

2016-17

ANNUAL FINANCIAL REPORT SUMMARY

For the Fiscal Years Ended
June 30, 2017 and 2016

Sacramento · California



Sacramento County Employees' Retirement System

EXECUTIVE SUMMARY

The Popular Annual Financial Report issued by the Sacramento County Employees' Retirement System (SCERS or the System) provides insight into the organization's services, financial results and investments, which are reported in detail in SCERS' fiscal years ended June 30, 2017 and 2016 Comprehensive Annual Financial Report (CAFR).

PLANNING STRATEGICALLY FOR THE FUTURE

In 2017, SCERS embarked on several major efforts to strengthen the System for both the short and long-term. As part of our fiduciary responsibility, due diligence, and fiscal best practices, SCERS and our actuarial consultant Segal Consulting (Segal) completed a comprehensive Experience Study covering the period from July 1, 2013 through June 30, 2016. We perform this study every three years to compare the actual experience of the plan with the actuarial assumptions to ensure the plan assets are sufficient to provide for the benefits that are expected to be paid. With this study, we have implemented actuarial assumption changes that will significantly strengthen our plan in the upcoming years.

In addition, SCERS engaged another actuarial consultant, Cheiron, to perform an independent actuarial audit to ensure that the actuarial assumptions and methodologies used by Segal are in compliance and reasonable and the results reported by Segal are reliable.

A summary of the actuarial assumption changes and the results of the actuarial audit appear on page 8 of this report.

SCERS also completed an asset/liability modeling (ALM) study that resulted in a new strategic asset allocation. As part of the ALM study, SCERS' Board identified and prioritized several investment-related plan objectives, principles, and risks that played a role in the design of the new 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. The new strategic asset allocation is summarized on page 6 of this report.

STABLE FUNDING AND COST-EFFECTIVE OPERATIONS

At June 30, 2017, SCERS was 80.4% funded with the market value of assets totaling \$8.6 billion and the actuarial accrued liability totaling \$10.7 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, 2017, SCERS had approximately 80 cents available for each dollar of anticipated future liability.

SCERS' investments generated a robust 13.7% gross return or \$1.1 billion gross income for the fiscal year while administrative expenses remained low. To our members, this continued growth and cost reductions allow SCERS to put more of its assets to work for you while providing more efficient customer service.

CONTINUOUS IMPROVEMENT

SCERS has been working with consultants to assess the organization's information technology system requirements and to identify solutions to accommodate the growing operational needs presently as well as in the future.

SCERS will redesign and enhance the website in 2018 to provide a new look and user-friendly features that will provide better access to additional resources for members and stakeholders. In the next four years, SCERS will also be implementing a pension administration system and other systems solutions in order to better serve its members.

FIDUCIARY NET POSITION AND FUNDED STATUS

(Dollar Amounts Expressed in Millions)

FIDUCIARY NET POSITION

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.

STATEMENTS OF FIDUCIARY NET POSITION

As of June 30

Assets	2017	2016	Increase/ (Decrease)	% Change
Cash and short-term investments	\$243.5	\$416.4	(\$172.9)	(41.5)%
Receivables	62.6	140.0	(77.4)	(55.3)
Investments, at fair value, net	8,397.5	7,308.4	1,089.1	14.9
Securities lending collateral	352.2	422.5	(70.3)	(16.6)
Other assets	0.5	0.4	0.1	25.0
Total assets	9,056.3	8,287.7	768.6	9.3
Liabilities				
Other liabilities	28.9	39.5	(10.6)	(26.8)
Investments purchased payable	91.0	144.8	(53.8)	(37.2)
Securities lending liability	352.2	422.5	(70.3)	(16.6)
Total liabilities	472.1	606.8	(134.7)	(22.2)
Net position restricted for pension benefits	\$8,584.2	\$7,680.9	\$903.3	11.8%

As of June 30, 2017, the net position restricted for pension benefits totaled \$8.584 billion which represented an increase of \$903.3 million, or 11.8%, from the \$7.681 billion in net position as of June 30, 2016. Changes in net position were primarily due to contributions, investment income, and benefit payments.

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 superior investment returns and employer and employee contributions which are both minimized and maintained as level as possible for each generation of active members. SCERS retained an independent actuarial firm, Segal Consulting, to perform an annual actuarial valuation to monitor the funded status of the System.

An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of retirement benefits are appraised. These assets are compared with the liabilities, which represents the present value of all future benefits which are expected to be paid for each member. The 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 smoothes the calculation of actuarial assets 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 costs.

As of June 30	Total Pension Liability	Actuarial Value of Assets (AVA)	Funded Ratio on an AVA Basis	Market Value of Assets (MVA)	Funded Ratio on a MVA Basis
2017	\$10,681.0	\$8,665.2	81.1%	\$8,584.2	80.4%
2016	9,436.1	8,236.4	87.3	7,680.9	81.4
2015	9,028.7	7,838.8	86.8	7,878.8	87.3
2014	8,580.9	7,313.0	85.2	7,810.0	91.0
2013	8,211.0	6,797.8	82.8	6,788.0	82.7



FIDUCIARY NET POSITION AND FUNDED STATUS (CONTINUED)

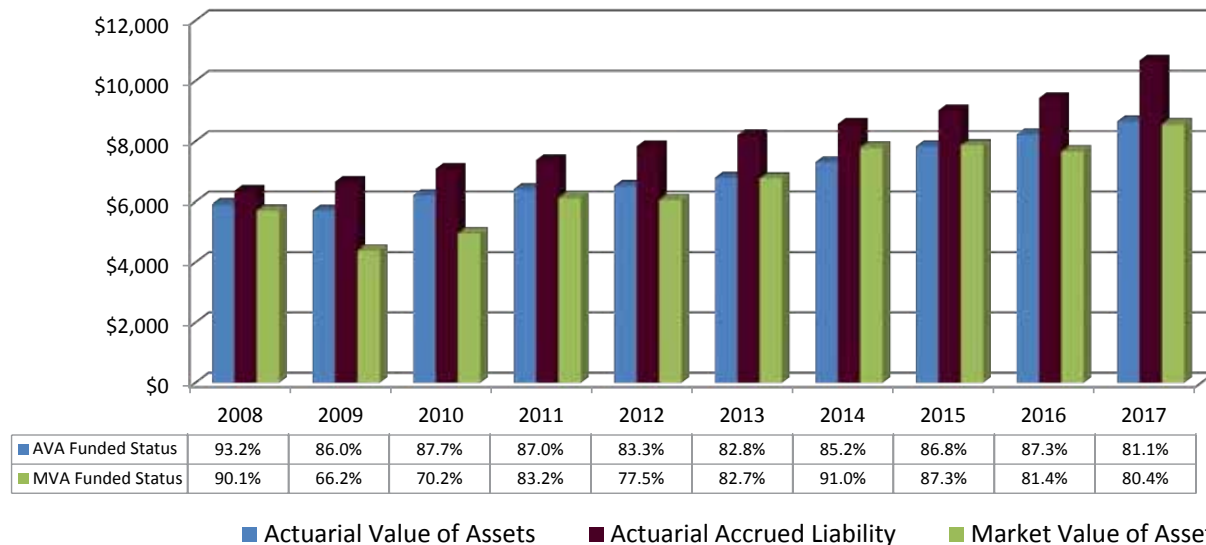
(Dollar Amounts Expressed in Millions)

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 actuarial value of assets basis, the funded ratio decreased from 87.3% to 81.1%.

Another approach to determine funded status is based on the market value of assets (MVA). As of June 30, 2017, SCERS was 80.4% funded on a market value basis, a decrease from 81.4% as of June 30, 2016.

FUNDED STATUS

Fiscal Years Ended June 30



REVENUE AND EXPENSES

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Years Ended June 30

	2017	2016	Increase/ (Decrease)	% Change
Additions				
Employee contributions	\$89.5	\$77.5	\$12.0	15.5%
Employer contributions	203.9	209.0	(5.1)	(2.4)
Net gain/(loss) from investment activities	1,137.8	(12.6)	1,150.4	9,130.2
Net income from securities lending	2.5	1.9	0.6	31.6
Other expense	(7.5)	(2.3)	(5.2)	226.1
Investment fees and expenses	(83.9)	(59.4)	(24.5)	41.2
Total additions	1,342.3	214.1	1,128.2	527.0
Deductions				
Withdrawal of contributions	2.3	2.3	0.0	0.0
Administrative expenses	6.9	6.4	0.5	7.8
Benefits paid	429.8	403.3	26.5	6.6
Total deductions	439.0	412.0	27.0	6.6
Increase/(decrease) in net position	903.3	(197.9)	1,101.2	556.4
Net position restricted for pension benefits, beginning	7,680.9	7,878.8	(197.9)	(2.5)
Net position restricted for pension benefits, ending	\$8,584.2	\$7,680.9	\$903.3	11.8%

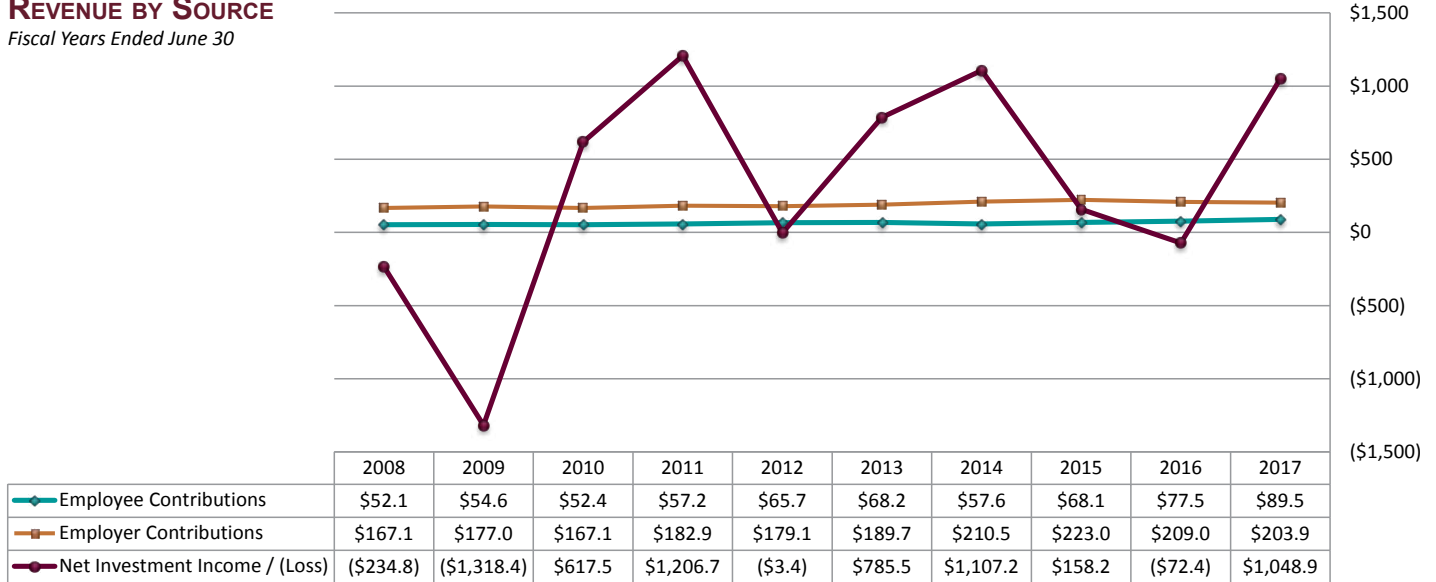
REVENUE AND EXPENSES (CONTINUED)

(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 employee and employer contribution rates vary depending on the member's plan, tier, employer, and bargaining unit.

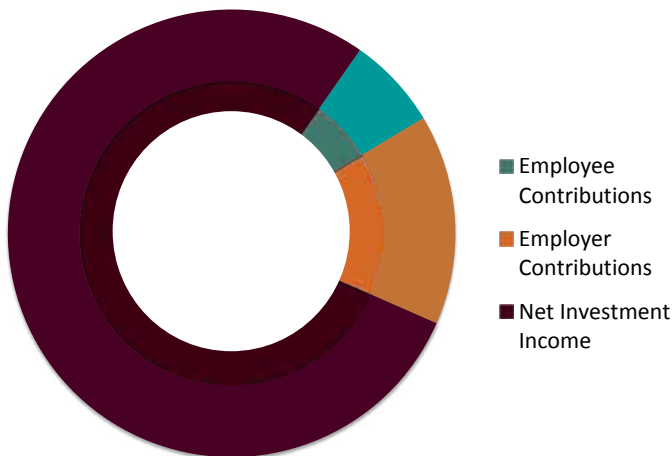
REVENUE BY SOURCE

Fiscal Years Ended June 30



BENEFITS FUNDING SOURCE

Fiscal Year Ended June 30, 2017

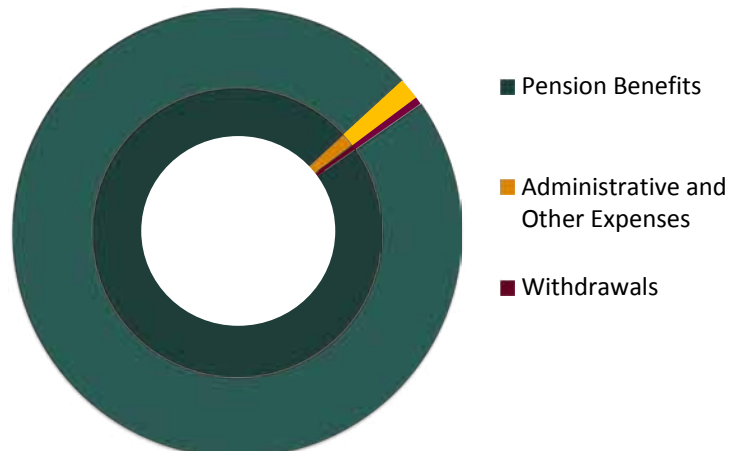


For fiscal year 2016-2017, 78.1% of revenues were from investment income, 15.2% were from employer contributions, and 6.7% were from employee contributions.

For fiscal year 2016-2017, 97.9% of the total expenses were related to benefit payments, 1.6% were related to administrative expenses, and 0.5% were employee contribution refunds.

EXPENSES

Fiscal Year Ended June 30, 2017



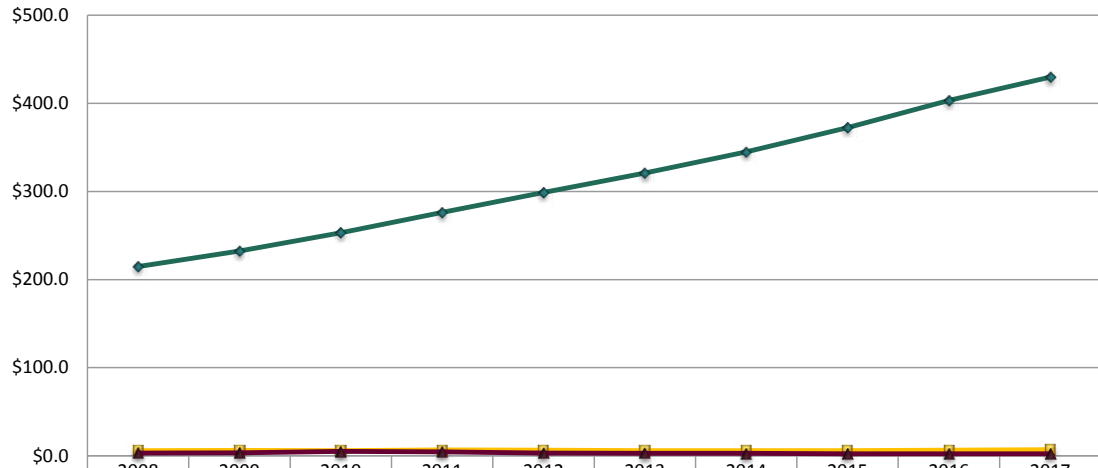
REVENUE AND EXPENSES (CONTINUED)

(Dollar Amounts Expressed in Millions)

SCERS' expenses include retirement benefits, disability and death benefits, refunds to members and the cost to administer the benefit system. Total expenses during fiscal year 2016-2017 equaled \$439.0 million, a 6.6% increase compared to the prior year. Administrative expenses in the last ten years have remained relatively constant.

EXPENSES

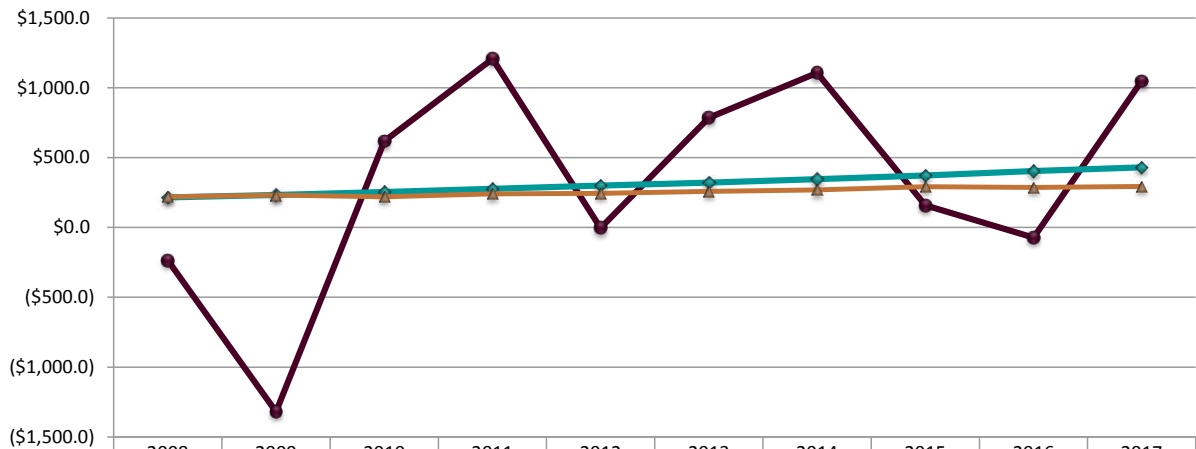
Fiscal Years Ended June 30



◆ Pension Benefits	\$214.9	\$232.3	\$253.1	\$276.2	\$298.8	\$320.8	\$344.9	\$372.4	\$403.3	\$429.8
■ Administrative and Other Expenses	\$5.9	\$6.0	\$5.9	\$6.6	\$6.3	\$5.7	\$5.7	\$5.8	\$6.4	\$6.9
▲ Withdrawals	\$3.2	\$3.3	\$4.9	\$4.4	\$3.0	\$2.8	\$2.7	\$2.3	\$2.3	\$2.3

INVESTMENT INCOME, CONTRIBUTIONS AND BENEFIT PAYMENTS

Fiscal Years Ended June 30



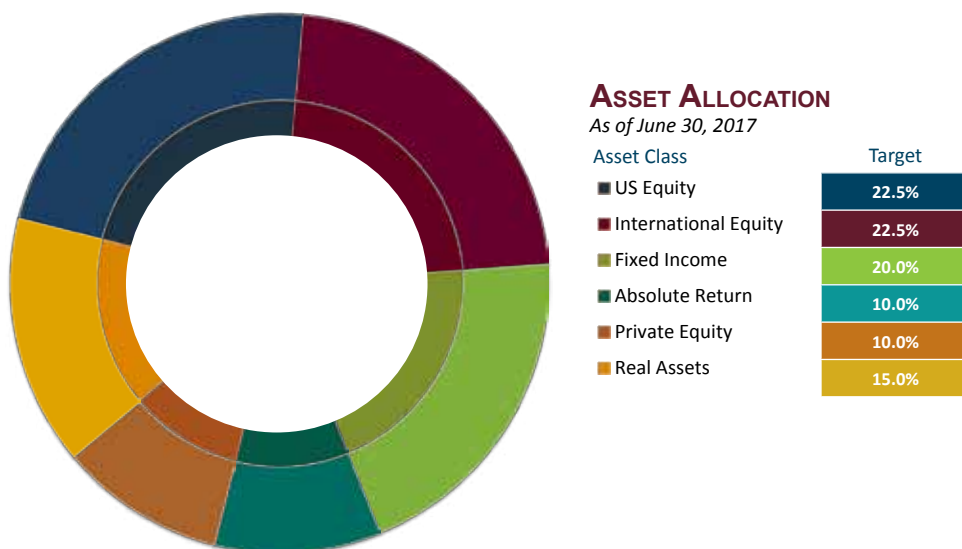
● Investment Income	(\$234.8)	(\$1,318.4)	\$617.5	\$1,206.7	(\$3.4)	\$785.5	\$1,107.2	\$158.2	(\$72.4)	\$1,048.9
◆ Pension Benefits	\$214.9	\$232.3	\$253.1	\$276.2	\$298.8	\$320.8	\$344.9	\$372.4	\$403.3	\$429.8
▲ Total Contributions	\$219.2	\$231.6	\$219.5	\$240.1	\$244.8	\$257.9	\$268.1	\$291.1	\$286.5	\$293.4

Since fiscal year 2008-2009, benefit payments have been higher than the total employee 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 decreased from 15,180 in fiscal year 2007-2008 to 12,587 in fiscal year 2016-2017, while the number of retired members increased from 7,709 to 11,396 during the same period.

INVESTMENTS

ASSET ALLOCATION

SCERS' investment program is structured around a strategic asset allocation model established by SCERS' Board with the assistance of SCERS' investment staff, general investment consultant Verus, alternative assets consultant Cliffwater LLC, and real estate consultant Townsend Holdings LLC. 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. To achieve this, the asset allocation is broadly diversified between asset classes and within asset classes to provide consistent long-term performance. The asset allocation targets are not tactical, but rather, long term in nature, consistent with the long-term nature of SCERS' benefit obligations. The asset allocation model is typically reviewed every three to five years, but the long-term capital market assumptions for the various asset classes and sub-asset classes are reviewed and adjusted as appropriate each year.



During the fiscal year, SCERS completed an asset/liability modeling (ALM) study that resulted in the approval of a new strategic asset allocation. The process of transitioning SCERS' portfolio to the new strategic asset allocation targets began during the fiscal year, including making structural modifications to underlying asset classes and adjusting policy benchmarks, but the majority of changes will likely occur in the following fiscal years. The changes to SCERS' strategic asset allocation are summarized in the table below:

Asset Category/Asset Class	Prior Target Allocation	New Target Allocation	Change
Growth	63.0%	59.0%	(4.0%)
Domestic Equity	22.5	21.0	(1.5)
International Equity	22.5	20.0	(2.5)
Private Equity	10.0	9.0	(1.0)
Public Credit	2.0	2.0	0.0
Private Credit	0.0	4.0	4.0
Growth Absolute Return	6.0	3.0	(3.0)
Diversifying	22.0	25.0	3.0
Core/Core Plus Fixed Income	15.0	10.0	(5.0)
US Treasury	0.0	5.0	5.0
Global Fixed Income	3.0	3.0	0.0
Diversifying Absolute Return	4.0	7.0	3.0
Real Return	15.0	16.0	1.0
Real Estate	7.0	7.0	0.0
Real Assets	6.0	7.0	1.0
Commodities	2.0	2.0	0.0
Opportunities	0.0	0.0	0.0
	100.0%	100.0%	

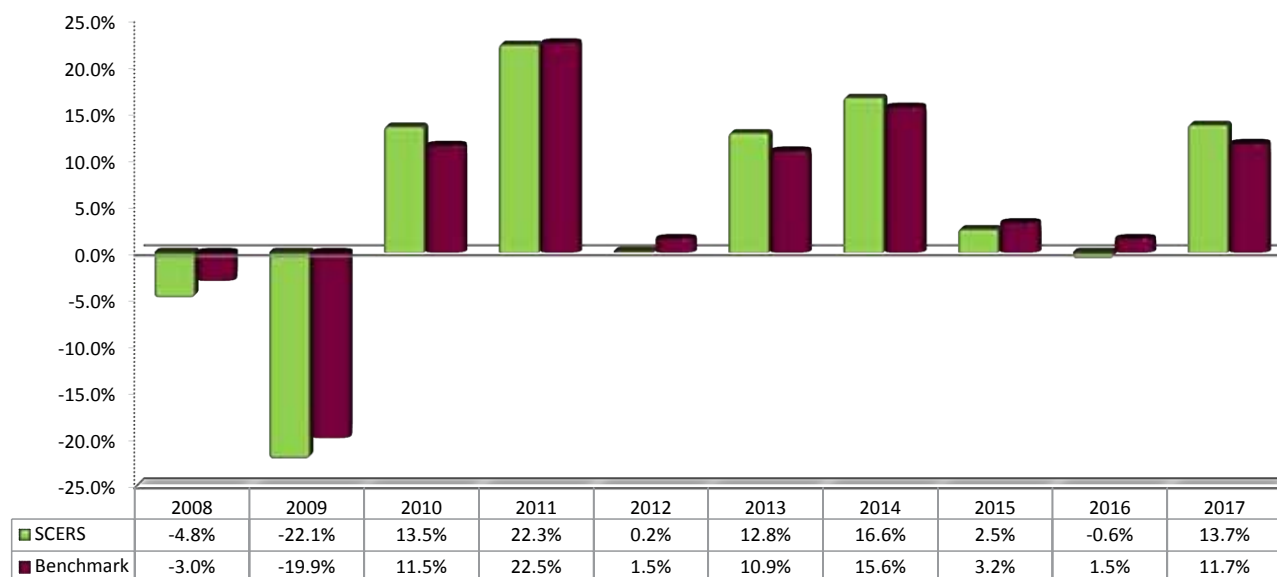


INVESTMENT PERFORMANCE

SCERS' investment portfolio was valued at \$8.8 billion on June 30, 2017. For the fiscal year ended June 30, 2017, the portfolio generated a robust 13.7% gross return, benefitting from strong returns across most market segments. This was a welcome change after near flat performance over the past two fiscal years.

PORTFOLIO RETURNS AND BENCHMARKS

Fiscal Years Ended June 30

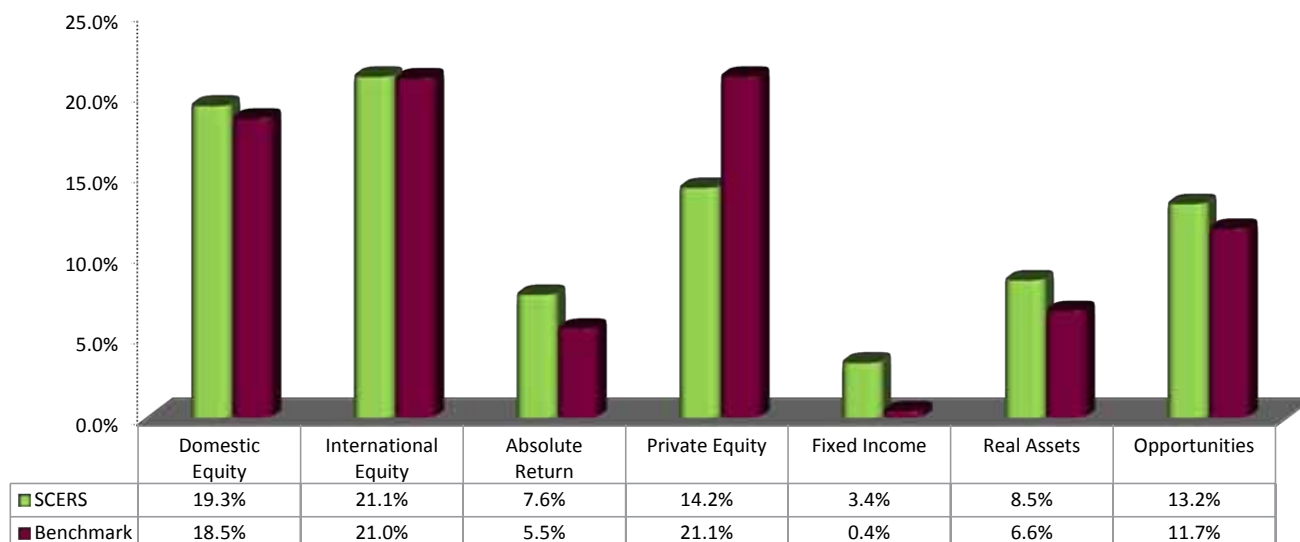


SCERS' gross return of 13.7% was also impressive on a relative basis, exceeding its policy index return of 11.7%. Contributors to the generation of excess returns relative to SCERS' policy index were the Domestic and International Equity, Fixed Income, Absolute Return, Real Assets and Opportunities asset classes.

PORTFOLIO RETURNS AND BENCHMARKS

by Asset Class

Fiscal Year Ended June 30, 2017



ACTUARIAL AND STATISTICAL

CHANGE OF ACTUARIAL ASSUMPTIONS

Every three years, SCERS requests that its actuary perform an analysis of the appropriateness of all economic and non-economic assumptions. The most recent triennial analysis was performed as of June 30, 2016. As a result of that analysis, the Board of Retirement approved the following changes to the actuarial assumptions, which were first incorporated in the June 30, 2017 valuation:

- The inflation rate was reduced from 3.25% to 3.0% to reflect the gradual decline of average inflation rates over the last several years.
- The investment rate of return was reduced from 7.50% to 7.00% to reflect the projected real rate of return for the next 10-15 years based on SCERS' asset allocation model and risk tolerance.
- The salary increase assumption was adjusted slightly to reflect past experience.
- The retirement rates were adjusted to be more in line with the experience.
- The mortality rates were adjusted and a generational approach was used to reflect a slight mortality improvement.
- Termination rates were adjusted to reflect lower incidence of termination, with a lower proportion electing to receive a deferred vested benefit.
- The disability rates were adjusted to reflect slightly lower incidence of disability for Miscellaneous and Safety members.
- An assumption was introduced for new Miscellaneous disabled retirees to anticipate conversions of unused sick leave at retirement.

SUMMARY OF ACTUARIAL AUDIT

In 2017, SCERS engaged Cheiron to perform an actuarial audit, including a complete independent replication of SCERS' June 30, 2016 actuarial valuation, and Cheiron also reviewed the actuarial methods underlying that valuation. Additionally, SCERS engaged Cheiron to perform a review of the assumptions recommended by Segal for the June 30, 2017 valuation, as reflected in the actuarial experience study covering the period from July 1, 2013 through June 30, 2016.

The purpose of the actuarial audit is to provide SCERS confirmation that:

- The results reported by Segal are reliable.
- Segal's actuarial valuation report, assumptions, and methods comply with Actuarial Standards of Practice.
- The communication of the actuarial valuation results is complete and reasonable.
- The SCERS Retirement Board and Segal have considered Cheiron's recommendations that may improve the valuation and experience study.

Key Findings and Recommendations

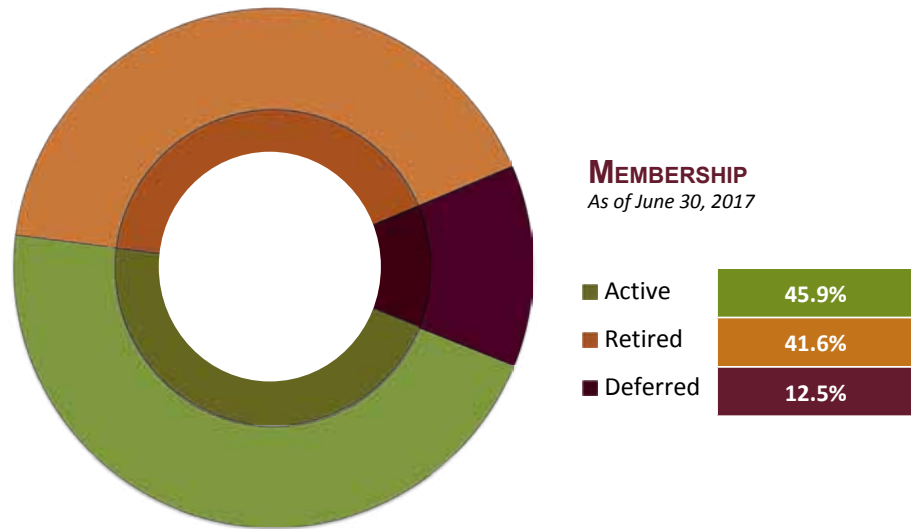
As presented in Cheiron's Actuarial Review of the June 30, 2016 Actuarial Valuation and Actuarial Experience Study, Cheiron has:

- Confirmed that the liabilities and costs computed by Segal in the SCERS valuation as of June 30, 2016 were reasonably accurate and were computed in accordance with generally accepted actuarial principles.
- Reviewed the economic and demographic assumptions recommended in SCERS' most recent Actuarial Experience Study prepared by Segal and have found them to be reasonable and in accordance with generally accepted actuarial principles.
- Recommended Segal review Cheiron's recommendations regarding rates of retirement and mortality to determine whether additional analysis is merited.

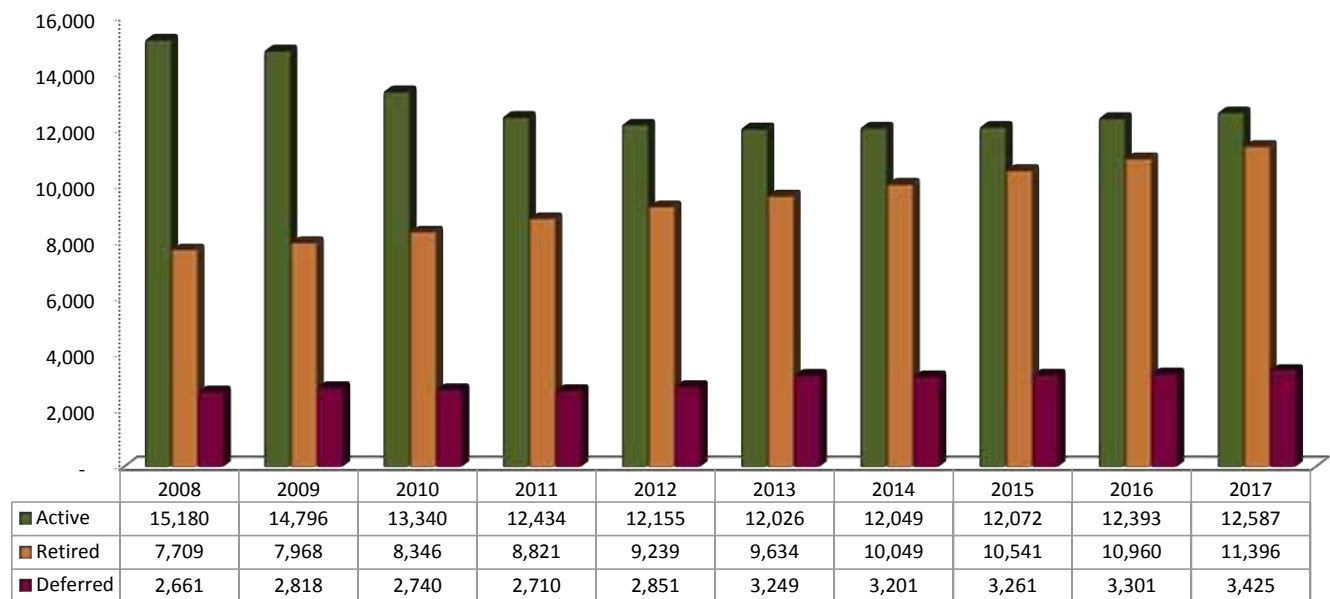


SYSTEM MEMBERSHIP

SCERS' members include permanent full-time and part-time employees of the County of Sacramento; Superior Court of California, County of Sacramento; and eleven Special Districts. As of June 30, 2017, SCERS had 12,587 active members, 11,396 retired members, and 3,425 deferred members.



MEMBERSHIP
As of June 30



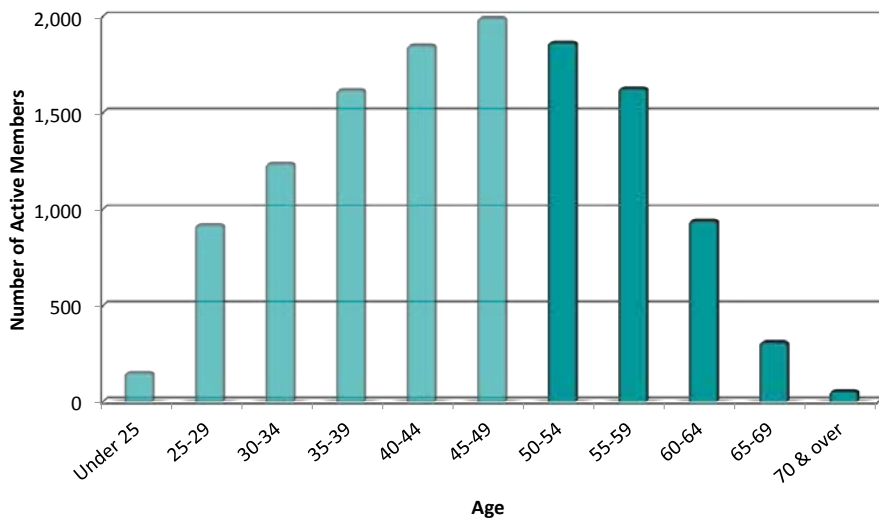
ACTIVE MEMBERS

Active Members As of June 30	2017	2016
Average Age	46.0	46.3
Average Years of Service	12.1	12.4
Average Annual Salary	\$77,887	\$75,733
Active Members	12,587	12,393

DISTRIBUTION OF ACTIVE MEMBERS

by Age

As of June 30, 2017

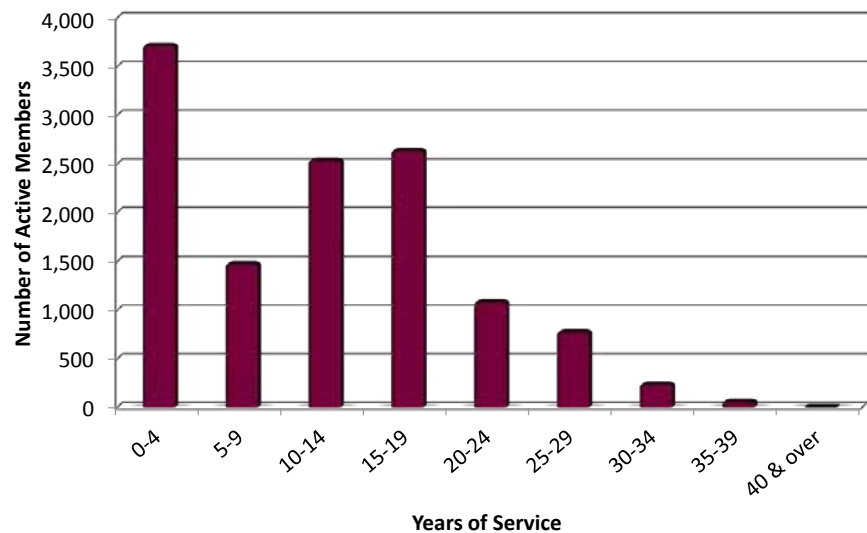


- The youngest member is 19.1 years old.
- The oldest member is 83.2 years old.

DISTRIBUTION OF ACTIVE MEMBERS

by Years of Service

As of June 30, 2017



The member with the longest service has 45.3 years of service.



BENEFIT RECIPIENTS

Benefit Recipients As of June 30	2017	2016
Average Age	69.5	69.4
Average Years of Service	19.4	19.5
Average Monthly Benefits	\$3,260	\$3,156
Total Benefit Recipients	11,396	10,960

Type of Retirement As of June 30	2017	2016
Service	9,103	8,710
Disability	717	717
Beneficiaries	1,576	1,533
Total	11,396	10,960

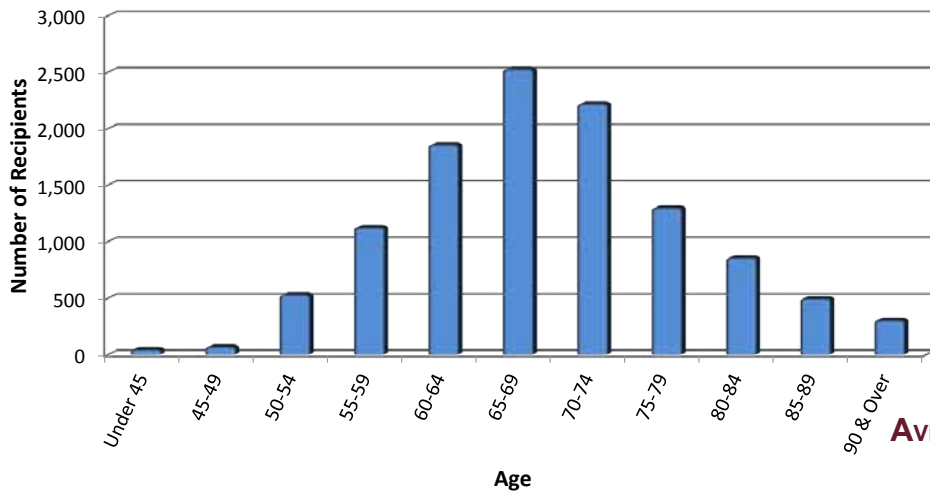
New Benefit Recipients For fiscal year ended June 30	2017	2016
Average Age	60.2	60.2
Average Years of Service	19.3	18.6
Average Monthly Benefits	\$3,664	\$3,272
Total New Benefit Recipients	585	548

Type of Retirement For fiscal year ended June 30	2017	2016
Service	557	525
Disability	1	3
Beneficiaries	27	20
Total	585	548

DISTRIBUTION OF BENEFIT RECIPIENTS

by Age

As of June 30, 2017



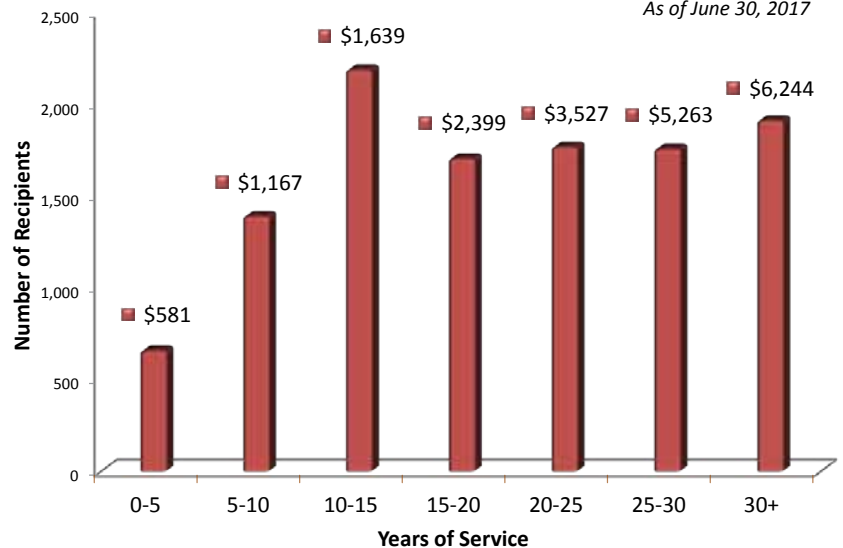
The oldest member currently receiving benefits is 103.2 years old.

- The member who has been retired the longest retired 55.7 years ago.
- 63% of retired members have more than 15 years of service.

AVERAGE MONTHLY BENEFIT PAYMENTS

by Years of Service












As of June 30, 2017



SCERS MISSION STATEMENT AND CORE VALUES

We are dedicated to providing the highest level of retirement services and managing system resources in an effective and prudent manner.

In fulfilling our mission as a retirement system, we are committed to:

-  The highest levels of professionalism and fiduciary responsibility
-  Acting with integrity
-  Competent, courteous and respectful service to all
-  Open and fair processes
-  Safeguarding confidential information
-  Cost-effective operations
-  Stable funding and minimal contribution volatility
-  Effective communication and helpful education
-  Maintaining a highly competent and committed staff
-  Continuous improvement
-  Planning strategically for the future

This Annual Financial Report Summary is derived from the information contained in SCERS' Comprehensive Annual Financial Report (CAFR) but does not include all information required for conformity with Generally Accepted Accounting Principles (GAAP). The CAFR, which provides more detailed information and is produced in conformity with GAAP, is available online at www.scers.org.



SCERS

980 9th Street, Suite 1900 | Sacramento, CA 95814 | www.SCERS.org