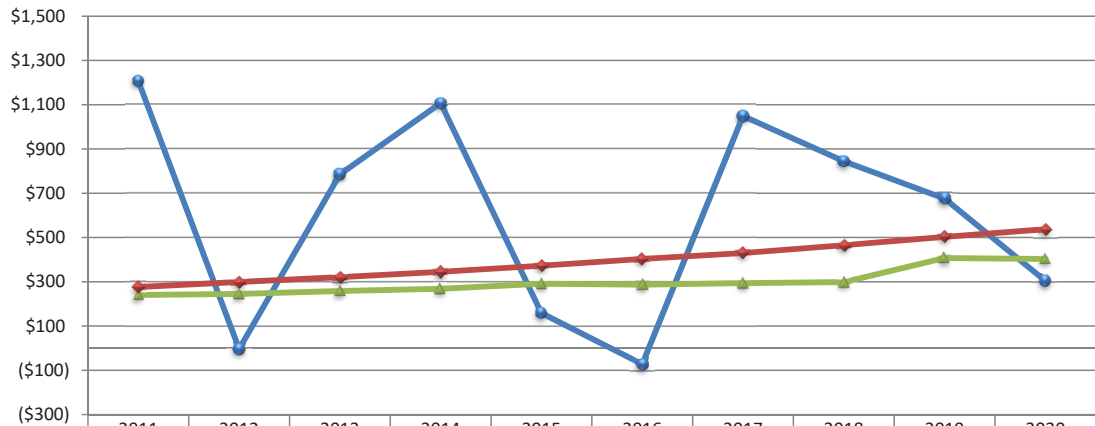


FINANCIAL SUMMARY (CONTINUED)

(Dollar Amounts Expressed in Millions)

SCERS' expenses include service and disability retirement benefits, death benefits, refunds to members, and the cost to administer the System. Total expenses for the fiscal year ended 2019-20 equaled \$549.2 million, or 7% increase compared to the prior year.

Investment Income/(Loss), Contributions, and Pension Benefits Fiscal Years Ended June 30



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net Investment Income/(Loss)	\$1,206.7	(\$3.4)	\$785.5	\$1,107.2	\$158.2	(\$72.4)	\$1,048.9	\$844.5	\$675.8	\$304.3
Total Contributions	\$240.1	\$244.8	\$257.9	\$268.1	\$291.1	\$286.5	\$293.4	\$298.4	\$407.4	\$402.6
Pension Benefits	\$276.2	\$298.8	\$320.8	\$344.9	\$372.4	\$403.3	\$429.8	\$465.3	\$502.9	\$537.7

Since fiscal year 2010-11, benefit payments have been higher than the total member and employer contributions, and the gap between benefit payments and contributions continued to widen. This is partly due to the shift in population of active and retired members, a dynamic that is common in mature retirement systems. Active members increased slightly from 12,434 in fiscal year 2010-11 to 12,650 in fiscal year 2019-20, while the number of retired members increased from 8,821 to 12,732 during the same period.

FUNDING RATIOS

(Dollar Amounts Expressed in Millions)

FUNDED STATUS

SCERS' funded status is a key indicator of its financial health. It reflects the percentage of promised benefits that SCERS has assets to pay all current and projected future benefits (Actuarial Accrued Liability or AAL) as of a specific date in time.

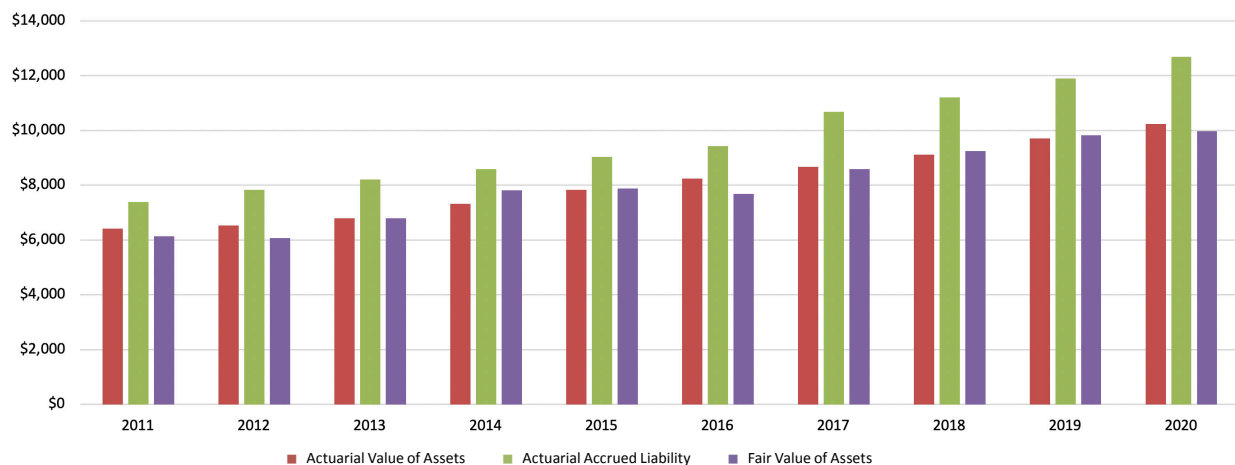
SCERS' overall funding objective is to meet long-term promised benefits by maintaining a well-funded plan through a combination of investment returns and member and employer contributions, which are both minimized and maintained as level as possible for each generation of active members. SCERS retained an independent actuarial firm to perform an annual actuarial valuation to determine the funded status of the System. One purpose of the valuation is to determine the future contributions that will be needed from the members and participating employers to pay all expected future benefits. To help reduce year-to-year volatility in employer contribution rates due to fluctuations in investment performance, SCERS employs a smoothing approach, which recognizes any fair value of investment returns that are above or below the assumed investment rate of return over a seven-year period. This not only stabilizes contribution rates, but also improves the ability of an employer to plan for possible future increases or decreases in pension costs.

One approach to determine funded status is based on actuarial value of assets (AVA). Under this approach, the independent actuary determines the actuarial value of SCERS' assets using a smoothing technique that recognizes investment gains and losses over a seven-year period. On an AVA basis, the funded ratio decreased from 81.6% in 2019 to 80.6% as of June 30, 2020. Another approach to determine funded status is based on the fair value of assets (MVA). On a MVA basis, the funded ratio decreased from 82.6% in 2019 to 78.6% as of June 30, 2020. The decrease in the funded ratio on the MVA basis is mainly due to changes in actuarial assumptions and methods resulting from the most recent triennial experience study for the period ended June 30, 2019 and unfavorable investment return because of the COVID-19 pandemic, which resulted in unprecedented impact within the economy and the financial markets.

As of June 30	Total Pension Liability	Actuarial Value of Assets (AVA)	Funded Ratio on an AVA Basis	Fair Value of Assets (MVA)	Funded Ratio on an MVA Basis
2020	\$12,693.6	\$10,229.8	80.6%	\$9,979.4	78.6%
2019	11,895.5	9,703.3	81.6	9,821.7	82.6

Funded Status

As of June 30



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
AVA Funded Status	87.0%	83.3%	82.8%	85.2%	86.8%	87.3%	81.1%	81.4%	81.6%	80.6%
MVA Funded Status	83.2%	77.5%	82.7%	91.0%	87.3%	81.4%	80.4%	82.5%	82.6%	78.6%

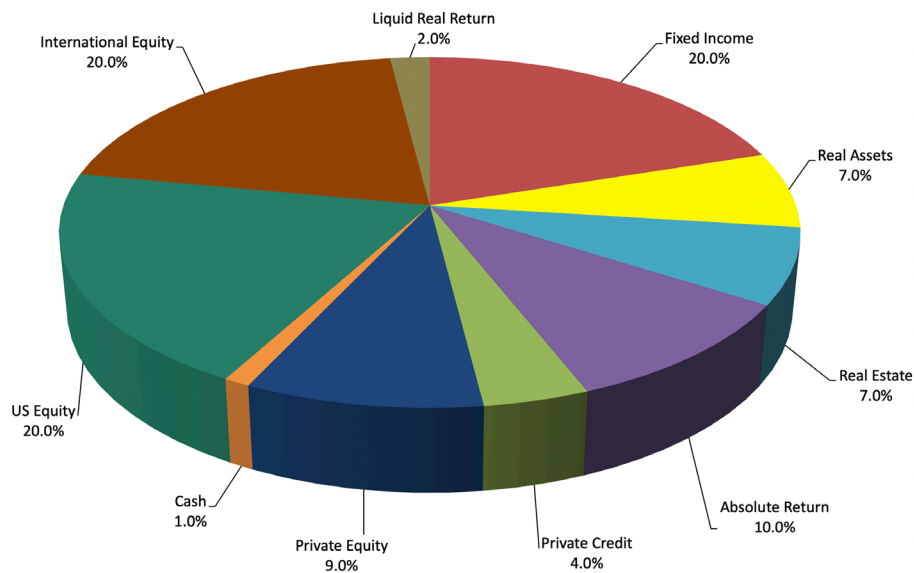


ASSET ALLOCATION

SCERS' investment program is structured around a strategic asset allocation model established by SCERS' Board of Retirement with the assistance of SCERS' investment staff, general investment consultant, alternative assets consultant, and real estate consultant. The objective of the asset allocation model is to ensure the diversification of investments in a manner that generates a desired rate of investment return with an acceptable level of investment risk. Below are SCERS' target and actual asset allocations as of June 30, 2020.

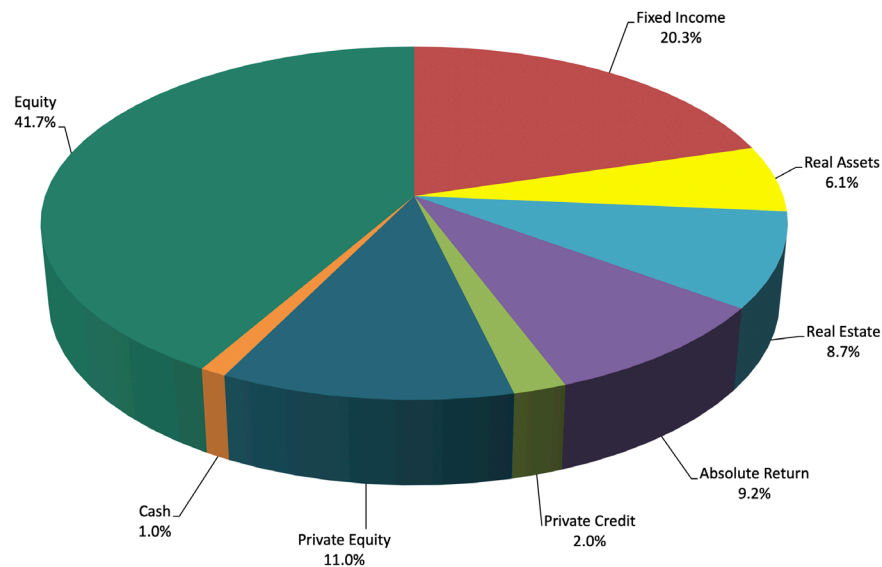
Target Asset Allocation

As of June 30, 2020



Actual Asset Allocation

As of June 30, 2020

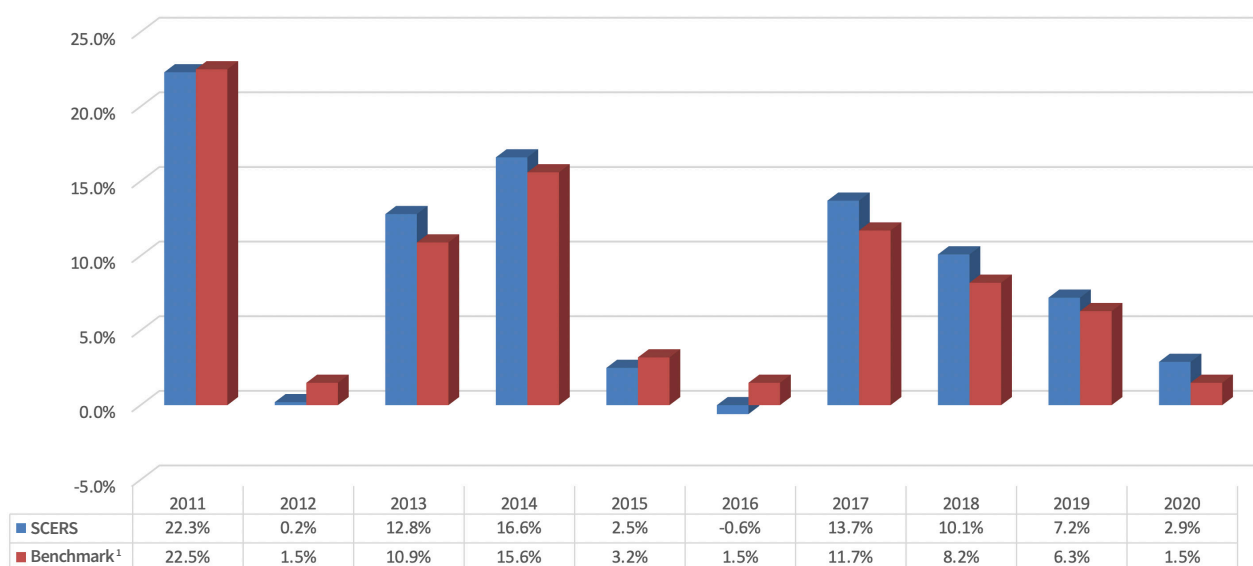


INVESTMENT PERFORMANCE

SCERS' assets under management was at \$9.8 billion as of June 30, 2020. For the fiscal year ended June 30, 2020, the total fund return, gross of fees, of 2.9% was 1.4% higher than the return of the investment policy benchmark of 1.5%. During fiscal year 2019-20, investments with the strongest returns came from the U.S. Fixed Income, Domestic Equity, and Private Equity asset classes. While the returns came in short of SCERS' 7% actuarial rate of return, the results were surprising given that SCERS' fiscal year returns were down over 4% at the end of March 2020 when COVID-19 related market volatility peaked. Below is SCERS' total portfolio actual return compared to benchmarks for the past 10 years.

Total Portfolio Returns and Benchmarks

Fiscal Years Ended June 30



¹ From 7/1/2019 to 6/30/2020, the Policy Index benchmark consists of 10% BBgBarc Aggregate, 5% BBgBarc US Treasury, 1% ICE Bofa ML High Yield II, 2.5% Cambridge Associates Private Energy 1 Qtr Lag, 3.2% Cambridge Associates Private Infrastructure 1 Qtr Lag, 2.4% FTSE WGBI exUS Unhedged, 1% Credit Suisse Leverage Loans, 4% Credit Suisse Leverage Loans +2% 1 Qtr Lag, 0.6% JPM GBI EM Diversified, 3% HFRI FoF Composite Index + 1%, 7% HFRI FoF Conservative Index, 20% MSCI ACWI ex US, 4.6% NFI-ODCE, 2.5% NFI-ODCE net +1% 1Q Lag, 0.7% NCREIF Farmland 1 Qtr Lag, 0.7% NCREIF Timberland Index Lagged, 20% Russell 3000, 9% Thomson Reuters C|A All PE 1 Qtr Lag, 0.2% Bloomberg Roll Select Commodity Total Return, 0.2% Bloomberg Barclays U.S. Floating Rate Note <5 Yr, 0.2% S&P Global LargeMidCap Commodity and Resources, 0.5% S&P Global Infrastructure Index - Net of Tax on Dividend, 0.6% Bloomberg Barclays U.S. Government Inflation-Linked 1-10 Yrs, 0.3% FTSE EPRA Nareit Developed Liquid Index, and 1% ICE LIBOR Spot/Next Overnight USD.

From 7/1/2017 to 6/30/2019, the Policy Index benchmark consists of 10% BBgBarc Aggregate, 5% BBgBarc US Treasury, 1% ICE Bofa ML High Yield II, 2% Bloomberg Commodity, 2.5% Cambridge Associates Private Energy 1 Qtr Lag, 3.2% Cambridge Associates Private Infrastructure 1 Qtr Lag, 2.4% FTSE WGBI ex US Unhedged, 1% Credit Suisse Leverage Loans, 4% Credit Suisse Leverage Loans +2%, 0.6% JPM GBI EM Diversified, 3% HFRI FoF Composite Index + 1%, 7% HFRI FoF Conservative Index, 20% MSCI ACWI ex US, 4.6% NFI-ODCE, 2.5% NFI-ODCE net +1% 1Q Lag, 0.7% NCREIF Farmland 1 Qtr Lag, 0.7% Timberland Index Lagged, 21% Russell 3000, and 9% Thomson Reuters C|A All PE 1 Qtr Lag.

From 4/1/2017 to 6/30/2017, the Policy Index benchmark consists of 10% 91-day UST Bill +5% (AR), 10% BBgBarc Aggregate, 5% BBgBarc US Treasury, 1% ICE Bofa ML High Yield II, 2% Bloomberg Commodity, 2.4% FTSE WGBI ex US Unhedged, 7% CPI-U +5% (PRA), 1% Credit Suisse Leverage Loans, 4% Credit Suisse Leverage Loans +2%, 0.6% JPM GBI EM Diversified, 20% MSCI ACWI ex US, 7% NCREIF, 21% Russell 3000, and 9% Thomson Reuters C|A All PE 1 Qtr Lag.

From 1/1/2014 to 3/31/2017, the Policy Index benchmark consists of 10% 91-day UST Bill +5% (AR), 15% BBgBarc Aggregate, 1% ICE Bofa ML High Yield II, 2.4% FTSE WGBI ex US Unhedged, 15% CPI-U +5% (PRA), 1% Credit Suisse Leverage Loans, 0.6% JPM GBI EM Diversified, 22.5% MSCI ACWI ex U.S., 10% Russell 1000 +3% 12QL (PE), and 22.5% Russell 3000.

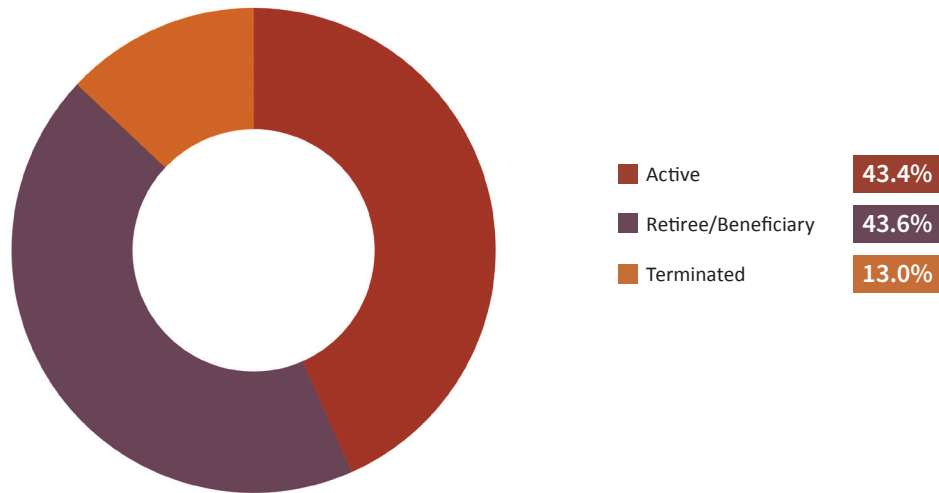


SYSTEM MEMBERSHIP

SCERS' active members include permanent full-time and part-time employees of the County of Sacramento (and its Elected Officials); Superior Court of California (County of Sacramento); and nine Special Districts. As of June 30, 2020, SCERS had 12,650 active members, 12,732 retired members and 3,791 terminated members.

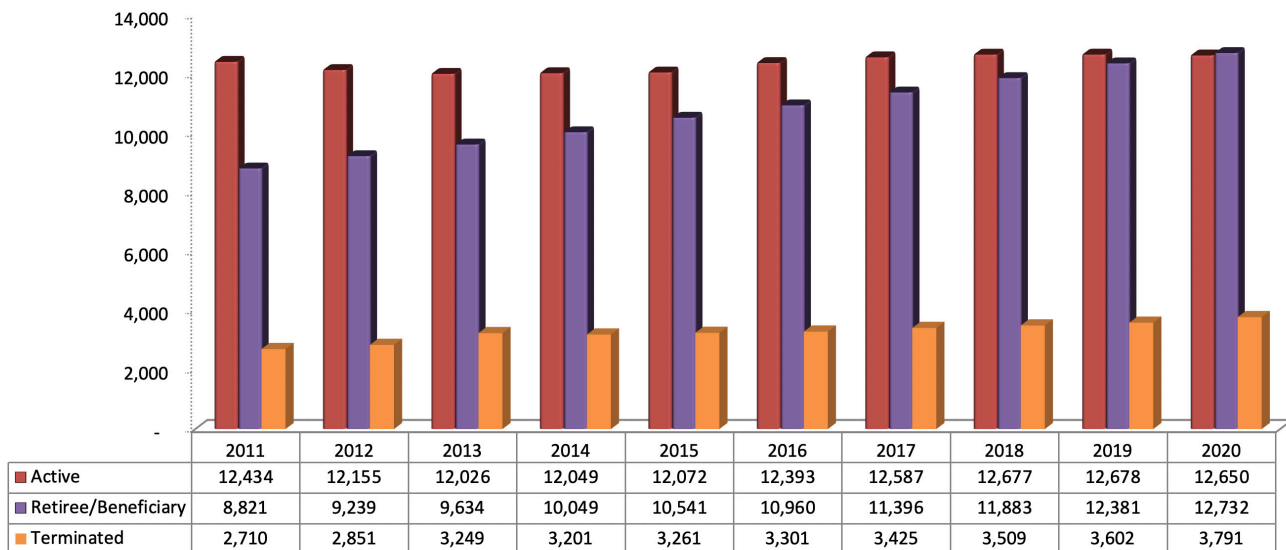
Membership

As of June 30, 2020



Membership

As of Fiscal Years Ended June 30



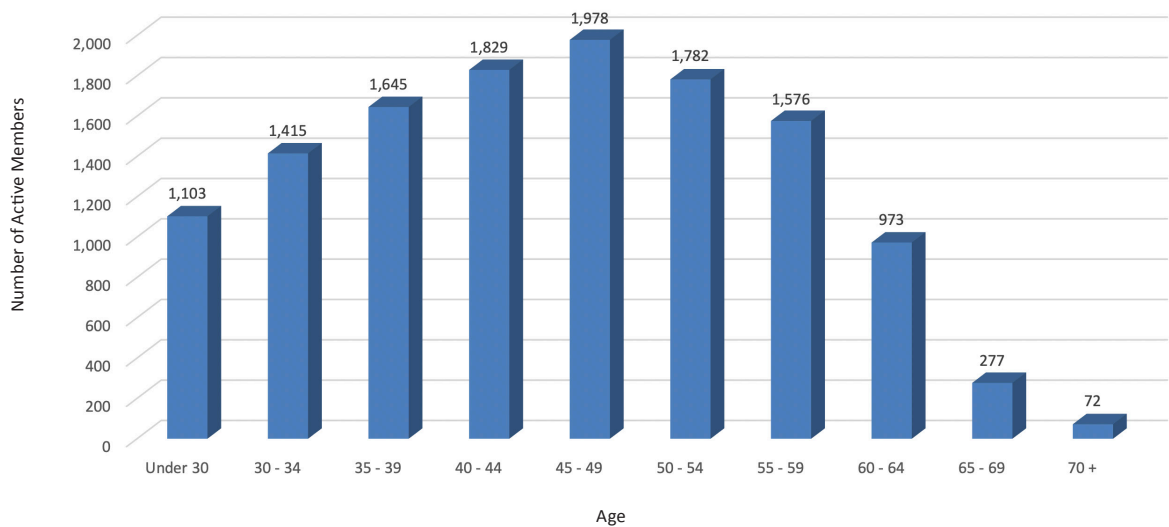
ACTIVE MEMBERS

Active Members As of June 30	2020	2019
Average Age	45.7	45.7
Average Years of Service	11.9	11.9
Average Annual Salary	\$84,625	\$81,901
Active Members	12,650	12,678

Distribution of Active Members**By Age**

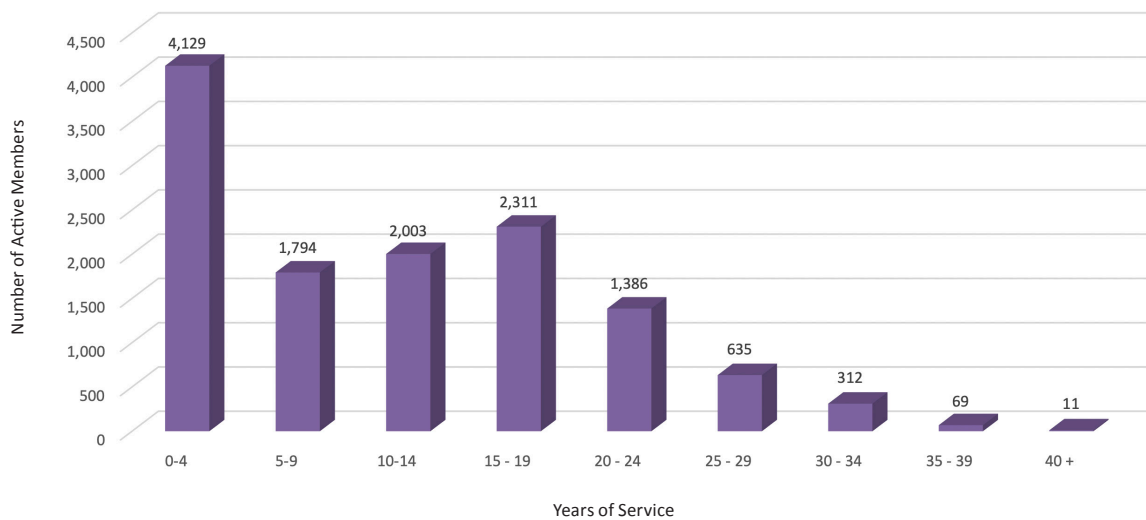
As of June 30, 2020

- The youngest member was 19.8 years old.
- The oldest member was 86.1 years old.

**Distribution of Active Members****By Years of Service**

As of June 30, 2020

- The member with the longest service had 47.9 years of service.



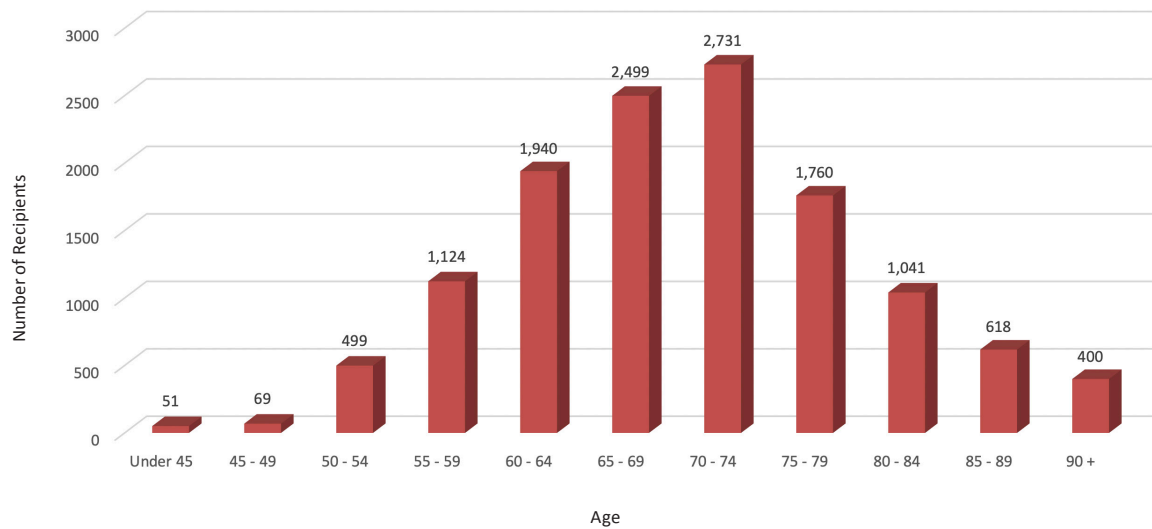
BENEFIT RECIPIENTS

Benefit Recipients As of June 30	2020	2019	Type of Retirement As of June 30	2020	2019
Average Age	70.1	69.8	Service	10,313	10,001
Average Years of Service	19.5	19.6	Disability	699	719
Average Monthly Benefit	\$3,658	\$3,521	Beneficiaries	1,720	1,661
Total Benefit Recipients	12,732	12,381	Total	12,732	12,381

Distribution of Benefit Recipients**By Age**

As of June 30, 2020

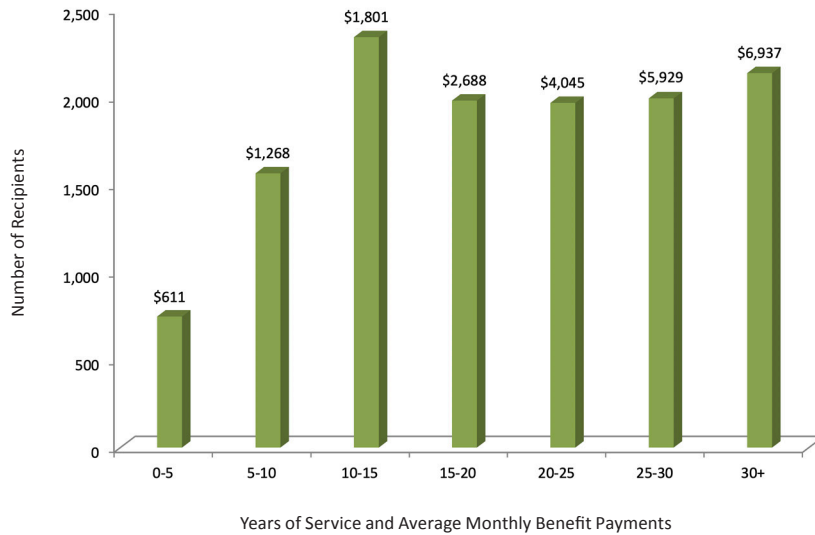
- The oldest benefit recipient was 104.5 years old.



Distribution of Benefit Recipients By Average Monthly Benefit Payments and Years of Service

As of June 30, 2020

- The longest benefit payment to a retiree with continuance survivor was 58.7 years.
- 63% of retired members had 15 or more years of service.
- The lowest monthly benefit payment to a recipient was \$3 and the highest was \$21,508.





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www.SCERS.org