



# Board of Retirement Regular Meeting

## Sacramento County Employees' Retirement System

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### Agenda Item 13

**MEETING DATE:** March 16, 2022

**SUBJECT:** Annual Independent Financial Statement Audit --  
Revised

**SUBMITTED FOR:**  Consent       **Deliberation**  
**X** and Action       **Receive**  
**and File**

---

### **RECOMMENDATION**

Staff recommends that the Board approve the reissued audited financial statements and Annual Comprehensive Financial Report (ACFR) and accompanying required reports for the fiscal year ended June 30, 2021.

### **PURPOSE**

This item supports the Strategic Management Plan by maintaining transparent communications to stakeholders and promoting fiscal responsibility and stewardship. This item fulfills the requirements of Sections 25250 and 25253 of the Government Code of the State of California to prepare an Annual Financial Report. This report is prepared and audited in consult with external auditors selected by the Board of Retirement.

### **DISCUSSION**

An actuarial reduction to the SCERS' Net Pension Liability (NPL), measured as of June 30, 2021, required revisions to the notes and schedules of the previously audited financial statements as of year ended June 30, 2021. Ashley Green, Partner, at Brown Armstrong is in attendance to answer any questions the Board may have regarding the reissued June 30, 2021, audit results. Brown Armstrong rendered an unmodified (or "clean") opinion on the revised SCERS' financial statements.

### **FINANCIAL CHANGE HIGHLIGHTS**

As of June 30, 2021, SCERS' total pension liability was \$12.9 billion, up from 12.7 billion as of June 30, 2020. The employers' Net Pension Liability (NPL) was \$421.4 million as of June 30, 2021, a decrease from \$2.7 billion as of June 30, 2020. The decrease in the employers' net pension liability is primarily a result of favorable investment returns (about \$2,077.0 million greater than expected).

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**ATTACHMENTS**

- Board Order
- SCERS Annual Comprehensive Financial Report for year ended 2020/21
- Report to the Board of Retirement
  - Required Communication to the Members of the Board of Retirement in Accordance with Professional Standards (SAS 114)
  - Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

/S/

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Margo Allen  
Chief Operations Officer

/S/

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Eric Stern  
Chief Executive Officer



# Retirement Board Order

## Sacramento County Employees' Retirement System

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Before the Board of Retirement  
March 16, 2022

AGENDA ITEM:

### Annual Independent Financial Statement Audit -- Revised

THE BOARD OF RETIREMENT hereby accepts the recommendation of staff to approve the reissued audited financial statements and Annual Comprehensive Financial Report (ACFR) and accompanying required reports for the fiscal year ended June 30, 2021.

I HEREBY CERTIFY that the above order was passed and adopted on March 16, 2022, by the following vote of the Board of Retirement, to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

ALTERNATES (Present but not voting):

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Richard B. Fowler II  
Board President

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Eric Stern  
Chief Executive Officer and  
Board Secretary





SCERS  
CELEBRATING 80 YEARS

2020-21

ANNUAL COMPREHENSIVE  
**FINANCIAL  
REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

PENSION TRUST FUND OF THE COUNTY OF SACRAMENTO, CALIFORNIA

Sacramento, California

Sacramento County Employees' Retirement System









ANNUAL COMPREHENSIVE

# FINANCIAL REPORT

WITH INDEPENDENT  
AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

PENSION TRUST FUND OF THE COUNTY OF SACRAMENTO, CALIFORNIA

Issued By:

Eric Stern  
Chief Executive Officer

Margo Allen  
Chief Operations Officer

SACRAMENTO COUNTY  
EMPLOYEES' RETIREMENT SYSTEM  
980 9th Street, Suite 1900  
Sacramento, CA 95814

[www.SCERS.org](http://www.SCERS.org)



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**CORE VALUES**

*Stewardship –  
by recognizing the trust  
members put in us to  
manage assets and  
resources prudently,  
to sustain SCERS for  
future generations.*





# **SECTION 1**

## **INTRODUCTORY**



# LETTER OF TRANSMITTAL

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Eric Stern, Chief Executive Officer  
Margo Allen, Chief Operations Officer  
Steve Davis, Chief Investment Officer  
Stephen Lau, General Counsel  
Mario Sierras, Chief Benefits Officer

February 25, 2022

Board of Retirement  
Sacramento County Employees' Retirement System  
980 9th Street, Suite 1900  
Sacramento, CA 95814

Dear Board Members and Members:

As Chief Executive Officer of the Sacramento County Employees' Retirement System (SCERS or the System), I am pleased to present this Annual Comprehensive Financial Report (ACFR or the Report) for the fiscal year ended June 30, 2021.

This year marks an important milestone for SCERS – our 80th anniversary of bringing retirement security to public servants in the region – since the Sacramento County Board of Supervisors established SCERS. For 80 years, SCERS has provided retirement, disability, and survivors' benefits to the public employees of Sacramento County and their families. At the core, we manage and grow approximately \$12 billion in assets for our nearly 30,000 members, but we also:

- Provide retirement income and comfort for our members for the rest of their lives
- Safeguard what is likely our members' largest financial asset
- Assist members on their retirement journey after a long career in public service
- Provide peace of mind to spouses and beneficiaries when members pass away
- Partner with our employers to provide a generous benefit program that retains career employees
- Offer injured workers the ability to stop working and retire with dignity

This year also reflected the resilience of a retirement system that continued to meet our strategic goals through the COVID-19 pandemic. While working largely in a remote-from-home environment, our staff remained dedicated to customer service, adapting new forms of communication and outreach to members, embracing technological changes to our legacy systems and business processes, and finding opportunities to grow our investment portfolio through the volatility of the pandemic.

I trust that readers of this Report and members of the System will find this information helpful in understanding SCERS and its commitment to financial integrity and customer service.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation in this Report rests with the management of the System. To the best of management's knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.



## The System

SCERS is a cost-sharing multiple-employer public employee retirement system, enacted and administered in accordance with the provisions of the County Employees Retirement Law of 1937 (California Government Code Section 31450, et seq ) (1937 Act) and the California Public Employees' Pension Reform Act of 2013 (PEPRA). Since its establishment by the Sacramento County Board of Supervisors in 1941, SCERS has provided retirement, disability, and survivors' benefits to eligible participants of the System Under Article XVI, Section 17 of the Constitution of the State of California, the SCERS Board of Retirement (the Board) is vested with plenary authority and fiduciary responsibility for the investment of member contributions and the administration of the System. Together, the provisions of the State Constitution and the 1937 Act establish SCERS as a separate and independent governmental entity from the public employers that participate in SCERS. At June 30, 2021, the County of Sacramento (and its Elected Officials); Superior Court of California, and nine Special Districts participated in SCERS.

## Accounting System and Reports

SCERS' Management is responsible for establishing and maintaining internal controls designed to ensure that the System's assets are protected from loss, theft, or misuse. Responsibility for the accuracy, completeness, and fair presentation of information, and all disclosures in this Report and in the System's records, rests with SCERS' management. Brown Armstrong Accountancy Corporation, a certified public accounting firm, has audited the financial statements and related disclosures. The financial statement audit provides reasonable assurance that SCERS' financial statements are presented in conformity with accounting principles generally accepted in the United States and are free from material misstatements. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) The cost of a control should not exceed the benefits likely to be derived; and (2) The assessment of costs and benefits requires estimates and judgments by management.

This report has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the independent auditor's report.

## Investments - General Authority and SCERS

Article XVI, Section 17 of the Constitution of the State of California provides that "...notwithstanding any other provisions of law or this Constitution, the Retirement Board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of monies and administration of the system..." Article XVI, Section 17(a) further provides that "...the Retirement Board of a public pension or retirement system shall have sole and exclusive fiduciary responsibility over the assets..."

SCERS maintains an overall investment policy designed to achieve a diversified investment portfolio. An integral part of the investment policy is the strategic asset allocation, which is designed to provide an optimal mix of asset classes with return expectations that correspond to expected liabilities. The strategic asset allocation also emphasizes maximum diversification of the portfolio to protect the System from the possibility that a particular asset class may experience poor investment performance in a given period.



The current strategic asset allocation model was established as a result of an asset allocation study conducted in 2021. SCERS' strategic asset allocation views risk exposures through multiple lenses, including functional and common factor exposures, in order to manage and maintain allocations that are aligned with SCERS' investment philosophy and objectives. This multiple lens approach uses a functional framework to group and classify segments of SCERS' portfolio in order to link segments that are exposed to similar economic environments and risk factors, and which would be expected to have similar roles and outcomes in a portfolio. The functional grouping takes a simplified approach at the asset category level, by breaking the portfolio into three asset categories, with greater complexity reserved at the asset class level. The asset categories include: (1) Growth, (2) Diversifying, and (3) Real Return.

SCERS' strategic asset allocation has heavy allocations to growth assets that can drive returns. However, it also maintains meaningful diversification, especially to investment strategies with low and negative correlations to equity markets that can reduce portfolio volatility and protect against significant market drawdowns. It is also expected to generate meaningful cash flow for SCERS.

For the fiscal year ended June 30, 2021, SCERS' investments provided a 27.9% rate of return (gross of fees), compared to the investment policy benchmark return of 24.4%.

More detailed information regarding SCERS' strategic asset allocation, professional investment advisors, and investment performance can be found in the Investment Section of this Report.

### **Actuarial Funding Status**

SCERS' overall funding objective is to meet long-term benefit promises by maintaining a well-funded plan status through a combination of superior investment returns and employer and member contributions, which are both minimized and maintained as level as possible for each generation of active members. The greater the level of overall plan funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the investment potential. The advantage of a well-funded plan is that the benefits earned by participants are funded during their working careers and not by future generations of taxpayers.

To help reduce year-to-year volatility in employer contribution rates due to fluctuations in investment performance, SCERS smooths the investment gains and losses over a seven-year period. This not only stabilizes contribution rates, but also improves the ability of the employer to plan for possible future increases or decreases in the contribution rates.

SCERS engaged an independent actuarial consulting firm, Segal, to conduct its annual actuarial valuation as of June 30, 2021. Triennially, the System 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, 2019, and as a result of that analysis, the Board approved certain changes to the actuarial assumptions, which are incorporated in the actuarial valuation as of June 30, 2021. Most significantly, the Board adopted a 6.75% assumed rate of return, a decrease from 7%.

At June 30, 2021, SCERS' funding ratio on a fiduciary net position basis was 94.4%. On an actuarial basis, the funding ratio was 82.1%, with the actuarial value of assets totaling \$10.9 billion and the actuarial accrued liability totaling \$13.3 billion. Deferred gains under the smoothing methodology exceeded deferred losses by \$1,634.6 million as of June 30, 2021, increased from \$250.4 million in losses as of June 30, 2020. Deferred investment gains/(losses) are recognized over a rolling seven-year period.





### Budget

The Board approves SCERS' annual budget. The 1937 Act limits SCERS' annual administrative expenses, excluding the costs of administration for computer software and hardware and computer technology consulting services (IT costs), to twenty-one hundredths of one percent (0.21%) of the System's actuarial accrued liability. SCERS' administrative expenses have historically been below the limitation. Administrative expenses, excluding IT costs, were \$8.4 million, which represented .06% of the System's actuarial accrued liability for the fiscal year ended June 30, 2021.

### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to SCERS for its ACFR for the fiscal year ended June 30, 2020. In order to be granted this national award, a governmental entity must publish an easily readable and efficiently organized ACFR that meets the highest standards of governmental financial reporting. This was the twenty-second consecutive year that SCERS has received this prestigious award.

A Certificate of Achievement is valid for a period of one year. Management believes that this current ACFR continues to meet the requirements for earning a Certificate of Achievement, and it will be submitted to the GFOA for consideration of the award.

SCERS also received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 2020. This was the twelfth consecutive year SCERS has received this award.

### Acknowledgements

This Report is intended to provide complete and reliable information with respect to the responsible stewardship of SCERS. The compilation of this Report is a product of the combined and dedicated effort of the System's staff. This Report is also a reflection of the leadership of the SCERS Board in assuring the prudent fiduciary oversight of SCERS. I would like to take this opportunity to express my thanks to the SCERS Board, Staff, and advisors for their commitment to SCERS and for working so diligently to ensure the successful operation of the System.

Respectfully submitted,



Eric Stern  
Chief Executive Officer



CERTIFICATE OF ACHIEVEMENT



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Sacramento County Employees' Retirement System  
California**

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2020

*Christopher P. Morrill*

Executive Director/CEO



# BOARD OF RETIREMENT



**President**  
Richard B. Fowler II  
Appointed by Board of Supervisors  
Present term expires June 30, 2022



**Trustee**  
Dave Comerchero  
Elected by Miscellaneous Members  
Present term expires December 31, 2022



**Vice President**  
Keith DeVore  
Appointed by Board of Supervisors  
Present term expires June 30, 2024



**Trustee**  
Martha Hoover  
Elected by Retired Members  
Present term expires December 31, 2022



**Vice President**  
John B. Kelly  
Appointed by Board of Supervisors  
Present term expires December 31, 2021



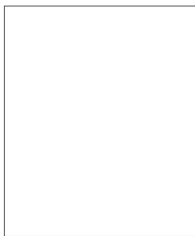
**Trustee**  
Matthew Petersen  
Elected by Safety Members  
Present term expires December 31, 2021



**Trustee**  
Diana Gin  
Elected by Miscellaneous Members  
Present term expires December 31, 2021



**Alternate Retiree Trustee**  
Kathy O'Neil  
Elected by Retired Members  
Present term expires December 31, 2022



**Trustee**  
Vacant



**Alternate Safety Trustee**  
Jack Philp  
Elected by Safety Members  
Present term expires December 31, 2021



**Ex-Officio**  
Ben Lamera  
Sacramento County  
Director of Finance  
Member mandated by law





# ORGANIZATION CHART

## BOARD OF RETIREMENT



Eric Stern  
**Chief Executive Officer**



Steve Davis  
**Chief Investment Officer**

- Investment policy and objectives
- Investment compliance and performance reporting
- Asset allocation rebalancing
- Conduct manager searches
- Manager due diligence
- Proxy voting and corporate governance
- Board education on investment issues



Stephen Lau  
**General Counsel**

- Legal representation and counsel to SCERS Board and staff
- Coordinate and oversee the selection and work of outside legal counsel
- Evaluation of securities litigation
- Analysis of state and federal legislation
- Legislative proposals, contracts, resolutions and opinions
- Legal education programs
- Legal service planning and budgeting



Margo Allen  
**Chief Operations Officer**

- Accounting and financial reporting
- Budgeting and cash flow analysis
- Human resources
- Facilities and safety
- Information technology and telecommunications
- Administration and records
- Continuous Improvement Program
- Enterprise risk management



Mario Sierras  
**Chief Benefits Officer**

- Service, disability, deferred, and reciprocal retirements
- Pension payroll administration
- Seminar presentations and member retirement counseling
- Retirement publications and communications
- Death benefits and service credit purchases
- Community property interest resolution



## PARTICIPATING EMPLOYERS

Employer	Date Entered System
County of Sacramento	July 1, 1941
County of Sacramento, Elected Officials:	July 1, 1941
<ul style="list-style-type: none"> <li>• Board of Supervisors</li> <li>• Sheriff</li> <li>• Assessor</li> <li>• District Attorney</li> </ul>	
U.C. Davis Medical Center*	July 1, 1941
North Highlands Fire District (Sacramento Metropolitan Fire District)**	March 1, 1957
Sunrise Recreation and Park District	August 1, 1961
Fair Oaks Cemetery District	March 1, 1962
Carmichael Recreation and Park District	January 1, 1967
Florin Fire Protection District (Sacramento Metropolitan Fire District)***	July 1, 1974
Mission Oaks Recreation and Park District	February 1, 1976
Sacramento Employment and Training Agency (SETA)	June 1, 1979
Orangevale Recreation and Park District	March 3, 1987
Elk Grove Cosumnes Cemetery District	April 28, 1987
Galt-Arno Cemetery District	July 1, 1987
Superior Court of California, County of Sacramento****	June 25, 2006
Rio Linda Elverta Recreation and Park District	October 1, 2017

\* The final participating member from UC Davis Medical Center retired in January 2013.

\*\* North Highlands Fire District (NHFD) was formed in 1951 and became a participating SCERS employer in the late 1950s. In 1984, the NHFD consolidated with the Citrus Heights Fire District who through several mergers eventually became part of the Sacramento Metropolitan Fire District (SMFD). SMFD is not an active employer.

\*\*\* Florin Fire Protection District (FFPD) terminated its membership on December 31, 1996. On December 1, 2000, SMFD became successor, and employees of FFPD became employees of SMFD. SMFD is not an active employer.

\*\*\*\* Prior to June 25, 2006, Superior Court of California member information was included in the totals for the County of Sacramento.

# PROFESSIONAL CONSULTANTS

## **Actuary**

Segal

## **Auditor**

Brown Armstrong Accountancy Corporation

## **Custodian**

State Street Corporation

## **Information Technology Consultant**

Linea Solutions, Inc.

## **Investment Consultant**

Cliffwater, LLC

The Townsend Group

Verus Advisory, Inc.

## **Legal Counsel**

Foley & Lardner, LLP

Hanson Bridgett, LLP

Nossaman, LLP

Patrick M.K. Richardson, Esq.

Public Pension Consultants

Sacramento County, Office of the County Counsel

Stroock & Stroock & Lavan, LLP

Note: In the Investment Section of this report, investment professionals are listed on pages 88 and 89, and the schedules of manager fees and equity brokerage commissions are located on pages 85 and 86.





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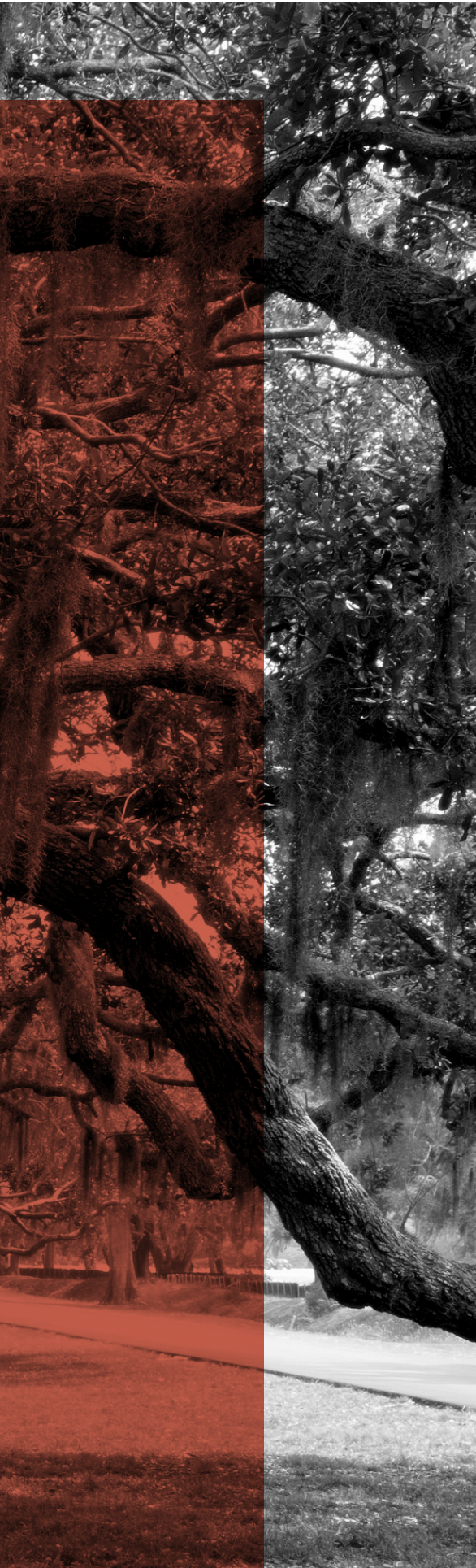




## CORE VALUES

*Communicating —  
clearly and concisely,  
recognizing that  
members and employers  
expect us to act with  
integrity, transparency,  
and honesty.*





# **SECTION 2**

# **FINANCIAL**



# INDEPENDENT AUDITOR'S REPORT



www.ba.cpa  
661-324-4971

## INDEPENDENT AUDITOR'S REPORT

To the Audit Committee and Board of Retirement of the  
Sacramento County Employees' Retirement System  
Sacramento, California

### Report on the Financial Statements

We have audited the accompanying Pension Trust and Custodial Fund Statement of Fiduciary Net Position of the Sacramento County Employees' Retirement System (SCERS), a component unit of the County of Sacramento, California, as of June 30, 2021, the related Pension Trust and Custodial Fund Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise SCERS' basic financial statements as listed in the table of contents. The prior year's comparative information has been derived from SCERS 2020 basic financial statements and, in our report dated November 23, 2020, we expressed an unmodified opinion on the basic financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SCERS' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SCERS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**BAKERSFIELD**  
4200 Truxtun Avenue, Suite 300  
Bakersfield, CA 93309  
661-324-4971

**FRESNO**  
10 River Park Place East, Suite 208  
Fresno, CA 93720  
559-476-3592

**STOCKTON**  
2423 West March Lane, Suite 202  
Stockton, CA 95219  
209-451-4833

REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Pension Trust and Custodial Fund of SCERS as of June 30, 2021, and the respective changes in fiduciary net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information (RSI), 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 management's discussion and analysis and RSI 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SCERS' basic financial statements. The other supplemental information and the introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2022, on our consideration of SCERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SCERS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCERS' internal control over financial reporting and compliance.

Stockton, California  
February 25, 2022

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*



## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

This section presents Management's Discussion and Analysis (MD&A) of the financial activities of the Sacramento County Employees' Retirement System (SCERS, the System, or the Plan) for the fiscal year ended June 30, 2021. Readers are encouraged to consider the narrative overview and information presented in this MD&A in conjunction with the Letter of Transmittal beginning on page 6 of this report and the Basic Financial Statements, Notes to the Basic Financial Statements, Required Supplementary Information, and Other Supplemental Information that follow.

### FINANCIAL HIGHLIGHTS

As of June 30, 2021, SCERS' fiduciary net position restricted for pension benefits and program administration (net position) totaled \$12,564.1 million. This represented an increase of \$2,584.7 million, or 25.9%, from the \$9,979.4 million in SCERS' net position as of June 30, 2020.

Additions to net position were \$3,204.7 million and \$706.9 million for the fiscal years ended June 30, 2021, and 2020, respectively. The total additions for the fiscal year ended June 30, 2021, increased by \$2,497.8 million, or 353.3%, over the fiscal year ended June 30, 2020. Higher investment performance was the primary reason for the increase in additions.

Deductions from net position were \$620.0 million and \$549.2 million for the fiscal years ended June 30, 2021 and 2020, respectively. The total deductions for the fiscal year ended June 30, 2021, increased by \$70.8 million, or 12.9%, over the fiscal year ended June 30, 2020. Increased monthly benefit payments due to an increase in the number of retirees and the annual cost-of-living adjustment were the primary reasons for the increase in total deductions.

SCERS' funding objective is to meet long-term benefit obligations through contributions and investment earnings. In order to help achieve level and predictable contribution costs from one year to the next, SCERS bases the determination of contribution rates on an actuarial asset valuation method that gradually adjusts to the market (fair) value of assets (asset smoothing). Under this actuarial asset valuation methodology, any investment market returns for the fiscal year that are above or below the assumed investment return rate (6.75% which was used to determine the contribution rates for the fiscal year ended June 30, 2021) are recognized over seven years (the asset smoothing period). This smoothed value is referred to as the Actuarial Value of Assets. By using the Actuarial Value of Assets to determine the contribution rates, SCERS is able to lower the year-to-year volatility in contribution rates that would come from using the fair value of assets.

As of June 30, 2021, SCERS' total pension liability was \$12.986 billion, up from \$12.694 billion as of June 30, 2020. The employers' net pension liability was \$421 million as of June 30, 2021, which decreased from \$2.714 billion as of June 30, 2020. The fiduciary net position as a percentage of total pension liability increased to 96.8% as of June 30, 2021, from 78.6% as of June 30, 2020.





## OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction to the basic financial statements and other information accompanying the basic financial statements, which are comprised of the following components:

- Statement of Fiduciary Net Position - Pension Trust Fund and Custodial Fund
- Statement of Changes in Fiduciary Net Position - Pension Trust Fund and Custodial Fund
- Notes to the Basic Financial Statements

**A Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position** are presented for the fiduciary funds as of and for the fiscal year ended June 30, 2021, along with comparative total information as of and for the fiscal year ended June 30, 2020. These financial statements reflect the resources available to pay benefits to retirees and beneficiaries as of year-end, and the changes in those resources during the year.

The fiduciary fund statements report SCERS' net position restricted for pension benefits and program administration. Over time, increases or decreases in net position serve as one indicator of whether SCERS' financial health is improving or deteriorating. Other factors, such as market conditions or the System's fiduciary net position as a percentage of the employers' total pension liability, should also be considered in measuring the System's overall health.

**The Notes to the Basic Financial Statements** are an integral part of the financial reports and provide additional information that is essential for a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, this report presents certain **Required Supplementary Information** which includes the employers' changes in net pension liability and related ratios, actuarially determined contributions (ADC), actuarial assumptions used to calculate the ADC, historical money-weighted rate of return and other required supplementary information related to SCERS' defined benefit pension plan as required by GASB Statement No. 67.

Schedules of administrative expenses, investment fees and expenses, and payments to consultants are presented as **Other Supplemental Information** following the Required Supplementary Information.

## FINANCIAL ANALYSIS

### Fiduciary Net Position

SCERS' net position restricted for pension benefits and program administration as of June 30, 2021, totaled \$12,564.1 million, an increase of \$2,584.7 million or 25.9% from the \$9,979.4 million in net position as of June 30, 2020. The increase in net position for the fiscal year ended June 30, 2021, was due to investment income offset to some degree by the benefits and expenses paid during the fiscal year exceeding the contributions received.

For the fiscal year ended June 30, 2021, the total fund return, gross of fees, of 27.9% was 3.5% higher than the return of the investment policy benchmark of 24.4%. During fiscal year 2020-21, investments with the strongest returns came from the U.S. equity, U.S. fixed income, and private equity investments.

In fiscal year ended June 30, 2021, the increase in cash and short-term investments was offset by the decrease in other cash and cash equivalents due to the dedicated 1% target allocation to cash per the approved asset allocation policy. The increase in receivables and investment purchases and other as of June 30, 2021, was the result of increase in trading activity at year-end by the external investment managers. The increase in securities lending collateral and securities lending liability as of June 30, 2021, reflected a higher level of activity in the securities lending industry.

The table below compares SCERS' fiduciary net position as of June 30, 2021, and 2020.

<b>FIDUCIARY NET POSITION</b>				
FOR THE FISCAL YEARS ENDED JUNE 30				
(Amounts Expressed in Millions)				
	<b>2021</b>	<b>2020*</b>	<b>Increase/ (Decrease)</b>	<b>% Change</b>
<b>Assets</b>				
Cash and short-term investments	\$436.2	\$420.4	\$15.8	3.8%
Receivables	255.1	161.7	93.4	57.8
Investments	12,346.8	9,573.0	2,773.8	29.0
Securities lending collateral	400.3	215.2	185.1	86.0
Other assets	0.4	0.4	-	-
Capital assets, net	13.9	10.6	3.3	31.1
<b>Total assets</b>	<b>13,452.7</b>	<b>10,381.3</b>	<b>3,071.4</b>	<b>29.6</b>
<b>Liabilities</b>				
Other liabilities	37.2	14.5	22.7	156.6
Investment purchases and other	459.1	176.3	282.8	160.4
Securities lending obligation	392.3	211.1	181.2	85.8
<b>Total liabilities</b>	<b>888.6</b>	<b>401.9</b>	<b>486.7</b>	<b>121.1</b>
<b>Net position restricted for pension benefits and program administration</b>	<b>\$12,564.1</b>	<b>\$9,979.4</b>	<b>\$2,584.7</b>	<b>25.9%</b>

\*Certain amounts have been reclassified to be consistent with the current year presentation.

GASB Statement No. 67 replaced GASB Statement No. 25 and redefined pension liability and expense for financial reporting purposes but does not apply to contribution amounts for pension funding purposes. When measuring the total pension liability, GASB uses the same actuarial cost method and the same type of discount rate as SCERS uses for funding. Therefore, the employers' total pension liability measured for financial reporting shown in this report is determined on the same basis as SCERS' actuarial accrued liability measured for funding.

SCERS retains an independent actuarial firm, Segal, to perform the annual actuarial valuations to determine the employers' total pension liability (expected future benefits) and Actuarially Determined Contribution (ADC). The annual actuarial valuation measures the current and projected assets and liabilities of the retirement system, as well as the System's funded status. This information forms the basis for establishing the actuary's recommendations for the employer and member contribution rates for the upcoming fiscal year to pay the expected future benefits.

As of June 30, 2021, the employers' total pension liability was \$12.986 billion, and the net pension liability (the total pension liability less the Plan's fiduciary net position) was \$421.380 million. The Plan's fiduciary net position as a percentage of the total pension liability was 96.8%. In general terms, this ratio means that as of June 30, 2021, SCERS had approximately 97 cents available for each dollar of anticipated future liability.

The Required Supplementary Information presents additional information regarding the net pension liability.





**Reserves**

SCERS' reserves are established in accordance with the requirements of the 1937 Act, utilizing contributions and the accumulation of investment income, after recognition of administrative and investment expenses. Under GASB Statement No. 67, investments are stated at fair value instead of cost and include the recognition of unrealized gains and losses. However, for actuarial funding purposes, SCERS utilizes a seven-year smoothing methodology under which a portion of the market gains and losses is recognized and allocated to the reserves through interest crediting. The difference between the fair value of assets (equivalent to the net position restricted for pension benefits and program administration) and the smoothed actuarial value of assets is tracked in the market stabilization reserve.

Higher than expected investment performance increased SCERS' market stabilization reserve from negative \$250.4 million as of June 30, 2020, to \$1,634.6 million as of June 30, 2021.

The following table presents a reserve summary for the fiscal years ended June 30, 2021, and 2020:

**NET POSITION RESTRICTED FOR PENSION BENEFITS**  
**FOR THE FISCAL YEARS ENDED JUNE 30**  
 (Amounts Expressed in Millions)

	<b>2021</b>	<b>2020</b>
Member reserve	\$1,010.3	\$984.5
Employer reserve	3,108.9	3,093.0
Retiree and death benefit reserve	6,486.1	6,008.3
Contingency reserve	324.2	144.0
Total allocated reserves and designations	10,929.5	10,229.8
Market stabilization reserve	1,634.6	(250.4)
<b>Net position restricted for pension benefits and program administration</b>	<b>\$12,564.1</b>	<b>\$9,979.4</b>

### Changes in Fiduciary Net Position

The following tables present the changes in fiduciary net position for the fiscal years ended June 30, 2021, and 2020.

#### CHANGES IN FIDUCIARY NET POSITION

FOR THE FISCAL YEARS ENDED JUNE 30

(Amounts Expressed in Millions)

	2021	2020	Increase/ (Decrease)	% Change
<b>Additions</b>				
Member contributions	\$120.6	\$126.4	(\$5.8)	(4.6)%
Employer contributions	295.3	276.2	19.1	6.9
Investment income	2,969.0	371.6	2,597.4	699.0
Net securities lending income	1.4	1.2	0.2	16.7
Investment fees and expenses	(217.1)	(71.4)	145.7	204.1
Other income	3.1	2.9	0.2	6.9
Health Premiums Collected from Members and Employers	32.4	0.0	32.4	N/A
<b>Total additions</b>	<b>3,204.7</b>	<b>706.9</b>	<b>2,497.8</b>	<b>353.3</b>
<b>Deductions</b>				
Benefits paid	575.3	537.7	37.6	7.0
Withdrawal of contributions	3.1	3.0	0.1	3.3
Administrative expenses	9.2	8.5	0.7	8.2
Health Premiums Remitted to Health Carriers	32.4	-	32.4	N/A
<b>Total deductions</b>	<b>620.0</b>	<b>549.2</b>	<b>70.8</b>	<b>12.9</b>
Increase in net position	2,584.7	157.7	2,427.0	1,539.0
<b>Net position, beginning</b>	<b>9,979.4</b>	<b>9,821.7</b>	<b>157.7</b>	<b>1.6</b>
<b>Net position, ending</b>	<b>\$12,564.1</b>	<b>\$9,979.4</b>	<b>\$2,584.7</b>	<b>25.9%</b>

### Additions to Net Position

Financing for the benefits that SCERS provides to its members comes primarily through the collection of employer and member contributions and from investment earnings. For the fiscal years ended June 30, 2021, and 2020, total additions were \$3,204.7 and \$706.9 million, respectively.

For the fiscal years ended June 30, 2021 and 2020, the combined employer and member contributions were \$415.9 and \$402.6 million, respectively, for an increase of \$13.3 million. The increase in employer contributions for the fiscal year ended June 30, 2021, of \$19.1 million, or by about 6.9%, over the fiscal year ended June 30, 2020, was mainly due to an increase in the aggregate employers' contribution rate of approximately 10%, offset by an actual reduction in the employers' aggregate payroll for year ended June 30, 2021. The decrease in member contributions of \$5.8 million, or by about 4.6%, is partially due to a reduction in the employees' aggregate contribution rate of approximately 1.1%, decreased further by an actual reduction in the employers' aggregate payroll for year-ended June 30, 2021.

Net investment income after investment fees and expenses was \$2,753.4 and \$301.4 million for fiscal years ended June 30, 2021, and 2020, respectively. The net investment gains and losses were primarily driven



by the investment performance of the portfolio. The Investment Section of this report provides a detailed discussion of the investment markets and investment performance.

### **Deductions from Net Position**

SCERS' net position was primarily used for the payment of benefits to members and their beneficiaries, for the payment of contribution refunds to terminated employees, and for the cost of administering the System. For the fiscal years ended June 30, 2021, and 2020, total deductions were \$620.0 and \$549.2 million, respectively.

Deductions increased by \$70.8 million, or 12.9%, in the fiscal year ended June 30, 2021. The primary cause of the increase in deductions was due to the increase in monthly benefit payments resulting from an increase in the number of retired members and the annual cost-of-living adjustment paid to retirees and beneficiaries.

The Board of Retirement approves SCERS' annual administrative budget. The 1937 Act limits SCERS' annual administrative expenses, excluding the costs of administration for computer software and hardware and computer technology consulting services (IT costs), to twenty-one hundredths of one percent (0.21%) of the System's actuarial accrued liability. Administrative expenses of \$8.4 million for the fiscal year ended June 30, 2021, excluding IT costs, were 0.06% of the System's actuarial accrued liability. SCERS' administrative expenses have historically been below the limitation.

### **CURRENTLY KNOWN FACTS, CONDITIONS, OR DECISIONS**

On July 30, 2020, the California Supreme Court issued a decision in the case of Alameda County Deputy Sheriffs' Association et al. v. Alameda County Employees' Retirement Association and Board of Retirement of ACERA ("Alameda"). That decision has important implications for SCERS and its members. Foremost, the Court upheld the constitutionality of certain amendments the Legislature made to the County Employees' Retirement Law of 1937. Those amendments, now approved by the Court, require county pension systems to exclude certain pay elements from pension calculations for members who retired on or after January 1, 2013. SCERS is continuing to evaluate the impact of the decision on individual members and will be making corrections during the 2021-22 fiscal year; however, SCERS does not believe that the contribution and pension payment adjustments, in aggregate, will be material to the System.

### **SCERS' FIDUCIARY RESPONSIBILITIES**

SCERS' Board of Retirement and management staff are fiduciaries of the pension trust fund. Under the California Constitution and California state law, the net position must be used exclusively for the benefit of plan participants and their beneficiaries.

### **REQUESTS FOR INFORMATION**

This report is designed to provide the Board of Retirement, SCERS members, participating employers, taxpayers, and other stakeholders and interested parties with a general overview of SCERS' finances and to show accountability for the money SCERS receives.

Questions about this report or requests for additional financial information may be addressed to:

Sacramento County Employees' Retirement System  
980 9th Street, Suite 1900  
Sacramento, CA 95814

Copies of this report are available at the above address and on the System's web site at [www.scers.org](http://www.scers.org).



# STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2021, with Comparative Totals as of June 30, 2020

(Dollar Amounts Expressed in Thousands)

	2021			2020
	Pension Trust Fund	Custodial Fund	Total Fund	Total Fund
<b>Assets</b>				
Cash and short-term investments				
Cash invested with Sacramento County Treasurer	\$10,144	\$2,799	\$12,943	\$12,607
Other cash and cash equivalents	125,248	-	125,248	152,905
Short-term investments with fiscal agents	298,000	-	298,000	254,951
Total cash and short-term investments	433,392	2,799	436,191	420,463
Receivables				
Member and employer contributions	48,602	-	48,602	52,131
Accrued investment income	19,121	-	19,121	17,275
Investment sales and other	187,380	-	187,380	92,254
Total receivables	255,103	-	255,103	161,660
Investments				
Equity	5,249,841	-	5,249,841	4,034,086
Fixed income	2,363,034	-	2,363,034	1,961,218
Real assets	934,055	-	934,055	587,737
Real estate	861,839	-	861,839	842,343
Absolute return	1,084,545	-	1,084,545	885,205
Private credit	256,226	-	256,226	198,729
Private equity	1,597,224	-	1,597,224	1,063,708
Total investments	12,346,764	-	12,346,764	9,573,026
Securities lending collateral	400,356	-	400,356	215,183
Other assets	374	-	374	358
Capital assets, net	13,913	-	13,913	10,648
<b>Total assets</b>	13,449,902	2,799	13,452,701	10,381,338
<b>Liabilities</b>				
Warrants payable	1,737	-	1,737	2,000
Accounts payable and other accrued liabilities	32,548	2,799	35,347	12,602
Investment purchases and other	459,146	-	459,146	176,258
Securities lending obligation	392,322	-	392,322	211,099
<b>Total liabilities</b>	885,753	2,799	888,552	401,959
<b>Net position restricted for pension benefits and program administration</b>	<b>\$12,564,149</b>	<b>\$-</b>	<b>\$12,564,149</b>	<b>\$9,979,379</b>

The notes to the basic financial statements are an integral part of these statements.



# STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Year Ended June 30, 2021, with Comparative Totals for the Fiscal Year Ended June 30, 2020

(Dollar Amounts Expressed in Thousands)

	2021		2020	
	Pension Trust Fund	Custodial Fund	Total Fund	Total Fund
<b>Additions</b>				
Contributions				
Member	\$120,597	\$-	\$120,597	\$126,354
Employer	295,269	-	295,269	276,230
Total contributions	415,866	-	415,866	402,584
Investment income				
Net appreciation in fair value of investments	2,744,928	-	2,744,928	178,055
Other investment income	224,159	-	224,159	193,573
Less Investment fees and expenses	(217,055)	-	(217,055)	(71,448)
Net investment income	2,752,032	-	2,752,032	300,180
Securities lending income	1,368	-	1,368	4,512
Securities lending expense				
Borrower rebate expense	544	-	544	(3,045)
Securities lending management fees	(535)	-	(535)	(274)
Net income from securities lending	1,377	-	1,377	1,193
Other income	3,081	-	3,081	2,939
Health Premiums Collected from Members and Employers	-	32,362	32,362	-
<b>Total additions</b>	3,172,356	32,362	3,204,718	706,896
<b>Deductions</b>				
Benefits paid	575,329	-	575,329	537,698
Withdrawal of contributions	3,092	-	3,092	3,053
Administrative expenses	9,165	-	9,165	8,460
Health Premiums Remitted to Health Carriers	-	32,362	32,362	-
<b>Total deductions</b>	587,586	32,362	619,948	549,211
<b>Net increase in net position</b>	2,584,770	-	2,584,770	157,685
<b>Net position restricted for pension benefits and program administration</b>				
Beginning of year	9,979,379	-	9,979,379	9,821,694
Ending of year	<b>\$12,564,149</b>	<b>\$-</b>	<b>\$12,564,149</b>	<b>\$9,979,379</b>

The notes to the basic financial statements are an integral part of these statements.



# NOTES TO THE BASIC FINANCIAL STATEMENTS

(Dollar Amounts Expressed in Thousands)

## NOTE 1 - PLAN DESCRIPTION

The Sacramento County Employees' Retirement System (SCERS, the System, or the Plan) is a cost-sharing multiple-employer defined benefit pension plan, which operates under the County Employees Retirement Law of 1937 (Section 31450 et seq of the California Government Code) (1937 Act) and the California Public Employees' Pension Reform Act of 2013 (PEPRA). The System was created by resolution of the Sacramento County (the County) Board of Supervisors on July 1, 1941, to provide retirement, disability, and death benefits for qualified employees of the County and participating Special Districts (Special Districts or Member Districts). SCERS is governed by a nine member Board of Retirement. Four are appointed by the County Board of Supervisors; four are elected by the members of the System (two by the Miscellaneous members, one by the Safety members and one by the Retiree members); and the County Director of Finance serves as an Ex-Officio member. An alternate Safety member and an alternate Retiree member are also elected by those respective member groups. The System is legally and fiscally independent of the County.

At June 30, 2021, participating local government employers consisted of the County of Sacramento (and its Elected Officials); Superior Court of California, County of Sacramento (Superior Court); and nine special districts.

The System's membership consists of the following categories:

- Safety Tier 1 - Includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions and who have a membership start date prior to June 25, 1995.
- Safety Tier 2 - Includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions and who have a membership start date on or after June 25, 1995, but prior to January 1, 2012.
- Safety Tier 3 - Includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions and who have a membership start date on or after January 1, 2012, but prior to January 1, 2013.
- Safety Tier 4 - Includes employees whose principal duties consist of law enforcement or fire suppression work or who occupy positions designated by law as safety positions and who have a membership start date on or after January 1, 2013.
- Miscellaneous Tier 1 - Includes all members other than Safety who have a membership start date prior to September 27, 1981.
- Miscellaneous Tier 2 - Includes all members other than Safety who have a membership start date on or after September 27, 1981, and prior to June 27, 1993, and who elected not to become members of Miscellaneous Tier 3.
- Miscellaneous Tier 3 - Includes all members other than Safety who have a membership start date on or after June 27, 1993, and those Miscellaneous Tier 2 members who elected to become members of this class. The Miscellaneous Tier 3 is closed to employees of Sacramento County who have a membership start date on or after January 1, 2012.
- Miscellaneous Tier 4 - Includes members other than Safety who are employees of Sacramento County and have a membership start date on or after January 1, 2012, but prior to January 1, 2013.
- Miscellaneous Tier 5 - Includes all members other than Safety who have a membership start date on or after January 1, 2013.



## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

### SYSTEM'S MEMBERSHIP

At June 30, 2021, the System's membership consisted of:

	2021
<b>Active Members:</b>	
<b>Vested</b>	
Miscellaneous Tier 1	19
Miscellaneous Tier 2	32
Miscellaneous Tier 3	5,338
Miscellaneous Tier 4	269
Miscellaneous Tier 5	1,478
Total Miscellaneous	7,136
Safety Tier 1	32
Safety Tier 2	973
Safety Tier 3	104
Safety Tier 4	337
Total Safety	1,446
<b>Total Vested</b>	<b>8,582</b>
<b>Non-Vested</b>	
Miscellaneous Tier 3	39
Miscellaneous Tier 4	58
Miscellaneous Tier 5	3,246
Total Miscellaneous	3,343
Safety Tier 2	-
Safety Tier 3	17
Safety Tier 4	558
Total Safety	575
<b>Total Non-Vested</b>	<b>3,918</b>
<b>Total Active Members</b>	<b>12,500</b>



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

	<b>2021</b>
<b>Retirees and beneficiaries currently receiving benefits:</b>	
Miscellaneous - Service	8,577
Miscellaneous - Beneficiary	1,308
Miscellaneous - Nonservice-Connected Disability	260
Miscellaneous - Service-Connected Disability	182
Total Miscellaneous	10,327
Safety - Service	2,022
Safety - Beneficiary	440
Safety - Nonservice-Connected Disability	17
Safety - Service-Connected Disability	245
Total Safety	2,724
<b>Total Retirees and Beneficiaries</b>	<b>13,051</b>
<b>Terminated employees entitled to benefits but not yet receiving them (*):</b>	
Miscellaneous Tier 1	20
Miscellaneous Tier 2	92
Miscellaneous Tier 3	2,274
Miscellaneous Tier 4	124
Miscellaneous Tier 5	1,122
Total Miscellaneous	3,632
Safety Tier 1	19
Safety Tier 2	321
Safety Tier 3	13
Safety Tier 4	69
Total Safety	422
<b>Total Terminated Members</b>	<b>4,054</b>
<b>Grand Total</b>	<b>29,605</b>

\* Includes terminated members due a refund of contributions.



## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

### Pension Benefits

The System's benefits are established by the provisions of the 1937 Act and PEPRA and provide for retirement, death, and disability benefits. All permanent full-time and part-time employees of the County, Superior Court and Special Districts are eligible to participate in the System. Upon reaching five years of service, participants have earned the right to receive a retirement benefit, subject to certain restrictions if retirement is prior to attaining age 50 or if less than 10 years of service has been achieved for Miscellaneous Tiers 1, 2, 3 and 4 and Safety Tiers 1, 2, and 3, or prior to attaining age 52 or if less than 5 years of service has been achieved for Miscellaneous Tier 5, or prior to attaining age 50 or if less than 5 years of service has been achieved for Safety Tier 4.

Effective June 29, 2003, the County Board of Supervisors adopted new benefit formulas for all SCERS members, including the employees of Special Districts, for service credit prospectively from June 29, 2003, and for County employees, retroactively to service credit which precedes that date. In accordance with applicable retirement law, each SCERS Special District's governing body determined whether or not to apply these formulas retroactively for service credit earned prior to June 29, 2003, by their employees.

Retirement benefits under Safety Tiers 1 and 2 and Miscellaneous Tiers 1, 2 and 3 are as follows:

- Members covered under Safety Tier 1 who retire at age 50, or thereafter, are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 4 percent annually. Final average salary is the member's average salary for the highest twelve consecutive months of credited service.
- Members covered under Safety Tier 2 who retire at age 50, or thereafter, are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final average salary is the member's average salary for the highest thirty-six consecutive months of credited service.
- Members covered under Miscellaneous Tier 1 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.48 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 4 percent annually. Final average salary is the member's average salary for the highest twelve consecutive months of credited service.
- Members covered under Miscellaneous Tier 2 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.48 percent of their final average salary for each year of credited service. There is no cost-of-living adjustment. Final average salary is the member's average salary for the highest thirty-six consecutive months of credited service.
- Members covered under Miscellaneous Tier 3 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.48 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final average salary is the member's average salary for the highest thirty-six consecutive months of credited service.

The retirement benefits of Miscellaneous Tiers 1, 2, and 3 members who retire after age 50 are increased by an age factor for each quarter year of age up to a maximum of 2.61 percent of final average salary for each year of credited service at age 62.



## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Members whose employers determined not to retroactively apply the formulas to service credit earned prior to June 29, 2003, will continue to have their retirement benefits for that service calculated pursuant to the formulas in effect at the time the service was earned (i.e., Safety and Miscellaneous members who retire at age 50 earn 2 percent and 1.1 percent, respectively, of their final average salary for each year of credited service).

Effective January 1, 2012, the County Board of Supervisors adopted new tiers for County employees hired on or after January 1, 2012, but before January 1, 2013. Retirement benefits under these tiers are as follows:

- Members covered under Safety Tier 3 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 2.29 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final average salary is the member's average salary for the highest thirty-six consecutive months of credited service.
- Members covered under Miscellaneous Tier 4 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 1.18 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final average salary is the member's average salary for the highest thirty-six consecutive months of credited service.

The retirement benefits of Safety Tier 3 members who retire after age 50 are increased by an age factor for each quarter year of age up to a maximum of 3 percent of final average salary for each year of credited service at age 55. The retirement benefits of Miscellaneous Tier 4 members who retire after age 50 are increased by an age factor for each quarter year of age up to a maximum of 2.43 percent of final average salary for each year of credited service at age 65.

Effective January 1, 2013, with the implementation of PEPRA, the County Board of Supervisors adopted new tiers for employees of the County, Superior Court and Special Districts who are eligible to participate in the System and who were hired on or after January 1, 2013. Retirement benefits under these new tiers are as follows:

- Members covered under Safety Tier 4 who retire at age 50 are entitled to a retirement benefit, payable monthly for life, equal to 2 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final average salary is the member's average salary for the highest thirty-six consecutive months of credited service.
- Members covered under Miscellaneous Tier 5 who retire at age 52 are entitled to a retirement benefit, payable monthly for life, equal to 1 percent of their final average salary for each year of credited service. This benefit includes a cost-of-living adjustment of up to 2 percent annually. Final average salary is the member's average salary for the highest thirty-six consecutive months of credited service.

The retirement benefits of Safety Tier 4 members who retire after age 50 are increased by an age factor for each quarter year of age up to a maximum of 2.7 percent of final average salary for each year of credited service at age 57. The retirement benefits of Miscellaneous Tier 5 members who retire after age 52 are increased by an age factor for each quarter year of age up to a maximum of 2.5 percent of final average salary for each year of credited service at age 67.



## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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(Dollar Amounts Expressed in Thousands)

### **Member Termination**

Upon separation from employment with a participating employer, members' accumulated contributions are refundable with interest accrued through the prior six-month period ended June 30 or December 31. Interest on member accounts is credited semiannually on June 30 and December 31. Withdrawal of such accumulated contributions results in forfeiture of the related benefits.

### **Financing**

Benefits payable by the System are financed through member contributions, employer contributions, and earnings from investments. Member contributions are required by law. Contribution rates, which are actuarially determined, are based on age at entry into the System (a single rate is used for members entering the System after January 1, 1975). County, Superior Court and Special Districts' contributions are actuarially determined to provide for the balance of contributions needed to fund benefits. All contribution rates are reviewed and revised annually. The authority for both benefit provisions and contribution obligations is derived from the 1937 Act and PEPR.

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

SCERS reports fiduciary funds at June 30, 2021, which include pension trust and custodial funds. The pension trust fund and custodial fund are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. The custodial fund accounts for assets held by SCERS in a custodial capacity on behalf of the participating employers to fund the Retiree Medical and Dental Insurance Program. See Note 8 for a detailed description of the program.

### **Basis of Accounting**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB).

### **Valuation of Investments**

The majority of the investments held at June 30, 2021 are in the custody of, or controlled by, State Street Bank, the System's custodian bank. The System's investment portfolio consists of domestic and international equities, domestic and international fixed income, real assets, real estate, absolute return, private credit, and private equity. The diversity of the System's investment portfolio requires a wide range of techniques to determine fair value. Investments are valued at their fair values in accordance with GASB Statement No. 72, Fair Value Measurement and Application, which results in the recognition of fair value gains and losses. See Note 3, Section 2 for disclosures related to investment classification and valuation.

### **Contributions and Benefits**

Member and employer contributions are recognized when due pursuant to statutory requirements. Benefits and refunds are recognized when the benefits are currently due and payable in accordance with the terms of the Plan.

### **Income and Expenses**

Interest income is recognized as it accrues. Dividend income is recognized when the dividends are declared. Realized gains and losses and unrealized gains and losses on investments are combined and reported



together as net appreciation (depreciation) in the fair value of investments. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Investment purchases and sales are recorded based on trade date accounting.

### **Securities Lending**

Securities lending transactions are short-term collateralized loans of the System's securities for the purpose of generating additional investment income. For each lending transaction, the System receives either cash collateral or non-cash collateral. The underlying securities out on loan are reported on the System's Statement of Fiduciary Net Position as if the lending transactions had not occurred. Cash collateral received for the loaned securities is reported as securities lending obligation on the Statement of Fiduciary Net Position. Cash collateral is reinvested in the lending agent's cash collateral investment pool, is valued at fair value, and is reported as securities lending collateral on the Statement of Fiduciary Net Position. Non-cash collateral held is not reported on the Statement of Fiduciary Net Position nor is there a corresponding liability reported on the financial statement as the System does not have the ability to pledge or sell them without a borrower default. See Note 3, Section 3 for disclosures related to securities lending transactions.

### **Capital Assets**

Capital assets are defined as assets with an initial individual cost of \$5 or more and an estimated useful life in excess of one year. Capital assets consist of furniture, building improvements, and intangible assets, which are recorded at cost on the Statement of Fiduciary Net Position, net of accumulated depreciation/amortization. Depreciation/amortization is charged to operations using the straight-line method on the estimated useful life of the related asset and is included in administrative expenses on the Statement of Changes in Fiduciary Net Position. The estimated useful life for furniture and for building improvements is depreciated over 10 years. Intangible assets for SCERS' Information Technology Modernization Project is also depreciated over a 10-year period.

### **Other Assets**

Other assets consist of other accounts receivable, prepaid expenses, and security deposits.

### **Administrative Expenses**

Administrative costs are financed through employer and member contributions and earnings from investments.

### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

### **Comparative Totals**

The Basic Financial Statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the U.S. Accordingly, such information should be read in conjunction with SCERS' financial statements for the fiscal year ended June 30, 2020, from which the summarized information was derived.





NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

**New Accounting Pronouncement**

SCERS implemented the requirements of GASB Statement No. 84, Fiduciary Activities, which establishes criteria for identifying fiduciary activities of all state and local governments. The statement describes four fiduciary funds that should be reported, if applicable: 1) pension (and Other Post-Employment Benefit (OPEB)) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds, which generally should report fiduciary activities that are not required to be reported in pension trust funds, investment trust funds, or private-purpose trust funds. Agency fund is now classified as custodial fund and require the presentation of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. SCERS’ custodial fund related to the retiree medical and dental insurance program is impacted by the requirements of GASB 84. SCERS implemented GASB Statement No. 98, *The Annual Comprehensive Financial Report*. This statement establishes the term *annual comprehensive financial report* and its acronym ACFR. The requirement of this statement is effective December 15, 2021. SCERS has implemented this statement early.

**NOTE 3 - CASH AND INVESTMENTS**

**SECTION 1: INVESTMENT POLICIES**

Article XVI, Section 17 of the Constitution of the State of California provides that “. . .notwithstanding any other provisions of law or this Constitution, the Retirement Board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of monies and administration of the system. . . .” Article XVI, Section 17(a) further provides that “. . .the Retirement Board of a public pension or retirement system shall have sole and exclusive fiduciary responsibility over the assets. . . .” The investment authority for the System rests primarily through the “prudent person rule,” as set forth in Section 31595 of the 1937 Act, which establishes a standard for all fiduciaries, including anyone with investment authority on behalf of the System.

**Asset Allocation**

SCERS maintains an overall investment policy designed to achieve a diversified investment portfolio. An integral part of the investment policy is the strategic asset allocation, which is designed to provide an optimal mix of asset categories and underlying asset classes with return expectations that correspond to expected liabilities. The strategic asset allocation also emphasizes diversification of the portfolio to protect the System from the possibility that a particular asset class may experience poor investment performance in a given period. The System’s adopted asset allocation policy as of June 30, 2021, is as follows:

<b>Asset Class</b>	<b>Target Allocation</b>
Domestic Equity	20.0%
International Equity	20.0
Fixed Income	20.0
Real Assets	7.0
Real Estate	7.0
Absolute Return	10.0
Private Credit	4.0
Private Equity	9.0
Liquid Real Return	2.0
Cash	1.0
	100.0%

**SECTION 2: INVESTMENT SUMMARY****Cash Invested with Sacramento County Treasurer**

The System invests cash held for benefit payments and general operations in the County Treasurer's pool. The County Treasury Oversight Committee is responsible for regulatory oversight of the pool. The System's share of the County Treasurer's pool is separately accounted for, and interest earned, net of related expenses, is apportioned quarterly based on the proportion of the System's average daily cash balance to the total of the pooled cash and investments.

The value of the System's pooled shares is determined on an amortized cost basis, which approximates fair value. The fair value of the System's cash invested with the County Treasurer for both pension trust and custodial funds totaled \$12,943 at June 30, 2021. The pool was not rated, and the weighted-average maturity of the pool was 300 days at June 30, 2021.

Interest earned but not received from the County Treasurer at year end is reported as a component of accrued investment income on the Statement of Fiduciary Net Position. Cash and investments included within the County Treasurer's pool are described in the County's Comprehensive Annual Financial Report.

**Other Cash and Cash Equivalents**

At June 30, 2021, other cash and cash equivalents constituted balances in bank demand deposit accounts of \$125,248.

**Short-Term Investments with Fiscal Agents**

Short-term investments, which include highly-liquid investments expected to be utilized by the System within 30-90 days, are reported at fair value. These investments may include securities that have a maturity in excess of 90 days but are readily marketable. At June 30, 2021, the fair value of the System's short-term investments with fiscal agents was \$298,000. These totals consisted of investments in the State Street Short-Term Investment Fund (STIF). The STIF is designed to provide qualified benefit plans with an investment vehicle that may be accessed on a daily basis. The STIF is limited to investing in securities that are rated A-1 by Moody's Investors Services and P-1 by Standard & Poor's Corporation (S&P) at the time of issuance. As of June 30, 2021, the STIF is not rated by credit rating agencies. Most investments range in maturity from overnight to 90 days with 28% of the investment over 90 days. For the fiscal year ended June 30, 2021, the weighted-average maturities was 48 days. Investments in the STIF from all participating custodial clients of State Street were \$63.1 billion on June 30, 2021.

**Fair Value of Investments**

The System measures and records its investments using fair value measurement guidelines established by U.S. generally accepted accounting principles (GAAP). These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1 – Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities accessible on the measurement date.
- Level 2 – Fair value is determined using quoted prices in inactive markets or significant observable inputs (including, but not limited to, quoted prices for similar investments, interest rates, foreign exchange rates, volatility and credit spreads), either directly or indirectly. These inputs may be derived principally from, or corroborated by, observable market data through correlation or by other means.
- Level 3 – Fair value is determined using unobservable inputs, including situations where there is little market activity, if any, for the asset or liability.



## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

The System had the following recurring fair value measurements at June 30, 2021:

June 30, 2021	Fair Value Measurements by Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Equity Securities</b>				
Communication Services	\$360,065	\$360,065	\$-	\$-
Consumer Discretionary	552,310	552,310	-	-
Consumer Staples	246,876	246,876	-	-
Energy	96,981	96,981	-	-
Financials	547,884	547,884	-	-
Health Care	557,667	557,667	-	-
Industrials	628,946	628,946	-	-
Information Technology	710,375	710,375	-	-
Materials	207,166	207,166	-	-
Real Estate	134,875	134,638	237	-
Utilities	104,684	104,684	-	-
<b>Total Equity Securities</b>	<b>4,147,829</b>	<b>4,147,592</b>	<b>237</b>	<b>-</b>
<b>Fixed Income Securities</b>				
Securitized Obligations				
Asset-Backed Securities	110,666	-	110,666	-
Credit Obligations				
Corporate Bonds	299,741	451	299,290	-
Municipals	11,964	-	11,964	-
Yankee	58,406	-	58,406	-
U.S. Government & Agency Obligations				
Agency Securities	11,594	-	11,594	-
U.S. Treasury	920,644	-	920,644	-
International Government	7,436	-	7,436	-
Collateralized Mortgage Obligations	134,318	-	134,318	-
Mortgage Pass-Through				
FHLMC	33,893	-	33,893	-
FNMA	200,196	-	200,196	-
GNMA	51,830	-	51,830	-
<b>Total Fixed Income Securities</b>	<b>1,840,688</b>	<b>451</b>	<b>1,840,237</b>	<b>-</b>
<b>Total Investments by Fair Value Level</b>	<b>\$5,988,517</b>	<b>\$4,148,043</b>	<b>\$1,840,474</b>	<b>\$-</b>



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

June 30, 2021

Investments Measured at Net Asset Value (NAV)

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)*	Redemption Notice Period
Equity Commingled Funds	\$1,102,012	\$-	Daily and quarterly	1 - 60 days
Fixed Income Commingled Funds	522,346	-	Monthly and quarterly	30 - 90 days
Real Assets	934,055	456,213	Quarterly and 3-Years	90 days
Real Estate	861,839	153,915	Daily and quarterly	1 - 90 days
Absolute Return	1,084,545	-	Monthly and quarterly	30 - 90 days
Private Credit	256,226	313,740	Not applicable	
Private Equity	1,597,224	748,070	Not applicable	
Securities Lending Collateral	400,356	-		
<b>Total Investments Measured at the NAV</b>	<b>6,758,603</b>			
<b>Total Investments</b>	<b>\$12,747,120</b>			

\*Not applicable for closed end real assets and real estate funds.

June 30, 2021

Investment Derivative Instruments

	Fair Value Measurements by Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Forwards	\$1,833	\$1,833	\$-	\$-
Options	6	-	6	-
Rights/Warrants	55	55	-	-
Swaps	82,342	-	82,342	-
<b>Liabilities</b>				
Forwards	(743)	(743)	-	-
Options	(37)	-	(37)	-
Swaps	(84,599)	-	(84,599)	-
<b>Total Investment Derivative Instruments</b>	<b>\$(1,143)</b>	<b>\$1,145</b>	<b>\$(2,288)</b>	<b>\$-</b>





## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

### Equity Securities

The majority of the System's domestic and international equity securities are actively traded on major stock exchanges or over-the-counter (OTC). Investments listed or traded on a securities exchange are valued at fair value as of the close of trading on the valuation day. Fair value is determined based on the last reported trade price on the exchange considered to be the primary market for such security. Listed investments that are not traded on a particular day are valued at the last known price which is deemed best to reflect their fair value. Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

### Fixed Income Securities

Debt securities consist of investments in customized separate accounts and commingled funds which primarily invest in negotiable obligations of the U.S. Government and U.S. Government-sponsored agencies, U.S. and non-U.S. corporations, securitized offerings backed by residential and commercial mortgages, and non-dollar denominated sovereign states. Debt securities that are not actively traded are valued by pricing vendors, which use modeling techniques that include market observable inputs required to develop a fair value, and are classified in Level 2. Typical inputs include recent trades, yields, price quotes, cash flows, maturity, credit ratings, and other assumptions based upon the specifics of the asset type.

### Investments Measured at the Net Asset Value (NAV)

Investments valued using the net asset value (NAV) per share (or its equivalent) are investments in non-governmental pooled investment vehicles (i.e., limited partner or non-managing member interest or LP/LLC interest). These alternative investments, unlike more traditional investments, generally do not have readily obtainable fair values and are generally valued at the most recent net asset value per unit or based on capital account information available from the general partners of such vehicles. If the June 30 valuations are not available, the value is derived from the most recent available valuation taking into account of subsequent cash flow activities.

### Absolute Return

Absolute return investments are made on a direct basis in limited partnerships, commingled funds, separate accounts, and through externally managed customized separate accounts (CSA). Each CSA manager's investments consist of portfolio funds and co-investments as well as marketable securities held from time to time as a result of a distribution from a portfolio fund.

Absolute return investments include commingled funds that invest in domestic and international investment strategies including: (1) Market neutral strategies such as equity or fixed income market neutral, fixed income arbitrage, and convertible bond arbitrage; (2) Event driven strategies such as risk arbitrage, merger arbitrage, distressed debt, credit, activist equity, and other event-driven strategies; (3) Equity and credit long/short strategies where there is a combination of long and short positions primarily in exchange traded securities, with a net market exposure less than 100% of that of the overall equity or fixed income market (strategies may be focused on U.S., non-U.S., and/or specialty mandates); (4) Global Macro strategies such as all market portfolios, opportunistic long-only, managed futures, currency, dedicated short selling strategies or other specialty strategies; and (5) Multi-strategies where absolute return managers invest using a combination of previously described strategies.



Absolute return investments are generally less liquid as compared to equity and fixed income and more liquid as compared to private market investments, such as real assets, real estate, private credit, and private equity. Direct absolute return investments consist of securities traded on national security exchanges, as well as securities that do not have readily determinable fair values (illiquid securities). For CSAs, the fund manager's evaluation of the fair value of portfolio funds is based on the most recent available valuation information provided to them by the portfolio funds, adjusted for subsequent distributions from and capital contributions to such portfolio funds, if any.

Typically, the fair value of investments is determined by the fund manager in good faith and in compliance with the following guidelines:

- The value of illiquid investments is determined by the fund manager in good faith and in compliance with the definition of fair value under U.S. GAAP (Financial Accounting Standards Board (FASB). Accounting Standards Codification, Topic 820, Fair Value Measurements and Disclosures); however, in some circumstances certain illiquid investments may require reporting financial information and valuations in accordance with accounting standards other than U.S. GAAP, such as under International Financial Reporting Standards.
- Securities that are traded on a national securities exchange are valued at their last reported sales prices on the valuation date on the national securities exchange on which such securities are principally traded or on a consolidated tape which includes such exchange, or, if there are no sales on such date on such exchange or consolidated tape, securities are typically valued at the mean between the last "bid" and "asked" prices at the close of trading on such date on the largest national securities exchange on which such securities are traded.
- Securities not traded on a national securities exchange, but traded over-the-counter, are valued at the last reported sales price as reported by the Nasdaq National Market of the Nasdaq Stock Market, or if such prices are not reported by the Nasdaq Stock Market, as reported by the National Quotation Bureau, Inc., or if such prices are not reported by the National Quotation Bureau, the valuation of options or notional principal contracts not traded on a national securities exchange may be determined in good faith by a reliable source selected by the fund manager.
- Commodity interests traded on a United States or foreign exchange are valued at their last reported settlement price on the valuation date on the exchange on which such interests were purchased or sold. Commodity interests not traded on a United States or foreign exchange are valued at the mean between their last "bid" and "asked" prices on the date as of which the value is being determined, as reported by a reliable source selected in good faith by the fund manager.
- Short-term money market instruments and bank deposits are valued at cost plus accrued interest to the date of valuation.

### **Equity and Fixed Income Commingled Funds**

Certain equity and fixed income investments are invested in a commingled fund to provide dedicated exposure to a specific segment of the market and are valued at NAV. An example would be a core plus fixed income mandate where SCERS receives the high yield credit exposure through a commingled fund that is managed by the investment manager. The most significant input into the NAV of such an entity is the value of its investment holdings. These holdings are valued by the fund manager on a continuous basis and audited annually. The valuation assumptions are based upon both market and property specific inputs which are not observable and involve a certain degree of expert judgment.



## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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(Dollar Amounts Expressed in Thousands)

### **Real Assets and Real Estate**

Real assets and real estate investments are held in limited partnerships. Limited partner interest is valued using the NAV of the partnership. Core and core plus real estate is held typically as a limited partner in a commingled fund and is valued at NAV. The most significant input into the NAV of such an entity is the value of its investment holdings. These holdings are valued by the general partners on a recurring basis, audited annually, and periodically appraised by an independent third party. The valuation assumptions are based upon both market and property specific inputs which are not observable and involve a certain degree of expert judgment. Real assets and real estate investments are held in open-ended and closed-ended commingled funds. Closed-ended commingled funds are long-term and illiquid in nature. As a result, investors are subject to redemption restrictions, which generally limit distributions and restrict the ability of limited partners to exit a partnership investment. These investments cannot be redeemed with the funds unless sold in a secondary market. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over 2 to 12 years.

### **Private Credit and Private Equity**

Private credit investments include direct limited partnerships, commingled funds, and separate accounts that invest in direct lending, and opportunistic credit strategies. Private equity investments include limited partnerships, commingled funds and fund of funds (FoF) that invest in domestic and international private buyouts, venture capital, and distressed debt. Private credit and private equity investments are made both on a direct basis in limited partnerships, commingled funds, separate accounts, and through externally managed FoF. Each FoF manager's investments consist of portfolio funds and co-investments as well as marketable securities held from time to time as a result of a distribution from a portfolio fund.

These investments are long-term and illiquid in nature. As a result, limited partners are constrained in their ability to exit a partnership investment prior to its dissolution, other than selling their interest in a private equity secondary market. Distributions are received through cash flows and the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the fund would be liquidated over 2 to 12 years.

Limited partner interest in commingled funds is valued by using the NAV of the partnership. The most significant input into the NAV of such an entity is the value of its investment holdings. These holdings are valued by the general partners on a recurring basis, audited annually, and periodically appraised by an independent third party.

Typically, the fair value of all investments is determined by the fund manager in good faith and in compliance with the definition of fair value under U.S. GAAP (FASB Accounting Standards Codification, Topic 820, Fair Value Measurements and Disclosures). In some circumstances, partnership agreements require reporting financial information and valuations in accordance with accounting standards other than U.S. GAAP, such as under International Financial Reporting Standards. The measure of fair value by the fund manager is typically conducted on a quarterly basis. Marketable securities are valued according to the most recent public market price with appropriate discounts to reflect any contractual or regulatory restriction upon sale.

The fair value of each investment as reported does not necessarily represent the amount that may ultimately be realized, since such amounts depend upon future circumstances that cannot reasonably be determined until the position is actually liquidated. The evaluation of the fair value of portfolio funds is based on the most recent available valuation information provided by each fund, adjusted for subsequent distributions from and capital contributions to such portfolio funds, if any. The evaluation of the fair value of co-investments is



based on the most recent information available at the time of valuation ascribed to such investments by the sponsor partnership. If the manager does not agree with this valuation, holds different securities than the sponsor partnership, is unable to obtain the sponsor partnership's valuation, or has information that results in a different valuation, the manager may use their own internal evaluation of fair value. The assumptions are based upon the nature of the investment and the underlying business. The valuation techniques vary based upon investment type and involve a certain degree of expert judgment.

### **Investment Derivative Instruments**

The fair values of derivative contracts can be affected by changes in interest rates, foreign exchange rates, commodity prices, credit spreads, market volatility, expected return, liquidity and other factors. The majority of the System's derivative instruments are traded in the OTC derivative market and are classified within Level 2. OTC derivatives classified within Level 2 are valued using models that utilize actively quoted or observable market input values from external market data providers, third-party pricing vendors and/or recent trading activity. The fair values of OTC derivatives for swaps and forward contracts are determined using discounted cash flow models. The fair values of option contracts and warrants are determined using Black-Scholes option pricing models. These models' key inputs include the contractual terms of the respective contract along with significant observable inputs, including interest rates, currency rates, credit spreads, equity prices, index dividend yield, volatility, and other factors. The fair value of rights is calculated using the same parameters used for pricing options, including the rights' subscription price, prevailing interest rates, time to expiration, and the share price of the underlying stock, taking into consideration the level of its volatility. Futures positions are exchange traded and settle in cash on a daily basis and thus have no fair value.

### **Annual Money-Weighted Rate of Return**

The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested. For the fiscal year ended June 30, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 27.4%.

### **SECTION 3: SECURITIES LENDING**

State statutes permit the System to participate in securities lending transactions and, pursuant to a Securities Lending Authorization Agreement, the System has authorized State Street Bank and Trust Company (State Street) to act as its agent in lending the System's securities to broker-dealers and banks pursuant to an approved loan agreement.

During the fiscal year ended June 30, 2021, on behalf of the System, State Street loaned securities held by State Street as custodian, including U.S. government and agency obligations, domestic corporate bonds, and domestic and international equities and received, as collateral, U.S. and foreign currency, U.S. government bonds, U.S. corporate bonds, U.S. equity, and international equity securities. The System does not have the ability to pledge or sell security collateral absent a borrower defaults. Borrowers are required to deliver collateral for each loan equal to a minimum of 100% of the fair value of the loaned security.

During the fiscal year ended June 30, 2021, SCERS did not impose any restrictions on the amount of the loans that State Street made on its behalf. During the fiscal year ended June 30, 2021, there were no failures to return loaned securities or pay distributions thereon by any borrowers. Moreover, there were no losses resulting from a default of the borrowers or State Street.





## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

SCERS and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. Since the collateral received from the borrowers was greater than the amounts borrowed, the System had minimal credit risk exposure to the borrowers. Furthermore, the lending agreement with State Street requires the custodian to indemnify the System if the borrower fails to return the loaned securities.

Additional information regarding the cash collateral investment pool (collateral pool) follows:

**Method for Determining Fair Value.** The fair value of investments held by the collateral pool is based upon valuations provided by a recognized pricing service.

**Policy for Utilizing Amortized Cost Method.** Because the collateral pool does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940, State Street has valued the collateral pool investments at fair value for reporting purposes.

**Regulatory Oversight.** The collateral pool is not registered with the Securities and Exchange Commission. State Street, and consequently the investment vehicles it sponsors (including the collateral pool), are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the System's position in the collateral pool is the same as the System's pro rata share of the collateral pool.

Collateral and related securities on loan at June 30, 2021, were as follows:

<b>Security Description</b>	<b>Fair Value of Reinvested Cash Collateral</b>	<b>Cash Collateral Value</b>	<b>Non-Cash Collateral Value</b>	<b>Fair Value of Securities on Loan</b>
Fixed income	\$343,908	\$337,439	\$70,261	\$409,789
Equity	56,448	54,883	38,719	93,344
<b>Total</b>	<b>\$400,356</b>	<b>\$392,322</b>	<b>\$108,980</b>	<b>\$503,133</b>

### Securities Lending Collateral Credit Risk

All of the cash collateral received for securities lending is invested in the State Street Compass STIF – Liquidity Pool (Compass Fund), which is not rated by credit rating agencies. At the time of purchase, all securities with maturities of 13 months or less must be rated at least A1, P1 or F1 and all securities with maturities in excess of 13 months must be rated A- or A3 by any two of the nationally-recognized statistical rating organizations or, if unrated, be of comparable quality. The fund may invest in other State Street managed vehicles provided they conform to the guidelines.

### Securities Lending Collateral Interest Rate Risk

The Compass Fund's Investment Policy Guidelines provide that the lending agent shall maintain the dollar-weighted average maturity of the Compass Fund in a manner that the lending agent believes is appropriate to the objective of the Compass Fund, provided that (i) in no event shall any Eligible Security be acquired with a remaining legal final maturity of greater than 18 months, (ii) the lending agent shall maintain a dollar-weighted average maturity of the Compass Fund not to exceed 75 calendar days and (iii) the lending agent shall maintain a dollar-weighted average maturity to final of the Compass Fund not to exceed 180 calendar days. As of June 30, 2021, the weighted average maturity was 20 days.



**SECTION 4: DEPOSIT AND INVESTMENT RISKS**

Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, the following schedules disclose the System's investments subject to certain types of risk.

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally-recognized statistical rating organizations. The ratings used to determine the quality of the individual securities are the ratings provided by Standard & Poor's (S&P). If there are no ratings provided by S&P, then the ratings provided by Moody's and Fitch Group are used, respectively.

SCERS utilizes external investment managers to manage its portfolios. SCERS' Investment Policy specifies that fixed income investments will include both active and passive index investments in U.S. Treasury and agency securities, corporate bonds, mortgage-backed and asset-backed securities and non-dollar denominated sovereign and corporate debt.

SCERS' portfolio has two actively-managed investment strategies, referenced as strategy 1 and strategy 2. Strategy 2 will have a minimum average credit quality rating of Baa1/BBB+ by a Nationally Recognized Statistical Rating Organization (NRSRO). Portfolio diversification is constrained by the following parameters in order to minimize overall market and credit risk:

- For strategy 2, securities rated below B-/B3 by an NRSRO are limited to 10% of the portfolio at the time of purchase, while securities rated below CCC- or Caa3 at the time of purchase, by an NRSRO are prohibited.
- No more than 10% and 5% of the portfolio will be concentrated in any one issuer except U.S. Government and agency securities for strategies 1 and 2, respectively.
- No more than 20% and 25% of the portfolio will be invested in high yield or below investment grade straight securities for strategies 1 and 2, respectively.
- No more than 15% and 10% of the portfolio will be invested in convertible securities, which include bonds and preferred issues, for strategies 1 and 2, respectively.
- No more than 20% of the portfolio will be invested in non-U.S. dollar bonds for each strategy.
- No more than 15% of the portfolio will be invested in Emerging Markets at the time of purchase for strategy 2.
- Net exposure to interest rate derivatives will be limited to 25% of the duration of the portfolio for strategy 2.
- Net exposure to credit derivatives (CDS, CDX) will be limited to 25% of the fair value of the portfolio for strategy 2.
- Gross notional exposure to credit derivatives (CDS, CDX) will be limited to 50% of the fair value of the portfolio for strategy 2.



## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

The following table depicts the fixed income assets by credit rating as of June 30, 2021:

Credit Rating	Total	Securitized Obligations	Credit Obligations	Commingled Funds	Mortgage Pass-Through					
					U.S. Government Obligations	U.S. & Agency Obligations	International Government	Collateralized Mortgage Obligations	FHLMC	FNMA
AAA	\$137,174	\$67,411	\$2,450	\$-	\$-	\$-	\$67,313	\$-	\$-	\$-
AA+	260,330	271	943	-	10,712	-	14,315	33,893	200,196	-
AA-1	1,443	1,282	161	-	-	-	-	-	-	-
AA	5,838	2,966	2,724	-	-	-	148	-	-	-
AA-2	737	367	370	-	-	-	-	-	-	-
AA-	8,588	203	7,554	-	-	-	831	-	-	-
AA-3	2,000	-	985	-	-	-	1,015	-	-	-
A+	15,870	-	15,008	-	588	-	274	-	-	-
A-1	1,681	1,013	276	-	-	-	392	-	-	-
A	14,967	6,344	8,526	-	-	-	97	-	-	-
A-2	100	100	-	-	-	-	-	-	-	-
A-	41,219	1,270	39,783	-	-	-	166	-	-	-
A-3	622	622	-	-	-	-	-	-	-	-
BBB+	68,595	802	66,345	-	-	-	1,448	-	-	-
BAA-1	2,197	-	1,923	-	-	-	274	-	-	-
BBB	85,455	1,406	78,212	-	-	3,504	2,333	-	-	-
BAA-2	395	200	195	-	-	-	-	-	-	-
BBB-	68,511	1,718	61,758	-	-	1,313	3,722	-	-	-
BAA-3	4,181	597	680	-	-	998	1,906	-	-	-
BB+	18,823	417	17,698	-	-	417	291	-	-	-
BA-1	1,739	-	1,528	-	-	-	211	-	-	-
BB	17,734	160	16,873	-	-	-	701	-	-	-
BA-2	3,529	-	2,911	-	-	140	478	-	-	-
BB-	21,963	-	13,600	-	-	-	8,363	-	-	-
BA-3	2,832	-	1,216	-	-	-	1,616	-	-	-
B+	8,891	1,086	7,513	-	-	-	292	-	-	-
B-1	970	-	970	-	-	-	-	-	-	-
B	16,256	4,762	9,314	-	294	1,064	822	-	-	-
B-2	216	-	216	-	-	-	-	-	-	-
B-	3,661	49	2,532	-	-	-	1,080	-	-	-
CCC+	1,996	-	1,996	-	-	-	-	-	-	-
CAA1	703	-	703	-	-	-	-	-	-	-
CCC	11,427	5,571	2,573	-	-	-	3,283	-	-	-
CAA2	251	-	251	-	-	-	-	-	-	-
CCC-	452	-	452	-	-	-	-	-	-	-
Caa3	190	-	190	-	-	-	-	-	-	-
D	1,080	755	325	-	-	-	-	-	-	-
NA	972,474	-	-	-	920,644	-	-	-	-	51,830
NR	557,944	513,023	1,357	20,617	-	-	22,947	-	-	-
<b>Total</b>	<b>\$2,363,034</b>	<b>\$612,395</b>	<b>\$370,111</b>	<b>\$20,617</b>	<b>\$932,238</b>	<b>\$7,436</b>	<b>\$134,318</b>	<b>\$33,893</b>	<b>\$200,196</b>	<b>\$51,830</b>

NA represents securities explicitly guaranteed by the U.S. government, which are not subject to the GASB Statement No. 40 credit risk disclosure requirements. NR represents those securities that are not rated.



**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2021, the System had no single issuer that exceeds 5% of total investments per GASB Statement No. 40 disclosure requirements or any one issuer which represents 5% or more of total fiduciary net position in accordance with GASB Statement No. 67. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are exempt from the disclosure requirements.

The System's investment policy does not allow more than 5% of the total portfolio fair value to be invested in any one issuer, and as of June 30, 2021, the System had no issuer that exceeds 5% of total portfolio fair value. As noted in the previous discussion of credit risk, manager investment guidelines place limitations on the maximum holdings in any one issuer.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event a financial institution or counterparty fails, the System would not be able to recover the value of its deposits, investments, or securities. As of June 30, 2021, the bank balance of cash and cash equivalents on deposit with SCERS' custodian bank and financial institutions totaled \$109,155, of which \$108,905 was not insured by the Federal Deposit Insurance Corporation (FDIC) and were exposed to custodial credit risk. The System believes that the risk is not significant because the cash is held with major financial institutions.

As of June 30, 2021, deposits held in the System's name for the margin accounts of \$15,933 was not insured or not collateralized, and these deposits were exposed to custodial credit risk.

As of June 30, 2021, 100% of the System's investments held with the custodian were held in the System's name, and the System is not exposed to custodial credit risk related to these investments. There are no general policies relating to custodial credit risk.





## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment guidelines negotiated with the actively-managed external portfolio managers give the managers the discretion to deviate within +/-20% and +/-30%, for strategies 1 and 2, respectively, from the effective duration of the relevant Bloomberg Barclays Capital Aggregate benchmark based on the portfolio total.

The following tables depict the duration in years of the long-term fixed income portfolio vs. the benchmark as of June 30, 2021.

Type of Securities	Fair Value	Effective Duration	Benchmark Duration	Difference
Securitized Obligations				
Asset-Backed Securities	\$612,395	1.41	2.10	(0.69)
Credit Obligations				
Corporate Bonds	299,741	6.09	14.48	(8.39)
Municipals	11,964	0.46	11.74	(11.28)
Yankee	58,406	0.85	6.60	(5.75)
U.S. Government & Agency Obligations				
Agency Securities	11,594	0.09	3.79	(3.70)
U.S. Treasury	920,644	6.72	7.32	(0.60)
International Government	7,436	6.25	5.29	0.96
Collateralized Mortgage Obligations	134,318	2.65	4.51	(1.86)
Mortgage Pass-Through				
FHLMC	33,893	3.88	3.79	0.09
FNMA	200,196	4.04	3.79	0.25
GNMA	51,830	3.38	3.84	(0.46)
No Effective Duration				
Commingled Fund	20,617	NA	NA	NA
<b>Total Fair Value with Weighted Average</b>	<b>\$2,363,034</b>	<b>4.46</b>	<b>6.80</b>	<b>(2.34)</b>

NA represents securities that have no effective duration.



## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The following tables represent cash and investments held in a foreign currency as of June 30, 2021:

Local Currency Name	Cash and Cash Equivalents	Equity	Fixed Income	Real Estate	Private Credit	Private Equity	Total
Australian Dollar	\$28	\$62,130	\$-	\$-	\$-	\$-	\$62,158
Brazilian Real	-	5,237	-	-	-	-	5,237
Canadian Dollar	232	114,816	163	-	-	-	115,211
Chilean Peso	-	273	-	-	-	-	273
Danish Krone	91	84,135	-	-	-	-	84,226
Euro Currency	517	509,137	34,495	171,388	5,128	155,726	876,391
Hong Kong Dollar	352	82,279	-	-	-	-	82,631
Hungarian Forint	18	-	-	-	-	-	18
Indian Rupee	-	8,699	-	-	-	-	8,699
Indonesian Rupiah	-	466	-	-	-	-	466
Japanese Yen	1,792	340,014	-	-	-	-	341,806
Malaysian Ringgit	-	264	-	-	-	-	264
Mexican Peso	23	3,341	-	-	-	-	3,364
New Israeli Sheqel	-	8,510	-	-	-	-	8,510
New Zealand Dollar	24	2,107	-	-	-	-	2,131
Norwegian Krone	(28)	9,414	-	-	-	-	9,386
Polish Zloty	4	-	-	-	-	-	4
Pound Sterling	630	207,587	7,608	2,291	-	-	218,116
Singapore Dollar	31	13,929	-	-	-	-	13,960
South African Rand	158	1,257	-	-	-	-	1,415
South Korean Won	3	1,217	-	-	-	-	1,220
Swedish Krona	74	49,067	-	-	-	-	49,141
Swiss Franc	24	162,744	-	-	-	-	162,768
Yuan Renminbi	32	4,392	-	-	-	-	4,424
<b>Total</b>	<b>\$4,005</b>	<b>\$1,671,015</b>	<b>\$42,266</b>	<b>\$173,679</b>	<b>\$5,128</b>	<b>\$155,726</b>	<b>\$2,051,819</b>

Foreign currency is comprised of international investment proceeds and income to be repatriated into U.S. dollars and funds available to purchase international securities. The System does not have a foreign currency risk policy.



(Dollar Amounts Expressed in Thousands)

### Highly Sensitive Investments

As of June 30, 2021, SCERS' investments included Collateralized Mortgage Obligations and Mortgage Pass-Through securities totaling \$420,237. These securities are highly sensitive to interest rate fluctuations in that they are subject to early payment in a period of declining interest rates. The resulting reduction in expected total cash flows affects the fair value of these securities.

As of June 30, 2021, total commodities investments was \$39,202. The investments consist of commodity futures hedge fund-of-funds and exposure through a customized, diversified real assets strategy.

Spot commodity prices have historically been a poor investment and have declined in real terms. However, investment in collateralized commodity futures can provide higher returns. The futures market is an efficient way for producers to hedge price risk by forward-selling commodities at lower prices relative to spot prices to investors and speculators generating a roll yield (backwardation).

In general, commodities are volatile investments that are prone to large price spikes. By investing in commodity futures, investors get exposure to short-term price movement and risk, as well as long-term price trends. This price volatility and the need for producers to hedge their production provides the fundamental rationale for why investment managers pay the risk premium to speculators and long-only investors in the commodity markets.

### SECTION 5: DERIVATIVE INSTRUMENTS

The System's investment portfolios contain individual securities as well as investments in external investment pools. The System's investment policy allows investment managers to use derivative instruments for certain purposes and within certain parameters. Such instruments include futures contracts, currency forward contracts, option contracts, swap agreements, and rights and warrants. The System uses derivatives to minimize the exposure of certain investments to adverse fluctuations in financial and currency markets, as an alternative to investments in the cash market in which the manager is permitted to invest, and as an additional yield curve and/or duration management strategy. The System does not use derivatives for speculative purposes or to create leverage, however, this does not apply to investments in external pools. As of June 30, 2021, the derivative instruments held by the System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the Statement of Changes in Fiduciary Net Position.

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

The table below presents the related net appreciation/(depreciation) in fair value, the fair value and the notional value of derivative instruments outstanding at June 30, 2021:

Investment Derivative Instruments	Net Appreciation/ (Depreciation) in Fair Value of Investments	Financial Statement Classification	Fair Value	Notional
Forwards	\$9,317	Investment Sales and Other	\$1,090	\$149,217
Futures	5,326	Investment Sales and Other	-	176,867
Options	457	Investment Purchases and Other	(31)	(2,424)
Rights/Warrants	(537)	Investment Sales and Other	55	42 *
Swaps	(2,093)	Investment Purchases and Other	(2,257)	84,111
<b>Total Derivatives Instruments</b>	<b>\$12,470</b>		<b>\$(1,143)</b>	

\* Present in number of shares.

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. As a result, the instruments themselves have no fair value at June 30, 2021, or at the end of any trading day. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under net appreciation/(depreciation) in fair value of investments as they are incurred.

Forward contracts are obligations to buy or sell a currency or other commodity at a specified exchange rate and quantity on a specific future date. The fair value of the foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2021.

### Counterparty Credit Risk

The table below presents the counterparty credit ratings of the System's non-exchange traded investment derivative instruments outstanding and subject to loss at June 30, 2021:

S&P Rating	Forwards	Swaps	Total
A	\$145	\$-	\$145
A-	193	-	193
A+	852	\$1	853
AA-	67	-	67
BBB+	493	415	908
NR	-	4	4
Investments in Asset Position	1,750	420	2,170
Investments in Liability Position	(660)	(2,412)	(3,072)
<b>Total Investments in Asset/(Liability) Position</b>	<b>\$1,090</b>	<b>\$(1,992)</b>	<b>\$(902)</b>





## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

The System could be exposed to risk if the counterparties to derivative contracts are unable to meet the terms of the contracts. The System's investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. The System anticipates that the counterparties will be able to satisfy their obligations under the contracts.

The aggregate fair value of investment derivative instruments in an asset position subject to counterparty risk at June 30, 2021, was \$2,170. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. The System did not have any master netting agreements with its counterparties at June 30, 2021, except that certain investment managers used netting arrangements at their discretion to minimize counterparty risks. The above schedules present exposure for similar instruments with the same counterparty on a net basis.

At June 30, 2021, the System did not have any significant exposure to counterparty credit risk with any single party.

### Interest Rate Risk

At June 30, 2021, the System is exposed to interest rate risk on its derivative instruments as presented in the following tables:

Investment Type	Total Fair Value	Investment Maturities (in years)			
		Less Than 1	1 - 5	6 - 10	More than 10
Credit Default Swaps Bought	\$(363)	\$-	\$(363)	\$-	\$-
Credit Default Swaps Written	(25)	4	(29)	-	-
Fixed Income Options Bought	4	4	-	-	-
Fixed Income Options Written	(13)	(13)	-	-	-
Interest Rate Swaps	(1,868)	-	(807)	(1,014)	(47)
<b>Total</b>	<b>\$(2,265)</b>	<b>\$(5)</b>	<b>\$(1,199)</b>	<b>\$(1,014)</b>	<b>\$(47)</b>

### Derivative Instruments Highly Sensitive to Interest Changes

Investment Type	Reference Rate	Fair Value	Notional Value
Interest Rate Swaps	Receive Variable 12-month FEDL, Pay Fixed 0.373875%	\$22	\$1,500
Interest Rate Swaps	Receive Variable 12-month FEDL, Pay Fixed 0.38%	19	1,330
Interest Rate Swaps	Receive Variable 12-month FEDL, Pay Fixed 0.915%	8	310
Interest Rate Swaps	Receive Variable 12-month FEDL, Pay Fixed 0.9305%	2	105
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 1.2%	(11)	214
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 0.6804%	(2)	337
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 0.95%	(7)	495
Interest Rate Swaps	Receive Variable 12-month FEDL, Pay Fixed 1.38217%	(17)	800
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 1.15%	(25)	588
Interest Rate Swaps	Receive Variable 12-month FEDL, Pay Fixed 1.44882%	(39)	1,640
Interest Rate Swaps	Receive Variable 12-month SONIA, Pay Fixed 1%	(82)	3,164
Interest Rate Swaps	Pay Variable 3-month JIBAR, Receive Fixed 9.3%	80	546



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

**Derivative Instruments Highly Sensitive to Interest Changes (Continued)**

<b>Investment Type</b>	<b>Reference Rate</b>	<b>Fair Value</b>	<b>Notional Value</b>
Interest Rate Swaps	Pay Variable 3-month JIBAR, Receive Fixed 10.65%	64	994
Interest Rate Swaps	Pay Variable 3-month JIBAR, Receive Fixed 7.66%	40	1,541
Interest Rate Swaps	Pay Variable 6-month BBSW, Receive Fixed 1.80002%	34	1,584
Interest Rate Swaps	Pay Variable 3-month JIBAR, Receive Fixed 8.6%	25	252
Interest Rate Swaps	Pay Variable 3-month JIBAR, Receive Fixed 7.5%	22	791
Interest Rate Swaps	Pay Variable 3-month JIBAR, Receive Fixed 7.84%	21	420
Interest Rate Swaps	Pay Variable 3-month JIBAR, Receive Fixed 7.9%	15	273
Interest Rate Swaps	Pay Variable 6-month BBSW, Receive Fixed 1.85%	14	529
Interest Rate Swaps	Pay Variable 0-month CETIP, Receive Fixed 6.67%	13	909
Interest Rate Swaps	Pay Variable 3-month JIBAR, Receive Fixed 7.625%	10	280
Interest Rate Swaps	Pay Variable 3-month JIBAR, Receive Fixed 7.481%	9	336
Interest Rate Swaps	Pay Variable 0-month CETIP, Receive Fixed 6.67%	5	340
Interest Rate Swaps	Pay Variable 3-month NZDBB, Receive Fixed 1.92%	4	772
Interest Rate Swaps	Pay Variable 0-month CETIP, Receive Fixed 6.64%	4	298
Interest Rate Swaps	Pay Variable 6-month WIBOR, Receive Fixed 1.76%	2	825
Interest Rate Swaps	Pay Variable 12-month USCPI, Receive Fixed 2.46%	(5)	385
Interest Rate Swaps	Pay Variable 12-month USCPI, Receive Fixed 2.435%	(6)	380
Interest Rate Swaps	Pay Variable 12-month USCPI, Receive Fixed 2.45%	(6)	460
Interest Rate Swaps	Pay Variable 12-month USCPI, Receive Fixed 2.45%	(6)	465
Interest Rate Swaps	Pay Variable 12-month USCPI, Receive Fixed 2.465%	(8)	745
Interest Rate Swaps	Pay Variable 1-month TIIE, Receive Fixed 6%	(9)	68
Interest Rate Swaps	Pay Variable 3-month JIBAR, Receive Fixed 7.04%	(9)	1,058
Interest Rate Swaps	Pay Variable 6-month BBSW, Receive Fixed 1.073%	(9)	203
Interest Rate Swaps	Pay Variable 1-month TIIE, Receive Fixed 5.55%	(9)	90
Interest Rate Swaps	Pay Variable 0-month CETIP, Receive Fixed 5.9025%	(10)	624
Interest Rate Swaps	Pay Variable 6-month BUBOR, Receive Fixed 1.605%	(100)	1,250
Interest Rate Swaps	Pay Variable 3-month NZDBB, Receive Fixed 1.5225%	(7)	349
Interest Rate Swaps	Pay Variable 6-month BBSW, Receive Fixed 1.21%	(23)	1,126
Interest Rate Swaps	Pay Variable 3-month IBRCO, Receive Fixed 4.505%	(1)	253
Interest Rate Swaps	Pay Variable 3-month IBRCO, Receive Fixed 5.0814%	(5)	125
Interest Rate Swaps	Pay Variable 3-month IBRCO, Receive Fixed 5.072%	(7)	179
Interest Rate Swaps	Pay Variable 6-month BUBOR, Receive Fixed 1.8027%	(23)	348
Interest Rate Swaps	Pay Variable 3-month IBRCO, Receive Fixed 4.565%	(2)	727
Interest Rate Swaps	Pay Variable 3-month IBRCO, Receive Fixed 5.078%	(17)	449
Interest Rate Swaps	Pay Variable 6-month WIBOR, Receive Fixed 1.2%	(10)	218
Interest Rate Swaps	Pay Variable 12-month USCPI, Receive Fixed 2.445%	(10)	755
Interest Rate Swaps	Pay Variable 12-month USCPI, Receive Fixed 2.4475%	(10)	760
Interest Rate Swaps	Pay Variable 3-month NZDBB, Receive Fixed 1.09%	(12)	175
Interest Rate Swaps	Pay Variable 12-month USCPI, Receive Fixed 2.46875%	(14)	1,250
Interest Rate Swaps	Pay Variable 0-month CETIP, Receive Fixed 6.89%	(15)	402
Interest Rate Swaps	Pay Variable 0-month CETIP, Receive Fixed 6.845%	(16)	417
Interest Rate Swaps	Pay Variable 12-month USCPI, Receive Fixed 2.185%	(17)	480
Interest Rate Swaps	Pay Variable 1-month TIIE, Receive Fixed 6.05%	(17)	815



## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

### Derivative Instruments Highly Sensitive to Interest Changes (Continued)

Investment Type	Reference Rate	Fair Value	Notional Value
Interest Rate Swaps	Pay Variable 3-month NZDBB, Receive Fixed 1.0975%	(21)	314
Interest Rate Swaps	Pay Variable 0-month BRCDI, Receive Fixed 6.89%	(26)	698
Interest Rate Swaps	Pay Variable 1-month TIIE, Receive Fixed 5.46%	(28)	256
Interest Rate Swaps	Pay Variable 1-month TIIE, Receive Fixed 5.715%	(28)	242
Interest Rate Swaps	Pay Variable 0-month CETIP, Receive Fixed 6.3425%	(33)	1,157
Interest Rate Swaps	Pay Variable 0-month BRCDI, Receive Fixed 6.3425%	(36)	1,235
Interest Rate Swaps	Pay Variable 3-month CDOR, Receive Fixed 0.875%	(42)	1,857
Interest Rate Swaps	Pay Variable 0-month BRCDI, Receive Fixed 6.359%	(55)	1,907
Interest Rate Swaps	Pay Variable 12-month USCPI, Receive Fixed 2.23%	(57)	1,400
Interest Rate Swaps	Pay Variable 1-month TIIE, Receive Fixed 5.02%	(59)	623
Interest Rate Swaps	Pay Variable 6-month BBSW, Receive Fixed 1.081%	(65)	1,517
Interest Rate Swaps	Pay Variable 3-month JIBAR, Receive Fixed 6.765%	(80)	2,255
Interest Rate Swaps	Pay Variable 6-month CLOIS, Receive Fixed 1.6338%	(84)	1,126
Interest Rate Swaps	Pay Variable 3-month CDOR, Receive Fixed 0.864875%	(85)	3,674
Interest Rate Swaps	Pay Variable 1-month TIIE, Receive Fixed 5.45%	(93)	849
Interest Rate Swaps	Pay Variable 6-month WIBOR, Receive Fixed 1.17%	(96)	1,939
Interest Rate Swaps	Pay Variable 3-month NZDBB, Receive Fixed 1.096%	(125)	1,859
Interest Rate Swaps	Pay Variable 1-month TIIE, Receive Fixed 5.45%	(146)	1,339
Interest Rate Swaps	Pay Variable 6-month CLOIS, Receive Fixed 2.3075%	(156)	1,373
Interest Rate Swaps	Pay Variable 3-month IBRCO, Receive Fixed 3.08%	(194)	2,466
Interest Rate Swaps	Pay Variable 6-month CLOIS, Receive Fixed 1.645%	(206)	2,747
<b>Total Interest Rate Swaps</b>		<b>\$(1,868)</b>	<b>\$66,562</b>



## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

### Foreign Currency Risk

At June 30, 2021, the System was exposed to foreign currency risk on its investments in forward contracts and swaps denominated in foreign currencies as presented in the following tables:

Currency Name	Forward Contracts			Total Exposure
	Net Receivables	Net Payables	Swaps	
Australian Dollar	\$(60)	\$99	\$(49)	\$(10)
Brazilian Real	82	(1)	(168)	(87)
Canadian Dollar	(31)	90	(127)	(68)
Chilean Peso	4	15	(447)	(428)
Colombian Peso	(17)	(3)	(225)	(245)
Czech Koruna	(5)	26	-	21
Danish Krone	(5)	20	-	15
Euro Currency	(105)	745	-	640
Hong Kong Dollar	-	1	-	1
Hungarian Forint	(9)	16	(123)	(116)
Indian Rupee	(25)	-	-	(25)
Indonesian Rupiah	(20)	8	-	(12)
Japanese Yen	(44)	116	-	72
Mexican Peso	(4)	(3)	(389)	(396)
New Israeli Sheqel	(3)	1	-	(2)
New Taiwan Dollar	(4)	6	-	2
New Zealand Dollar	(8)	5	(161)	(164)
Norwegian Krone	(1)	5	-	4
Polish Zloty	(28)	4	(105)	(129)
Pound Sterling	(35)	76	(128)	(87)
Russian Ruble	(4)	1	-	(3)
Singapore Dollar	-	6	-	6
Peruvian Sol	-	(13)	-	(13)
South African Rand	(5)	116	198	309
South Korean Won	(14)	4	-	(10)
Swedish Krona	(10)	37	-	27
Swiss Franc	(22)	80	-	58
Thailand Baht	(33)	28	-	(5)
Yuan Renminbi Offshore	(3)	12	-	9
<b>Grand Total</b>	<b>\$(409)</b>	<b>\$1,497</b>	<b>\$(1,724)</b>	<b>\$(636)</b>

The System has investments in futures contracts. As indicated on the preceding pages, futures variation margin accounts are settled each trading day and recognized as realized gains/(losses) as they are incurred. As a result, the foreign futures contracts have no fair value at June 30, 2021.



NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

**NOTE 4 - PENSION LIABILITY AND SIGNIFICANT ASSUMPTIONS**

The employers’ net pension liabilities (i.e., the total pension liability determined in accordance with GASB Statement No. 67 less the System’s fiduciary net position) as of June 30, 2021, is shown below:

	<b>2021</b>
Total Pension Liability	\$12,985,529
Less: Fiduciary Net Position	12,564,149
<b>Net Pension Liability</b>	<b>\$421,380</b>
Fiduciary Net Position as a % of Total Pension Liability	96.8%

The actuarial valuation of the System involves estimates of the amounts reported and assumptions about the probability of occurrence of events far into the future. Some examples include future salary increases and future employee mortality. The net pension liability is subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Triennially, the System requests that its actuary, Segal, perform an analysis of the appropriateness of all economic and non-economic assumptions. The last triennial analysis was performed as of June 30, 2019, and as a result of that analysis, the Board of Retirement approved certain changes to the actuarial assumptions, which were incorporated in the actuarial valuation report as of June 30, 2021.

**Disclosure of Information about Actuarial Methods and Assumptions**

The required Schedule of Changes in Net Pension Liability and Related Ratios, immediately following the Notes to the Basic Financial Statements, presents multi-year trend information about whether the employers’ net pension liability is increasing or decreasing over time.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

**Actuarial Methods and Renewal Application Part A and B:**

The following significant actuarial assumptions were used to measure the total pension liabilities as of June 30, 2021:

Discount rate:	6.75%
Inflation rate:	2.75%
Real across-the-board salary increase:	0.25%
Projected salary increases*:	4.25% - 10.50%

\* Includes inflation at 2.75% plus real across the board salary increase of 0.25% plus merit and promotional increases as of June 30, 2021.



## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

### Actuarial Methods and Renewal Application Part A and B (Continued):

#### Assumed post-retirement benefit increase:

Miscellaneous Tier 1	2.75%
Miscellaneous Tier 2	0.00%
Miscellaneous Tier 3	2.00%
Miscellaneous Tier 4	2.00%
Miscellaneous Tier 5	2.00%
Safety Tier 1	2.75%
Safety Tier 2	2.00%
Safety Tier 3	2.00%
Safety Tier 4	2.00%

#### Post-Retirement Mortality:

##### a) Service

**For Miscellaneous Members** - Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10%, projected generationally with the two-dimensional mortality improvement scale MP-2019.

**For Safety Members** - Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates decreased by 5% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019.

##### b) Disability

**For Miscellaneous Disabled Members** - Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.

**For Safety Disabled Members** - Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.

#### Member Contribution Rate:

**For Miscellaneous Members** - Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10%, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2019, weighted 40% male and 60% female.

**For Safety Members** - Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates decreased by 5% for males, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2019, weighted 75% male and 25% female.



## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

- Pre-Retirement Mortality: **For Miscellaneous Members** - Pub-2010 General Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.
- For Safety Members** - Pub-2010 Safety Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.
- Other Assumptions: Analysis of actuarial experience studies for the periods of July 1, 2016, through June 30, 2019, as of June 30, 2021.

### Assumed Asset Allocation

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption, as of June 30, 2021, are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
U.S. Large Cap Equity	18.0%	5.4%
U.S. Small Cap Equity	2.0	6.2
International Developed Equity	16.0	6.5
Emerging Markets Equity	4.0	8.8
Core/Core Plus Bonds	10.0	1.1
High Yield Bonds	1.0	3.4
Global Bonds	3.0	-
Bank Loans	1.0	3.9
U.S. Treasury	5.0	0.3
Real Assets	7.0	8.1
Liquid Real Return	2.0	4.5
Real Estate	5.0	4.6
Value Added Real Estate	2.0	8.1
Diversifying Absolute Return	7.0	2.4
Growth Oriented Absolute Return	3.0	2.4
Private Credit	4.0	5.6
Private Equity	9.0	9.4
Cash	1.0	-
	<b>100.0%</b>	



**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The discount rate used to measure the total pension liability was 6.75% as of June 30, 2021. The projection of cash flows used to determine the discount rate assumed that member contributions will be made based on the current contribution rate and that employer contributions will be made at the end of each pay period based on the actuarially determined contribution rates. For this purpose, only the employer contributions that are intended to fund benefits for current Plan members and their beneficiaries are included.

Projected employer contributions that are intended to fund the service cost for future Plan members and their beneficiaries, as well as projected contributions from future Plan members, are not included.

Based on those assumptions, the System’s fiduciary net position was projected to be available to make all the projected future benefit payments for current Plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2021.

In accordance with GASB Statement No. 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the table below presents the employers’ net pension liabilities as of June 30, 2021, calculated using the discount rate, as well as what the employers’ net pension liability would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
	<b>5.75%</b>	<b>6.75%</b>	<b>7.75%</b>
Net pension liability as of June 30, 2021	\$2,202,277	\$421,380	\$(1,036,972)

**NOTE 5 - CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE**

Contributions to the Plan are made pursuant to Section 31584 of the 1937 Act. The System’s funding policy provides for periodic contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due. Members of the System are required to contribute, and such contributions range from 3.87% to 26.02% of annual covered salary for fiscal year 2020-21 depending on the member’s tier, employer, and bargaining unit. Each employer of the System is obligated by State law to make all required contributions to the Plan and, depending on the participating employer and their employees’ tiers, such contribution rates range from 10.27% to 61.78% of covered payroll for fiscal year 2020-21. The required contributions include current service cost and amortization of any unfunded prior service cost as of June 30, 2012, over a period of 23 years from June 30, 2012, amortization of any unfunded service costs resulting in actuarial gains or losses and amortization of any unfunded service costs resulting from changes in actuarial assumptions and methods over a 20-year period, amortization of any unfunded service costs resulting from Plan amendments over a 15 year period and amortization of any unfunded service costs resulting from retirement incentive programs over a period of up to 5 years.

Employer contribution rates are determined using the entry age normal cost method based on a level percentage of payroll. The System also uses this actuarial method to amortize the unfunded liability, if applicable. Member and employer contributions for the fiscal year ended June 30, 2021 totaled \$415,866. Included in this total are employer contributions of \$295,269 in fiscal year 2020-21, of which \$269,496 was made by the County of Sacramento. Member contributions were \$120,597 in fiscal year 2020-21. All contributions were made in accordance with actuarially-determined contribution requirements based on the actuarial valuations performed as of June 30, 2019.



## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

(Dollar Amounts Expressed in Thousands)

### NOTE 6 - RESERVES

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. Descriptions of the purpose for the reserve and designated accounts are provided below.

**Member reserve** represents the balance of member contributions. Additions include member contributions and interest earnings. Deductions include refunds of member contributions and transfers to retiree reserves.

**Employer reserve** represents the balance of employer contributions for future retirement payments to current active members. Additions include contributions from the employer and interest earnings. Deductions include transfers to retiree reserves, lump sum death benefits, and payments under California Government Code Sections 31725.5 and 31725.6 related to alternative employment for members otherwise entitled to disability retirement benefits.

**Retiree and death benefit reserves** represent the balance of transfers from member reserves, employer reserves, and interest earnings, less payments to retirees, and payments to beneficiaries of retired members who are deceased.

**Contingency reserve** was created to serve as a reserve against deficiencies in future earnings and unexpected expenses. Investment gains and losses are recognized (smoothed) over a seven-year period.

**Total allocated reserves** and designations represent the smoothed actuarial value of assets (the fair value of assets less the unrecognized/deferred gains and losses) and is the sum of the preceding reserves.

**Market stabilization reserve** represents the unrecognized/deferred gains and losses and is the difference between the smoothed actuarial value of assets and the net position restricted for pension benefits at fair value.

A summary of the various reserve accounts, which comprise net position restricted for pension benefits at June 30, 2021, is as follows:

Member reserve	\$1,010,356
Employer reserve	3,108,860
Retiree and death benefit reserve	6,486,156
Contingency reserve	324,177
Total allocated reserves and designations	10,929,549
Market stabilization reserve	1,634,600
<b>Net position restricted for pension benefits</b>	<b>\$12,564,149</b>



**NOTE 7 - PLAN TERMINATION**

SCERS is administered in accordance with the provisions of the 1937 Act found in the California Government Code at Section 31450 et seq. Once adopted by the governing body of a county, there are no provisions in the 1937 Act which permit the governing body of the county to terminate the Plan. Section 31564 permits the governing body of a district to withdraw its employees if certain prerequisites are met. The governing body of a county or district can adopt optional provisions within the 1937 Act via ordinance or resolution. Once adopted, Section 31483 permits the governing body of a county or district to terminate the applicability of the optional provisions after a future date as specified in a subsequent ordinance or resolution.

**NOTE 8 - RETIREE MEDICAL AND DENTAL INSURANCE PROGRAM****Plan Description**

The Sacramento County Retiree Medical and Dental Insurance Program (the Program) is a multiple-employer medical and dental plan, which is sponsored and administered by the County of Sacramento and financed by three participating employers. SCERS' role in regard to the Program is limited to maintaining data provided by the administrator, collecting monies from the participating employers and retirees, and remitting premium payments to health carriers. The activities of the Program are accounted for in the custodial fund. SCERS does not provide any funding for the Program.

Below is the list of employers participating in the Program as of June 30, 2021:

- County of Sacramento
- Sacramento Metropolitan Fire District
- Sacramento Employment and Training Agency

The Program provides medical and/or dental subsidy/offset payments to eligible retirees. The Sacramento County Board of Supervisors, at its own discretion, sets the amount of subsidy/offset payment available to eligible County retirees on a year-to-year basis. The medical subsidy amounts for special districts' retirees are varied and are established by each of the special district. As of June 30, 2021, there were 343 annuitants receiving medical subsidy and 421 annuitants receiving dental subsidy.

**Eligibility**

(Amounts Expressed in Dollars)

**County annuitants who retired after May 31, 2007** - According to the Program's Administrative Policy, only County annuitants from bargaining unit 003, who retired after May 31, 2007, may be eligible for a premium subsidy/offset depending on the annuitant's credited service hours and type of retirement. For fiscal year ended June 30, 2021, the monthly dental subsidy was \$25, and the monthly medical subsidy amounts range from \$122 to \$244 depending on the annuitant's retirement date and years of service.

**Special Districts' annuitants** - The medical subsidy amounts for special districts' annuitants are varied and are established by each of the member districts. For the fiscal year ended June 30, 2021, the monthly medical subsidy amounts range from \$72 to \$417, depending on the annuitant's retirement date and years of service.

There are no vested benefits associated with the Program. The Program does not create any contractual, regulatory, or other vested entitlement to present or future retirees, their spouses, or dependents for medical and/or dental benefits, or subsidy/offset payments at any particular level, or at all. The County of Sacramento





## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

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(Dollar Amounts Expressed in Thousands)

and other participating employers may, in their sole discretion, amend or terminate, in whole or in part, the Program by Resolution of the Board of Supervisors.

### **Contributions and Reserves**

The System does not have any authority to establish or amend the obligations of the Plan members and employers to contribute to the Program. SCERS does not determine the contribution rate or collect the required contributions from employers. Monies received by the System in excess of liabilities to pay premiums are recognized as liabilities payable to the employers. There are no net position or legally required reserve accounts for the Program.

### **Request for Information**

Requests for additional financial information regarding the Program may be addressed to:

County of Sacramento  
Department of Finance, Auditor-Controller Division  
700 H Street, Room 3650  
Sacramento, CA 95814

### **NOTE 9 - CONTINGENCIES**

The System is involved in litigation relating to various matters. In the opinion of management, after consultation with legal counsel, the outcome of these matters is not expected to have a material adverse effect on the System's financial statements.

### **NOTE 10 - FUTURE ACCOUNTING PRONOUNCEMENTS**

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This statement improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement were originally effective for the System's financial statements for the fiscal year ending June 30, 2021. However, in light of the COVID-19 pandemic, GASB postponed implementation of this statement by one year of its effective date. Management is evaluating the requirements of this GASB Statement and its impact to SCERS' financial statements, which will be effective in fiscal year ending June 30, 2022.

### **NOTE 11 - SUBSEQUENT EVENTS**

The System has evaluated subsequent events through February 25, 2022, the date on which the financial statements were available to be issued. This report reflects the Segal recommendation, in which the Net Pension Liability and the Total Pension Liability were updated, superseding the previous GASB 67 actuarial valuation report dated November 9, 2021. Please refer to page 67 for more details.



## REQUIRED SUPPLEMENTARY INFORMATION

(Dollar Amounts Expressed in Thousands)

### SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FOR THE FISCAL YEARS ENDED JUNE 30

	2021	2020	2019	2018	2017	2016	2015	2014	2013
<b>Total pension liability<sup>(1)</sup></b>									
Service cost	\$265,224	\$241,474	\$238,685	\$234,325	\$193,490	\$186,438	\$185,428	\$192,701	\$187,329
Interest	855,203	830,663	783,932	747,682	706,016	675,920	643,427	617,240	589,783
Differences between expected and actual experience	74,045	50,651	165,493	18,566	(46,244)	(49,245)	(6,447)	(108,155)	(80,788)
Changes of assumptions <sup>(2)</sup>	(324,177)	216,097	-	-	823,712	-	-	15,781	-
Benefit payments, including refunds of member contributions	(578,421)	(540,750)	(505,853)	(468,308)	(432,066)	(405,702)	(374,657)	(347,619)	(323,567)
<b>Net change in total pension liability</b>	<b>291,874</b>	<b>798,135</b>	<b>682,257</b>	<b>532,265</b>	<b>1,244,908</b>	<b>407,411</b>	<b>447,751</b>	<b>369,948</b>	<b>372,757</b>
<b>Total pension liability - beginning</b>	<b>12,693,655</b>	<b>11,895,520</b>	<b>11,213,263</b>	<b>10,680,998</b>	<b>9,436,090</b>	<b>9,028,679</b>	<b>8,580,928</b>	<b>8,210,980</b>	<b>7,838,223</b>
<b>Total pension liability - ending (a)</b>	<b>\$12,985,529</b>	<b>\$12,693,655</b>	<b>\$11,895,520</b>	<b>\$11,213,263</b>	<b>\$10,680,998</b>	<b>\$9,436,090</b>	<b>\$9,028,679</b>	<b>\$8,580,928</b>	<b>\$8,210,980</b>
<b>Plan fiduciary net position</b>									
Contributions - member	\$120,597	\$126,354	\$121,843	\$99,906	\$89,489	\$77,494	\$68,143	\$57,635	\$68,242
Contributions - employer	292,534	274,055	240,238	198,331	201,928	207,884	221,823	209,367	188,529
Contributions - withdrawn employer <sup>(3) (4) (5)</sup>	5,816	5,114	45,404	182	2,000	1,136	1,136	1,136	1,135
Net investment income/(loss)	2,753,409	301,373	675,726	844,489	1,048,915	(72,399)	158,222	1,107,152	785,449
Benefit paid	(575,329)	(537,698)	(502,944)	(465,354)	(429,754)	(403,356)	(372,369)	(344,890)	(320,828)
Withdrawal of contributions	(3,092)	(3,053)	(2,909)	(2,954)	(2,312)	(2,346)	(2,288)	(2,729)	(2,739)
Administrative expenses	(9,165)	(8,460)	(7,601)	(6,888)	(6,906)	(6,362)	(5,854)	(5,665)	(5,719)
<b>Net change in plan fiduciary net position</b>	<b>2,584,770</b>	<b>157,685</b>	<b>569,757</b>	<b>667,712</b>	<b>903,360</b>	<b>(197,949)</b>	<b>68,813</b>	<b>1,022,006</b>	<b>714,069</b>
<b>Plan fiduciary net position - beginning</b>	<b>9,979,379</b>	<b>9,821,694</b>	<b>9,251,937</b>	<b>8,584,225</b>	<b>7,680,865</b>	<b>7,878,814</b>	<b>7,810,001</b>	<b>6,787,995</b>	<b>6,073,926</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>12,564,149</b>	<b>\$9,979,379</b>	<b>\$9,821,694</b>	<b>\$9,251,937</b>	<b>\$8,584,225</b>	<b>\$7,680,865</b>	<b>\$7,878,814</b>	<b>\$7,810,001</b>	<b>\$6,787,995</b>
<b>Net pension liability - ending (a-b)</b>	<b>\$421,380</b>	<b>\$2,714,276</b>	<b>\$2,073,826</b>	<b>\$1,961,326</b>	<b>\$2,096,773</b>	<b>\$1,755,225</b>	<b>\$1,149,865</b>	<b>\$770,927</b>	<b>\$1,422,985</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	96.8%	78.6%	82.6%	82.5%	80.4%	81.4%	87.3%	91.0%	82.7%
<b>Covered payroll</b>	\$1,034,343	\$1,059,984	\$1,017,885	\$985,375	\$958,934	\$912,421	\$873,328	\$858,343	\$858,551
<b>Net pension liability as a percentage of covered payroll</b>	40.7%	256.1%	203.7%	199.0%	218.7%	192.4%	131.7%	89.8%	165.7%

<sup>(1)</sup> The pension liability is not available for years prior to June 30, 2013. Information will be presented in future years as it becomes available.

<sup>(2)</sup> The Contingency Reserve (\$324,177,000 as of June 30, 2021) is used to reduce the Net Pension Liability and is no longer included in the Total Pension Liability as of June 30, 2021.

<sup>(3)</sup> Effective fiscal year ended 2018, the interest portion of withdrawn employer contributions was reported as Other Income on the Statement of Changes in Fiduciary Net Position.

<sup>(4)</sup> The withdrawn employer contributions reflected accrual of estimated unfunded actuarial accrued liability for which the withdrawn employer is contractually required to pay the System.

<sup>(5)</sup> This balance also includes other miscellaneous income.



REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

(Dollar Amounts Expressed in Thousands)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE LAST TEN FISCAL YEARS ENDED JUNE 30

	2021	2020	2019	2018	2017
Actuarially determined contribution (ADC)	\$292,534	\$274,055	\$240,238	\$198,331	\$201,928
<b>Contributions in relation to the ADC</b>	292,534	274,055	240,238	198,331	201,928
<b>Contribution deficiency (excess)</b>	\$-	\$-	\$-	\$-	\$-
<b>Covered payroll*</b>	\$1,034,343	\$1,059,984	\$1,017,885	\$985,375	\$958,934
<b>Contributions in relation to the ADC as a percentage of covered payroll</b>	28.3%	25.9%	23.6%	20.1%	21.1%
	2016	2015	2014	2013	2012
Actuarially determined contribution (ADC)	\$207,884	\$221,823	\$209,367	\$188,529	\$179,099
<b>Contributions in relation to the ADC</b>	207,884	221,823	209,367	188,529	179,099
<b>Contribution deficiency (excess)</b>	\$-	\$-	\$-	\$-	\$-
<b>Covered payroll*</b>	\$912,421	\$873,328	\$858,343	\$858,551	\$835,737
<b>Contributions in relation to the ADC as a percentage of covered payroll</b>	22.8%	25.4%	24.4%	22.0%	21.4%

\* Covered payroll for the year ending 2012 is calculated by dividing the contribution dollar amount by the aggregated contribution rate.

SCHEDULE OF ANNUAL MONEY-WEIGHTED RATE OF RETURN

FOR THE FISCAL YEARS ENDED JUNE 30

	2021	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expenses*	27.4%	3.1%	7.2%	9.8%	13.6%	(1.0)%	2.0%	16.2%

\* Information prior to June 30, 2014, is not available. Information will be presented for future years as it becomes available.



# NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

(Dollar Amounts Expressed in Thousands)

The schedules presented in the Required Supplementary Information provide information to help promote an understanding of the employers' net pension liability over time on a fair value of assets basis. The Schedule of Changes in Net Pension Liability and Related Ratios includes historical trend information about the System's total pension liability and the progress made in accumulating sufficient assets to pay benefits when due.

The Schedule of Employer Contributions presents historical trend information about the actuarially determined contribution and the actual contributions made. The Schedule of Annual Money-Weighted Rate of Return presents investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

## **METHODS AND ASSUMPTIONS USED TO ESTABLISH ACTUARIALLY DETERMINED CONTRIBUTION RATES**

The following actuarial methods and assumptions were used to determine the fiscal year 2020-21 contribution rates reported in the Schedule of Employer Contributions:

Valuation date:	Actuarial valuation report as of June 30, 2019
Actuarial cost method:	Entry Age Actuarial Cost Method
Amortization method:	Level percentage of payroll (3.25% payroll growth assumed)
Remaining amortization period:	16 years (declining) as of June 30, 2019, for the outstanding balance of the June 30, 2012 UAAL. The UAAL established as a result of the Early Retirement Incentive Program for Law Enforcement Managers Association (LEMA) members is amortized over a 10-year period, beginning June 30, 2010. Effective June 30, 2013, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over a 20-year closed period effective with each valuation. Any change in UAAL that arises due to Plan amendments will be amortized over its own declining 15-year period and any change in UAAL due to retirement incentive programs will be amortized over a declining period of up to 5 years.
Asset valuation method:	The fair value of assets less unrecognized returns (gains or losses) in each of the last six years. Unrecognized return is equal to the difference between actual and expected returns on a fair value basis and is recognized over a rolling seven-year period. The deferred return is further adjusted, if necessary, so that the actuarial value of assets will stay within 30% of the fair value of assets.



NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

(Dollar Amounts Expressed in Thousands)

Actuarial assumptions:

Investment rate of return:	7.00%, net of pension plan investment expense, including inflation	
Inflation rate:	3.00%	
Projected salary increases:	4.5% - 10.75% varying by service, including inflation	
Assumed post-retirement benefit increase:	Miscellaneous Tier 1	2.75%
	Miscellaneous Tier 2	0.00%
	Miscellaneous Tier 3	2.00%
	Miscellaneous Tier 4	2.00%
	Miscellaneous Tier 5	2.00%
	Safety Tier 1	2.75%
	Safety Tier 2	2.00%
	Safety Tier 3	2.00%
	Safety Tier 4	2.00%

Other assumptions: Same as those used in June 30, 2019, funding actuarial valuation.

Other information: All members with membership dates on or after January 1, 2013, enter the new tiers (i.e. Miscellaneous Tier 5 and Safety Tier 4) created by the California Public Employees' Pension Reform Act of 2013 (PEPRA) .



**Changes in Methods and Assumptions in Net Pension Liability**

Valuation date as of June 30:

- 2021
- Beginning with this GASB 67 actuarial valuation, we no longer add the Contingency Reserve to the Actuarial Accrued Liability when we develop the funded status on a Market Value and Actuarial Value basis as of June 30, 2021. Because this change does not affect the values used to determine the UAAL on a Valuation Value of Assets basis, there is no impact on the employer's UAAL contribution rate.
- 2020
- The inflation rate was reduced from 3.0% to 2.75% to reflect the gradual decline of average inflation rates over the last several years.
  - The investment rate of return was reduced from 7.00% to 6.75% 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 reduced from 3.0% to 2.75% to maintain the current real "across the board" salary increase assumption at 0.25%. This means that the combined inflationary and real "across the board" salary increases will decrease from 3.25% to 3.00% .
  - 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 a lower incidence of termination for Miscellaneous and Safety members.
  - The disability rates were adjusted to reflect slightly lower incidence of disability for Miscellaneous and Safety members.
  - Maintain assumption for new Miscellaneous disabled retirees to anticipate conversions of unused sick leave at retirement.
  - Maintain assumption for assumed average entry ages of 35 for Miscellaneous and 29 for Safety.
- 2017
- 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.



NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

(Dollar Amounts Expressed in Thousands)

- 2014
  - The mortality rates were adjusted to reflect a slight mortality improvement.
  - Termination rates were adjusted to reflect lower incidence of termination, with a higher proportion electing to receive a deferred vested benefit.
  - Years of service instead of age was used in determining and applying the merit and promotional rates of salary increase.
- 2013
  - Actuarial cost method changed from Aggregate Entry Age Normal Cost Method to Individual Entry Age Normal Cost Method.
  - Changes to the amortization periods used for various future changes in liability.
  - UAAL established as a result of Early Retirement Incentive Program for Sacramento County Law Enforcement Managers Association (LEMA) is amortized over a 10-year period beginning June 30, 2010.
  - UAAL as a result of actuarial gains or losses as of June 30 will be amortized over a 20-year period.
  - UAAL as a result of changes in actuarial assumptions or methods to be amortized over a 20- year period.
  - Change in UAAL as a result of Plan amendments to be amortized over a 15-year period.
  - UAAL as a result from retirement incentive programs will be amortized over a period up to 5 years.
  - The retirement rates were adjusted to reflect slightly later retirements.
- 2012
  - Inflation assumption decreased from 3.50% to 3.25%.
  - Salary increase assumption decreased from 5.65% to 5.40%.
  - Cost-of-living adjustment increase assumption for Tier 1 decreased from 3.40% to 3.25%.



## OTHER SUPPLEMENTARY INFORMATION

(Dollar Amounts Expressed in Thousands)

### SCHEDULE OF ADMINISTRATIVE EXPENSES

<u>Type of expense:</u>	<b>2021</b>
Salaries and benefits	\$5,585
County allocated expenses	1,143
Professional services	751
Rent and lease	530
Information technology	632
Printing and postage	190
Pension payroll services	177
Insurance liability	96
Other	61
<b>Total administrative expenses</b>	<b>\$9,165</b>

### SCHEDULE OF INVESTMENT FEES AND EXPENSES

<u>Type of investment expense:</u>	<b>2021</b>
Equity	\$15,626
Fixed Income	5,279
Real assets	25,829
Real estate	13,637
Absolute return	32,894
Private credit	10,834
Private equity	109,027
Custodian fees	495
Investment consulting fees	1,389
Other investment expenses and fees	2,045
<b>Total Investment fees and expenses</b>	<b>\$217,055</b>

### SCHEDULE OF PAYMENTS TO CONSULTANTS

<u>Type of service:</u>	<b>2021</b>
IT consulting *	\$3,283
Legal	746
Actuarial	282
Medical consulting	140
Audit	75
<b>Total payments to consultants</b>	<b>\$4,526</b>

\* IT Consulting also includes payments to consultants related to SCERS' IT Modernization Project and these costs have been capitalized.



CORE VALUES

*Excellence —  
by taking pride  
in our work,  
maintaining high  
expectations, and  
focusing on results.*





## **SECTION 3**

# **INVESTMENT**



# CHIEF INVESTMENT OFFICER'S REPORT

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## Introduction

For the fiscal year ended June 30, 2021, the Sacramento County Employees' Retirement System (SCERS) generated a 27.7% net return. The fiscal year return represents a remarkable rebound from the COVID-19 related market volatility during SCERS' last fiscal year. The portfolio's strongest returns came from the Private Equity, Domestic Equity, and International Equity asset classes. The 27.7% fiscal year return exceeded SCERS' 6.75% actuarial rate of return, as well as SCERS' policy index return of 24.4%. Assets under management ended the fiscal year at \$12.4 billion, well-above the prior fiscal year's level of assets.

SCERS' general investment consultant, Verus Advisory (Verus), prepared the investment returns cited in this transmittal using information it receives from SCERS' custodian bank and investment managers.

## Market Overview

SCERS' fiscal year can be characterized as a year of varying degrees of recovery from the COVID-19 pandemic, broken down between the virus and health crisis itself, the economy, and the financial markets, with each showing varying levels and paths of recovery from the depths of the pandemic. On the virus front, the world has experienced reason for hope with the rollout of the vaccines; however, this has been tempered by the waves of outbreaks, most recently with the Delta variant. The health impact of the pandemic continues to be devastating for families across the globe.

The economic impact has been severe. During the early stages of the pandemic, the economy came to a grinding halt, driven by the sudden stay-at-home measures in the spring of 2020. The economic impact resulted in a massive collapse of U.S. GDP, which came in at an unprecedented -31.9% quarterly annualized rate in spring of 2020. The contraction was felt across all segments of the economy, impacting consumer, state, and local government expenditures. The U.S. labor market was decimated as well, with the U.S. unemployment rate jumping from historic lows of 3.5% early in 2020 to 14.7% in April of 2020. The unprecedented impact within the economy and the financial markets led to governments acting quickly and aggressively, both through fiscal and monetary policy, by introducing trillions of dollars in stimulus packages and liquidity. Inflation concerns became non-existent during the depths of the pandemic.

Over the past year, the economic picture has improved significantly, driven by the development and deployment of COVID-19 vaccines, the extraordinary fiscal and monetary stimulus measures, and the gradual re-opening of economies. Economies around the globe are trying to find their new normal, though the path has been episodic as the world continues to fight new variants of the virus. Within the U.S., the broad economy has recovered at a quicker pace than originally anticipated, growing at quarterly annualized rates of 33.1%, 4.0%, 6.3%, and 6.6% over the past four quarters (Q3'2020 – Q2'2021), which puts U.S. GDP right back around pre-pandemic levels. Unemployment has partially recovered and sits at 5.2%; however, it hasn't recovered to its pre-pandemic levels, with the retail and leisure and hospitality sectors particularly slow to recover, especially with the spread of the Delta variant of the virus. Inflation has picked up significantly with the improving economic picture, with the headline CPI inflation number recently spiking to 5.3%, well off its lows of 1.4% in 2020. Investors and the markets are grappling whether the uptick in inflation is transitory or will be more persistent. Certain segments of the economy have experienced massive price increases as economy activity has ramped back up, such as new and used cars, lumber, and energy, fueled by extraordinary supply bottlenecks and pent up consumer demand.

Financial markets experienced a much quicker recovery compared to the economy, and certainly the pandemic itself. Fueled and supported at first by monetary policy and central banks lowering interest rates to near-zero levels while flooding the market with trillions of dollars of liquidity, and later by vaccine rollouts



and re-opening of economies, financial markets started a broad and massive rally back in the spring of 2020. The equity markets in particular rallied off their lows almost as quickly as they fell. Equities have not looked back and sped right past pre-pandemic market highs, and have nearly doubled off their pandemic lows. The market rally has been broad and extended across almost all markets including equities, credit, real estate, and real assets.

Major global market returns for the 2020-21 fiscal year were as follows: Domestic equity markets (Russell 3000 Index) returned 44.2%; International equity markets (MSCI ACWI ex US) returned 35.7%; Emerging equity markets (MSCI Emerging Markets Index) returned 40.9%; Fixed income markets (Bloomberg Barclays Aggregate Index) returned -0.3%; Real estate markets (NFI-ODCE Index) returned 8.0%; Absolute return markets (HFRI Fund of Funds Composite Index) returned 18.1%; and Commodities markets (Bloomberg Commodity Index) returned 45.6%.

Within equity markets, value stocks at 43.7% (Russell 1000 Value Index) slightly outperformed growth stocks at 42.5%, reversing a multi-year trend of value underperformance. Small capitalization stocks at 62% (Russell 2000 Index) significantly outperformed large capitalization stocks at 43.1% (Russell 1000 Index). International equity stocks (MSCI ACWI ex-US) returned 35.7%, but lagged domestic equity returns even though the U.S. dollar generally weakened against foreign currencies, partly due to more frequent and longer lasting pandemic related restrictions outside of the U.S.

In contrast to the prior fiscal year, fixed income markets lagged all other asset classes during the fiscal year, and was the only major asset class to post negative returns, fueled by the effect of rising interest rates on longer duration government bonds. Treasuries generated returns of -3.2% (Bloomberg Barclays U.S. Treasury Index), as Treasury yields rose meaningfully from pandemic historical lows the prior year. The 10-Year Treasury yield rose from 0.66% on June 30, 2020, to 1.47% on June 30, 2021, while short-term rates remained near zero, leading to a steepening yield curve. While government bonds struggled during the fiscal year, credit markets generated strong performance off spread tightening. High yield credit spreads tightened from 6.3% the prior year to 2.7%, resulting in high yield returns of 15.4% for the year (Bloomberg Barclays U.S. Corporate High Yield Index). Investment grade corporate credit generated modest returns at 3.0% (U.S. Investment Grade Credit Index). The broad based Bloomberg Barclays Aggregate index, which contains an equal mix of Treasuries, agency mortgages, and investment grade credit, generated a lagging return of -0.3% during the year.

With the extraordinary returns generated within financial markets over the past year, going forward return expectations are fairly muted. Markets are priced near perfection across most asset classes, whether measured by equity multiples, credit spreads, or real estate capitalization rates. There is room for continued upward movement, especially if central banks keep interest rates low, inflation stays in check, and employment continues to recover. However, there are several risks that could bring volatility and market disruption to highly priced markets. These include ongoing challenges with the pandemic, if recent inflation spikes prove to be less transitory than expected, and if there is any deterioration in economic data. A pickup in market volatility and downside risk in asset prices should not be surprising going forward, which has already been experienced during the early parts of the current fiscal year. As a reminder, SCERS' strategic asset allocation is structured to provide greater levels of diversification across economic environments and risk factors, which should serve SCERS well in a variety of market outcomes.



### 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 Advisory, alternative assets consultant Cliffwater LLC, and real estate consultant The Townsend Group. 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 across asset categories, asset classes, and within asset classes to provide consistent long-term performance. The asset allocation targets are not tactical, but rather, are 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. Research has shown that the asset allocation mix is the largest driver of investment performance. SCERS underwent an asset liability modeling study during the fiscal year, with SCERS' Board approving a revised strategic asset allocation in August of 2021. The information in this report reflects the prior strategic asset allocation, while next year's Annual Comprehensive Financial Report will reflect the revised strategic asset allocation changes.

SCERS' strategic asset allocation views risk exposures through multiple lenses, including functional and common factor exposures, in order to manage and maintain allocations that are aligned with SCERS' investment philosophy and objectives. This multiple lens approach uses a functional framework to group and classify portions of SCERS' portfolio in order to link segments that are exposed to similar economic environments and risk factors, and which would be expected to have similar roles and outcomes in a portfolio. The functional grouping takes a simplified approach at the asset category level, by breaking the portfolio into three asset categories, with greater complexity reserved at the asset class level. The asset categories include: (1) Growth; (2) Diversifying; and, (3) Real Return.

The Growth asset category includes those segments of the portfolio that tend to perform best in a high growth and low/moderate inflationary environment, including most equity and credit investments. In contrast, they tend to perform poorly during recessionary periods, when GDP growth is contracting, or during certain periods when inflation rises unexpectedly. Growth assets tend to comprise the dominant allocation within most institutional investment portfolios, including that of SCERS. The Diversifying asset category includes those segments of the portfolio which are expected to protect capital and perform better than the Growth asset category during dislocated and stressed market environments, including traditional fixed income and diversifying absolute return strategies. The Real Return asset category includes those segments of the portfolio that protect against inflation, generate cash flow, and provide further portfolio diversification, including private real estate, infrastructure, energy, and agriculture investments, as well as liquid real return assets investments.

SCERS' strategic asset allocation has an expected return profile in line with SCERS' actuarial assumed rate of return, with heavy allocations to growth assets that can drive returns. However, it also maintains meaningful diversification, especially to investment strategies with low and negative correlations to equity markets that can reduce portfolio volatility and protect against significant market drawdowns. It is also expected to generate meaningful cash flow for SCERS' plan. The strategic asset allocation contains a meaningful allocation to higher returning, diversifying, and less liquid private market investments, so tracking SCERS' liquidity profile in order to maintain sufficient cash flows and meet benefit payment obligations is a key focus of the Board and SCERS' investment staff.



The strategic asset allocation also maintains a 1% dedicated cash allocation. Given that SCERS is a mature plan with a greater level of benefit payments going out than contributions coming in on an annual basis, a dedicated cash allocation helps close this gap in an environment where investment earnings fall short of target.

SCERS' strategic asset allocation is summarized in the table below:

Asset Category/Asset Class	Target Allocation
<b>Growth</b>	<b>58.0%</b>
Domestic Equity	20.0
International Equity	20.0
Private Equity	9.0
Public Credit	2.0
Private Credit	4.0
Growth Absolute Return	3.0
<b>Diversifying</b>	<b>25.0</b>
Core Plus Fixed Income	10.0
US Treasury	5.0
Global Fixed Income	3.0
Diversifying Absolute Return	7.0
<b>Real Return</b>	<b>16.0</b>
Real Estate	7.0
Real Assets	7.0
Liquid Real Return	2.0
<b>Opportunities</b>	<b>-</b>
<b>Cash</b>	<b>1.0</b>
	100.0%

The implementation of the portfolio toward the targets identified in the strategic asset allocation continued during the fiscal year. It is anticipated that it will require a few years to reach the target allocation levels within the private market asset classes.

The performance summary section of the Chief Investment Officer's Report will highlight the performance of the asset categories, and their underlying asset classes. However, other portions of the ACFR will highlight activity and exposures by major asset classes only. As an example, Growth Absolute Return and Diversifying Absolute Return will be referenced within an aggregate Absolute Return portfolio. Likewise, Public Credit, Core Plus Fixed Income, U.S. Treasury, and Global Fixed Income will be referenced within an aggregate Fixed Income portfolio.



### Investment Portfolio Implementation

In addition to providing assistance to the Board in establishing the strategic asset allocation model, SCERS' investment staff and consultants assist in developing investment policy statements; conduct searches for and recommend the selection of investment managers; monitor investment manager performance and compliance; advise on developments in the investment markets; and analyze and develop recommendations for possible tactical adjustments and new investment initiatives.

SCERS utilizes external investment managers to invest the System's assets. As of June 30, 2021, SCERS' assets were invested across: (1) Domestic Equity - 5 separate account portfolios and 2 commingled funds; (2) International Equity - 4 separate account portfolios and 3 commingled fund partnerships; (3) Fixed Income - 4 separate account portfolios and one global fixed income fund; (4) Absolute Return - 2 fund-of-funds separate account portfolios and 14 fund partnerships; (5) Private Equity - 5 fund-of-funds partnerships and 65 fund partnerships; (6) Private Credit - one separate account portfolio and 13 fund partnerships; (7) Real Estate - 7 core real estate fund partnerships and 15 non-core real estate fund partnerships; (8) Real Assets - one separate account portfolio and 25 fund partnerships; (9) Liquid Real Return - one separate account and one commingled fund; and, (10) Opportunities - one opportunistic credit fund partnership.

Significant activity during the fiscal year included the following:

- In Domestic Equity, SCERS engaged an investment manager to manage a small cap value mandate, which replaced a similar mandate that was terminated earlier in the fiscal year.
- In Absolute Return, SCERS made three new fund investments and fully redeemed from two existing fund investments during the fiscal year.
- In Private Equity, SCERS made six direct private equity fund commitments during the fiscal year.
- In Private Credit, SCERS made four direct private credit fund commitments during the fiscal year.
- In Real Assets, SCERS made five direct real assets fund commitments during the fiscal year, and terminated an existing mandate.

Due to the longer investment period for private market commitments, the importance of maintaining vintage year diversification, and the objective of investing with top tier investment managers, it takes several years for target allocation levels to be reached in these asset classes. Private Equity reached its target allocation of 9% several years ago; however, Private Credit and Real Assets will require a few more years to reach their targets.

SCERS' custodial bank is State Street Bank and Trust (State Street). In addition to asset custody services, State Street provides securities lending services to SCERS and, through State Street Global Advisors and State Street Global Markets, administers a portfolio overlay program and a brokerage commission recapture program, respectively. The portfolio overlay program assures that SCERS' portfolio exposures are consistent with the strategic asset allocation targets through cost-effective rebalancing, using investment proxies to close gaps relative to target allocation levels and to eliminate 'cash drag'. For the fiscal year ended June 30, 2021, SCERS earned a net income of \$1.5 million from securities lending and received commission recapture income of \$16,000.

SCERS' primary legal services related to the investment program are provided by specialized outside legal counsel and fiduciary counsel.

During the fiscal year, investment educational sessions were provided to the Board by SCERS' staff, investment consultants, and various investment managers to assist the Board with updates on the macroeconomic environment, asset liability modeling, better understanding of existing investments, and possible new investment mandates. The educational sessions included presentations regarding: (1) fiduciary





standard of care; (2) securities lending; (3) asset liability modeling; (4) real assets investing; (5) global markets outlook; and, (6) transaction costs.

### **SCERS Investment Objectives**

SCERS' investment objectives are set forth in the Board's Master Investment Policy Statement (Investment Policy) and through customized investment policy statements for each asset category.

At the highest level, SCERS' investment objectives are:

#### OVERARCHING PLAN OBJECTIVES:

- Provide for current and future benefit payments to plan participants and their beneficiaries, and sustain the plan over its useful life.
- Diversify plan assets as its main defense against large market drawdowns.
- Preserve a degree of liquidity ample to meet benefit payments and capital calls, without incurring substantial transaction costs or "fire sales" of illiquid holdings.
- Incur costs that are reasonable and consistent with industry standards.
- Achieve funding goals, including the maintenance of funded status and manageable, consistent contribution rates.
- Maintain risk exposure required to meet return requirements, while limiting drawdown exposure.

#### INVESTMENT PERFORMANCE OBJECTIVES:

- Generate returns in excess of policy benchmarks at the total fund and asset class levels over rolling three-year periods.
- Achieve real (after inflation) returns at the total fund level that are at or above the actuarial real return (assumed return less per capita pay growth) over complete market cycles.
- For asset classes and actively managed portfolios, achieve net returns that exceed policy benchmarks, and rank in the top half of a competitive, after-fee universe.

### **Proxy Voting Guidelines and Procedures**

As a fiduciary, the Board has an obligation to manage SCERS' assets in the best interest of the plan participants. The Board retains third-party services to provide guidance for voting proxies and acting on corporate actions, such as mergers and acquisitions. For the fiscal year ended June 30, 2021, a majority of proxies were voted through an electronic voting platform provided by Institutional Shareholder Services, with the assistance of research and analysis provided by Institutional Shareholder Services and Glass Lewis & Co. During the fiscal year, SCERS renewed its contract with Institutional Shareholder Services.



### Summary of Investment Results

SCERS monitors capital market investment returns through reference to recognized and easily obtainable market indices, which are used as asset class benchmarks. The benchmark index performance by asset class for one, three, and five years is shown within the Investment Results schedule. The performance of the asset categories is also provided; however, since these were inceptioned in 2017, performance goes back only to that year. The asset class benchmark returns are weighted by the asset allocation to provide a policy-weighted return based on SCERS' total fund. SCERS presents its returns using a time-weighted rate of return methodology based upon market values. SCERS' general investment consultant, Verus, prepared the investment returns cited in this section using information it received from SCERS' custodian bank and investment managers. The total fund performance is reported gross of fees; however, several underlying asset classes are net of fees, including Private Equity, Public Credit, Private Credit, Growth and Diversifying Absolute Return, non-core Real Estate, and Real Assets.

SCERS' investment performance for the fiscal year ended June 30, 2021, was impressive, and well above SCERS' actuarial return. Returns were positive across all asset classes, except for U.S. Treasuries, which were slightly negative. Private Equity, Domestic Equity, and International Equity generated the strongest returns, while Fixed Income returns lagged.

For the period, SCERS' total fund return was 27.9%, gross of investment management fees, and 27.7%, net of investment management fees. The net return for the fiscal year was 3.3% above SCERS' policy weighted benchmark return of 24.4%, and was significantly above the actuarial return objective of 6.75%. Over the trailing three-year period, SCERS' annualized investment return was 12.2% gross and 11.9% net. The three-year annualized return was also well above the actuarial return objective of 6.75%, and above SCERS' policy benchmark return of 10.3%. Over the trailing five-year period, SCERS' annualized investment return was 12.1% gross and 11.9% net. The five-year annualized return was well above the actuarial return objective of 6.75%, and above SCERS' policy benchmark return of 10.2%.

SCERS also assesses its investment performance relative to a peer group of other public funds utilizing a series of universe comparisons provided by Verus. For the fiscal year, the median public fund in the InvestorMetrics Universe of public funds with assets of greater than \$1 billion was 26.7%. SCERS' gross return of 27.9% ranked in the top 36th percentile.

### Growth Asset Category

The Growth asset category is comprised of the following asset classes: Domestic Equity, International Equity, Private Equity, Public Credit, Private Credit, and Growth Absolute Return. The Growth asset category returned 43.3% for the fiscal year, net of fees, SCERS' best performing asset category. The return was well above the policy benchmark return of 38.9%. For the three-year period, SCERS' Growth asset category annualized return was 16.2%, net of fees, above the policy benchmark return of 14.3%. The Growth asset category and benchmark return is a weighted average of the underlying asset class and benchmark returns, based on their weights within SCERS' strategic asset allocation.

Domestic Equity returned 45.3% for the fiscal year, net of fees. The return was above the benchmark Russell 3000 Index return of 44.2%. For the three-year period, SCERS' Domestic Equity annualized return was 18.6%, net of fees, in line with the Russell 3000 Index benchmark return of 18.7%. In the domestic equity segment of the InvestorMetrics Universe, SCERS ranked in the top 38th percentile for the fiscal year and in the top 25th percentile for the three-year period.



International Equity returned 36.7% for the fiscal year, net of fees, which was slightly above the benchmark MSCI ACWI ex-U.S. Index return of 36.3%. Annualized performance for the three-year period of 11.0%, net of fees, was above the benchmark return of 9.9%. In the international equity segment of the InvestorMetrics Universe, SCERS ranked in the top 65th percentile for the fiscal year and in the top 36th percentile for the three-year period.

The Private Equity asset class generated an impressive return of 62.2%, net of fees for the fiscal year, compared to the 50.0% return of the asset class benchmark, the Thomson Reuters C/A All Private Equity Index. For the three-year period, SCERS' Private Equity asset class returned 28.4%, compared to the benchmark return of 18.9%. Another longer-term comparison measure is the Russell 3000 Index plus 3%, which returned 65.5% and 20.2% for the fiscal year and three-year period, respectively. In the private equity segment of the InvestorMetrics Universe, SCERS' Private Equity return ranked in the top 14th percentile for the fiscal year and in the top 4th percentile for the three-year period. Please note that the returns of the Private Equity asset class and benchmark are lagged one quarter.

SCERS' Public Credit portfolio generated a fiscal year 26.4% return, net of fees, which was well ahead of the custom benchmark return of 13.7% (comprised of 50% BofA Merrill Lynch U.S. HY Master II Index / 50% Credit Suisse Leveraged Loans Index). For the three-year period, the Public Credit portfolio annualized return was 6.7%, net of fees, compared to the benchmark return of 5.8%.

The Private Credit asset class generated a return of 22.3%, net of fees for the fiscal year, compared to the 22.8% return of the asset class benchmark, the Credit Suisse Leveraged Loan Index plus 2%. For the three-year period, SCERS' Private Credit asset class returned 8.9%, compared to the benchmark return of 6.1%. Please note that the returns of the Private Credit asset class and benchmark are lagged one quarter.

SCERS' Growth Absolute Return investments generated a fiscal year 30.4% return, net of fees. For the three-year period, the Growth Absolute Return portfolio annualized return was 8.3%. The policy benchmark for the Growth Absolute Return investments is the HFRI FoF Composite Index plus 1%, which returned 19.5% and 7.4% in the fiscal year and three-year periods, respectively.

### **Diversifying Asset Category**

The Diversifying asset category is comprised of the following asset classes: Public Fixed Income (Core Plus Fixed Income, U.S. Treasury, Global Fixed Income) and Diversifying Absolute Return. The Diversifying asset category returned 5.4% for the fiscal year, net of fees. The return was above the policy benchmark return of 3.4%. For the three-year period, SCERS' Diversifying asset category annualized return was 5.3%, net of fees, slightly above the policy benchmark return of 5.1%. The Diversifying asset category and benchmark return is a weighted average of the underlying asset class and benchmark returns, based on their weights within SCERS' strategic asset allocation.

SCERS' Core Plus Fixed Income investments generated a fiscal year 2.4% return, net of fees, which was above the benchmark Bloomberg Barclays Aggregate Index return of -0.3%. For the three-year period, the Core Plus Fixed Income portfolio annualized return was 6.4%, net of fees, compared to the benchmark return of 5.3%.

SCERS' U.S. Treasury segment generated a fiscal year -3.0% return, net of fees, which was slightly ahead of with the benchmark Bloomberg Barclays U.S. Treasury Index return of -3.2%. For the three-year period, the U.S. Treasury segment annualized return was 4.7%, net of fees, compared to the benchmark return of 4.7%.



SCERS' Global Fixed Income investments generated a fiscal year 12.7% return, net of fees, which was well ahead of the custom benchmark return (comprised of 82% Citigroup WGBI Index / 20% JP Morgan GBI EM Diversified Index) of 1.9%. For the three-year period, the Global Fixed Income portfolio annualized return was 5.6%, net of fees, compared to the benchmark return of 3.8%.

SCERS' Diversifying Absolute Return investments generated a fiscal year 13.0% return, net of fees. For the three-year period, the Diversifying Absolute Return portfolio annualized return was 3.8%. The policy benchmark for the Diversifying Absolute Return investments is the HFRI FoF Conservative Index, which returned 14.8% and 5.3% in the fiscal year and three-year periods, respectively.

### Real Return Asset Category

The Real Return asset category is comprised of the following asset classes: Real Estate, Real Assets, and Liquid Real Return. The Real Return asset category returned 14.0% for the fiscal year, net of fees. The return was above the policy benchmark return of 11.9%. For the three-year period, SCERS' Real Return asset category annualized return was 5.0%, net of fees, above the policy benchmark return of 4.0%. The Real Return asset category and benchmark return is a weighted average of the underlying asset class and benchmark returns, based on their weights within SCERS' strategic asset allocation. The Real Return asset category return includes the SSGA Real Assets Strategy, which is the proxy used within SCERS' Overlay Program to replicate exposure while the asset class is implemented.

The Real Estate asset class generated a return of 11.4%, net of fees for the fiscal year, compared to the 6.1% return of the custom asset class benchmark (65% NFI-ODCE / 35% NFI-ODCE plus 1%). For the three-year period, SCERS' Real Estate asset class returned 5.9%, compared to the benchmark return of 5.3%. In the real estate segment of the Investor Metrics Universe, SCERS' Real Estate return ranked in the top 2nd percentile for the fiscal year period and the top 12th percentile for three-year period. Please note that the returns of some segments of the Real Estate asset class and benchmark are lagged one quarter.

The Real Assets asset class generated a return of 14.8%, net of fees for the fiscal year, compared to the 15.2% return of the asset class benchmark, (comprised of 45% Cambridge Associates Private Infrastructure Index / 35% Cambridge Associates Private Energy Index / 10% NCREIF Agriculture index / 10% NCREIF Timber Index). For the three-year period, SCERS' Real Assets asset class returned 5.4%, compared to the benchmark return of 3.0%. Please note that the returns of the Real Assets asset class and benchmark are lagged one quarter.

SCERS' Liquid Real Return asset class generated a fiscal year 20.8% return, net of fees, which was slightly below the benchmark return of 21.2%. The Liquid Real Return portfolio was created in June of 2019, so there is not a full three years of data to report.

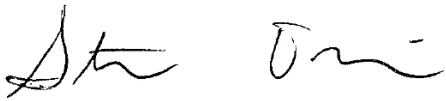


### Opportunities Portfolio

The Opportunities investments are tactical investments across SCERS' investible asset classes and universe. When an Opportunities investment is made, its capital is drawn from the asset class which best fits the risk and return characteristics of the underlying investments. The Opportunities portfolio only contains one investment as of June 30, 2021. For the fiscal year, SCERS' Opportunities investment achieved a 19.3% net return, which was below SCERS' policy index 24.4% benchmark return. For the three-year period, SCERS' Opportunities portfolio returned 9.7%, compared to the benchmark return of 10.3%.

Additional information regarding SCERS' investment program can be found on the pages immediately following this report.

Respectfully submitted,



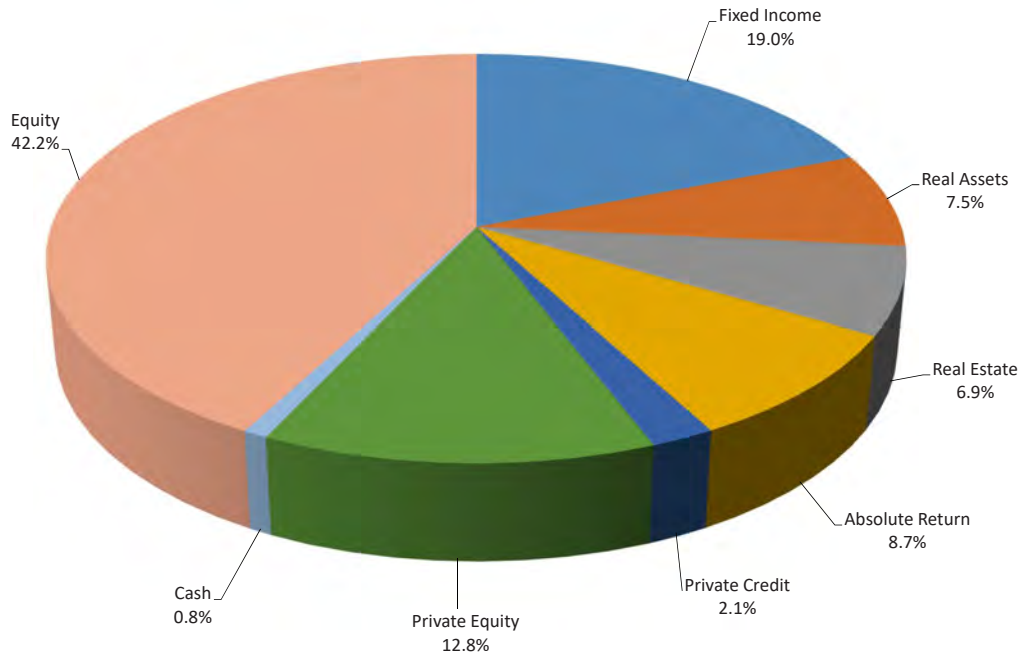
Steve Davis  
Chief Investment Officer



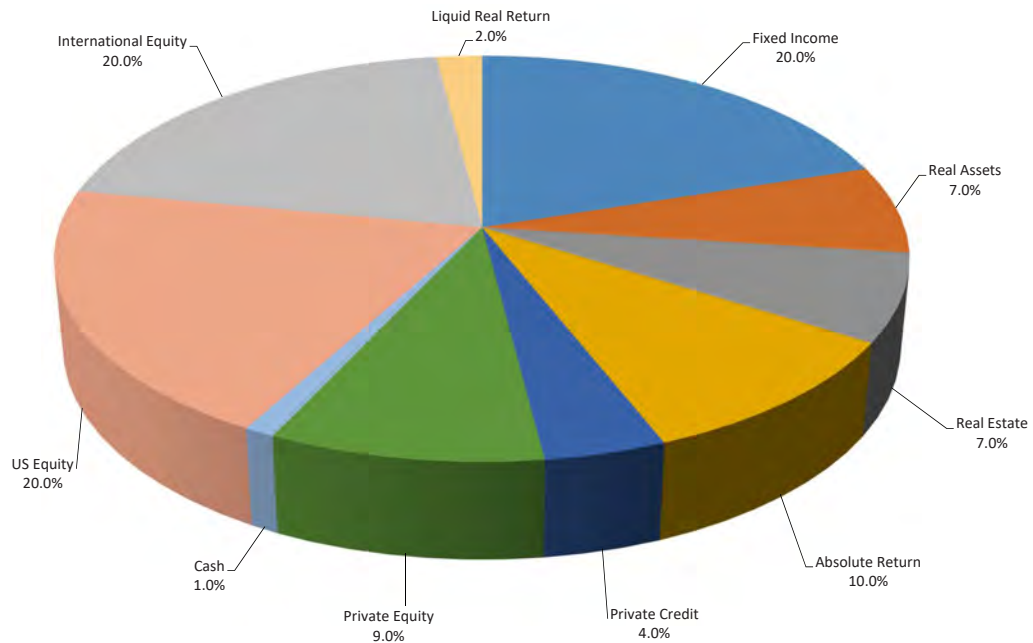


# ASSET ALLOCATION

## Actual Asset Allocation as of June 30, 2021



## Target Asset Allocation as of June 30, 2021



# INVESTMENT RESULTS

FOR THE PERIOD ENDED JUNE 30, 2021

	Annualized		
	1 Year	3 Years	5 Years
<b>Equity</b>			
US Equity	45.3%	18.6%	17.9%
Benchmark: Russell 3000	44.2	18.7	17.9
International Equity	36.7	11.0	12.4
Benchmark: MSCI ACWI ex US	36.3	9.9	11.6
<b>Fixed Income</b>			
Core/Core Plus Fixed Income	2.4	6.4	4.2
Benchmark: BBgBarc US Aggregate TR	(0.3)	5.3	3.0
United States Treasury	(3.0)	4.7	N/A
Benchmark: BBgBarc US Treasury TR	(3.2)	4.7	2.2
Global Fixed Income	12.7	5.6	4.2
Benchmark: Brandywine Custom <sup>1</sup>	1.9	3.8	2.0
Public Credit	26.4	6.7	7.8
Benchmark: Brigade Custom <sup>2</sup>	13.7	5.8	6.2
<b>Real Assets</b>			
Real Assets	14.8	5.4	10.1
Benchmark: Private Real Assets Custom <sup>3</sup>	15.2	3.0	5.1
Liquid Real Return	20.8	N/A	N/A
Benchmark: SSgA Real Asset <sup>4</sup>	21.2	5.9	5.0
<b>Real Estate</b>			
Real Estate	11.4	5.9	8.8
Benchmark: Real Estate Custom <sup>5</sup>	6.1	5.3	6.3
<b>Absolute Return</b>			
Absolute Return - Diversifying	13.0	3.8	3.2
Benchmark: HFRI Fund of Funds Conservative Index	14.8	5.3	5.1
Absolute Return - Growth	30.4	8.3	9.0
Benchmark: HFRI Fund of Funds Composite Index + 1%	19.5	7.4	6.8
<b>Private Credit</b>			
Private Credit	22.3	8.9	9.6
Benchmark: Credit Suisse Leveraged Loan + 2% 1 Qtr Lag	22.8	6.1	7.4



## INVESTMENT RESULTS (CONTINUED)

FOR THE PERIOD ENDED JUNE 30, 2021

	Annualized		
	1 Year	3 Years	5 Years
<b>Private Equity</b>			
Private Equity	62.2%	28.4%	24.1%
Benchmark: Thomson Reuters CJA All PE 1 Qtr Lag <sup>6</sup>	50.0	18.9	17.6
Opportunities	19.3	9.7	7.5
Benchmark: Policy Index <sup>7</sup>	24.4	10.3	10.2
<b>Cash</b>			
Cash	1.0	2.0	1.9
Benchmark: 91 Day T-Bills	0.1	1.2	1.1
<b>Total Fund</b>			
SCERS Total Fund - Gross	27.9	12.2	12.1
SCERS Total Fund - Net	27.7	11.9	11.9
Benchmark: Policy Index <sup>7</sup>	24.4	10.3	10.2

Notes: Unless noted, returns were prepared by Verus Advisory, Inc., and shown on a net of fee basis and included the overlay effect. Return calculations were prepared using a time-weighted rate of return. Investment return and index return for real assets, real estate, private credit, and private equity are one quarter in arrears.

<sup>1</sup>The Brandywine Custom benchmark consists of 80% FTSE WGBI ex US Unhedged and 20% JPM GBI EM Diversified.

<sup>2</sup>The Brigade Custom benchmark consists of 50% ICE BofA ML High Yield II and 50% Credit Suisse Leveraged Loans.

<sup>3</sup>As of 7/1/17, the Private Real Assets Custom benchmark consists of 35% Cambridge Associates Private Energy 1 Qtr Lag, 45% Cambridge Associates Private Infrastructure 1 Qtr Lag, 10% NCREIF Farmland 1 Qtr Lag, and 10% NCREIF Timberland Index Lagged. Prior to that the benchmark consisted of 100% CPI-U Headline +5%.

<sup>4</sup>As of 3/2/18, the SSgA Real Asset Benchmark consists of 30% BBgBarc 1-10 Yr US TIPS, 25% S&P Global Infrastructure, 15% FTSE EPRA/NAREIT Developed Liquid, 10% BBgBarc Roll Select Commodity TR, 10% BBgBarc USD Floating Rate Note <5yr, and 10% S&P Global Large Mid Cap Commodity Resources. From 10/1/15-3/1/18, the SSgA Real Asset Benchmark consisted of 20% BBgBarc Roll Select Commodity TR, 20% MSCI World Natural Resources, 20% S&P Global Infrastructure, 10% BBgBarc US Govt Inflation-Linked 1-10 Yrs, 10% BBgBarc US TIPS, 10% FTSE EPRA/NAREIT Developed Liquid, and 10% S&P MLP.

<sup>5</sup>As of 7/1/17, the Real Estate Custom benchmark consists of 65% NFI-ODCE and 35% NFI-ODCE net+1% 1Q Lag. Prior to that the benchmark consisted of 100% NCREIF.

<sup>6</sup>As of 4/1/17, the Private Equity benchmark consists of 100% Thomson Reuters CJA All PE 1 Qtr Lag. From 1/1/12-3/31/17 the benchmark consisted of 100% Russell 1000 +3% 1QL.

<sup>7</sup>From 7/1/2019 to 6/30/2021, 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 ex US 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% Timberland Index Lagged, 20% Russell 3000, 9% Thomson Reuters CJA 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 CJA 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 CJA 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.



# SUMMARY OF INVESTMENT ASSETS

AS OF JUNE 30, 2021

(Dollar Amounts Expressed in Thousands)

	Fair Value*	Percentage of Total Cash, Short-Term Investments, and Investments
<b>Type of investments</b>		
Equity	\$5,312,557	41.57%
Fixed income	2,487,704	19.47
Real assets	934,141	7.31
Real estate	861,839	6.74
Absolute return	1,084,545	8.49
Private credit	256,226	2.00
Private equity	1,597,224	12.50
<b>Total investments at fair value</b>	<b>12,534,236</b>	
<b>Cash and short-term investments</b>		
Cash and short-term investments (unallocated)	235,776	1.84
Cash invested with Sacramento County Treasurer	10,144	0.08
<b>Total cash and short-term investments</b>	<b>245,920</b>	
<b>Total cash, short-term investments, and investments</b>	<b>\$12,780,156</b>	<b>100.00%</b>

\* Certain investment fair values reported in this schedule include cash held by the external investment managers and short-term investments based on the nature of how the investment portfolios are managed.

# SCHEDULE OF MANAGER FEES

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

(Dollar Amounts Expressed in Thousands)

Type of Investment	Assets under Management*	Manager Fees
Equity	\$5,312,557	\$15,626
Fixed income	2,487,704	5,279
Real assets	934,141	25,829
Real estate	861,839	13,637
Absolute return	1,084,545	32,894
Private credit	256,226	10,834
Private equity	1,597,224	109,027
<b>Total</b>	<b>\$12,534,236</b>	<b>\$213,126</b>

\* Certain investment fair values reported in this schedule include cash held by the external investment managers and short-term investments based on the nature of how the investment portfolios are managed.



# SCHEDULE OF EQUITY BROKERAGE COMMISSION

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

Broker Name	Commission per Share	Shares/Par Value	Total Commission
Capital Institutional Svcs Inc Equities	\$0.0324	445,490	\$14,418
Citibank N.A.	0.0036	9,848,388	35,506
Cowen And Company, LLC	0.0367	338,611	12,439
Credit Suisse Securities (Europe) Limited	0.0265	968,375	25,674
Credit Suisse Securities (USA) LLC	0.0063	4,000,219	25,285
Goldman Sachs + Co LLC	0.0069	3,643,728	24,962
Instinet U.K. Ltd	0.0177	923,798	16,334
Investment Technology Group Inc.	0.0200	690,414	13,828
J.P. Morgan Securities (Asia Pacific) Ltd	0.0044	4,039,678	17,596
J.P. Morgan Securities LLC	0.0048	3,358,920	16,265
J.P. Morgan Securities Plc	0.0058	2,839,504	16,454
Jefferies LLC	0.0250	354,202	8,862
Liquidnet Europe Limited	0.0137	1,392,807	19,014
Liquidnet Inc	0.0237	442,250	10,497
Merrill Lynch International	0.0044	6,378,713	28,108
Mizuho Securities USA Inc	0.0121	697,668	8,443
Morgan Stanley Co Incorporated	0.0073	5,080,003	37,229
Pershing Securities Limited	0.0191	475,797	9,064
Raymond James and Associates Inc	0.0287	331,100	9,490
SMBC Nikko Capital Markets Limited	0.0959	238,000	22,824
State Street Bank and Trust Company	0.0100	8,469,276	84,693
Stifel Nicolaus + Co Inc	0.0307	346,267	10,637
Themis Trading LLC	0.0234	521,679	12,231
UBS AG	0.0116	1,630,951	18,866
UBS AG London Branch	0.0723	131,872	9,540
Ubs Securities Asia Ltd	0.0019	8,615,652	16,015
All Other Brokerage Firms *	0.0083	29,851,745	248,902
<b>Total Brokerage Commissions</b>	<b>\$0.0080</b>	<b>96,055,107</b>	<b>773,174</b>
Brokerage Commission Recapture			(16,451)
<b>Net Brokerage Commissions</b>			<b>\$756,724</b>

\*All other brokerage firms is comprised of 149 additional firms, each receiving less than 1% of total commissions. A complete listing of brokerage fees is available.



## TEN LARGEST STOCK HOLDINGS (BY FAIR VALUE)

AS OF JUNE 30, 2021

Rank	Shares	Security Name	Fair Value (in thousands)
1	436,134	Microsoft Corp.	\$118,149
2	686,299	Apple Inc.	93,996
3	25,502	Amazon.Com Inc.	87,731
4	25,327	Alphabet Inc. Class C	63,478
5	180,459	Facebook Inc. Class A	62,747
6	110,296	Berkshire Hathaway Inc. Cl B	30,653
7	12,507	Alphabet Inc. Class A	30,539
8	123,052	Aon Plc Class A	29,380
9	74,200	Roche Holding AG Genussche	27,979
10	35,500	LVMH Moet Hennessy Louis Vuitton	27,840
<b>Total of ten largest stock holdings</b>			<b>\$572,492</b>

A complete list of stock holdings is available upon request.

## TEN LARGEST BOND HOLDINGS (BY FAIR VALUE)

AS OF JUNE 30, 2021

Rank	Par	Security Name	Interest Rate	Maturity	Fair Value (in thousands)
1	59,030,000	United States Treasury N/B	0.13%	5/31/2023	\$58,903
2	51,075,000	United States Treasury N/B	0.13%	5/15/2023	50,980
3	48,190,000	Cash Management Bill	0.01%	10/05/2021	48,184
4	39,808,000	FNMA TBA 30 YR	3.00%	7/14/2051	41,494
5	36,975,000	FNMA TBA 30 YR	2.50%	8/12/2051	38,171
6	34,255,000	United States Treasury N/B	1.75%	9/30/2022	34,944
7	34,075,000	FNMA TBA 30 YR	2.00%	8/12/2051	34,338
8	32,125,000	United States Treasury N/B	1.63%	2/15/2026	33,300
9	32,147,000	FNMA TBA 30 YR	2.50%	7/14/2051	33,250
10	30,355,000	United States Treasury N/B	2.13%	12/31/2022	31,237
<b>Total of ten largest bond holdings</b>					<b>\$404,801</b>

A complete list of bond holdings is available upon request.





# INVESTMENT MANAGERS/FUNDS

AS OF JUNE 30, 2021

## Equity

Alliancebernstein L.P.  
AQR  
Baillie Gifford & Co.  
Brookfield  
D.E. Shaw Broad Market Core Alpha Extension  
Eagle Capital Management  
JP Morgan Asset Management  
Lazard Asset Management  
LSV Asset Management  
Mondrian Emerging Markets Equity Fund, L.P.  
Mondrian International Small Cap Equity Fund, L.P.  
Snyder Capital Management  
Walter Scott  
Weatherbie Capital, LLC  
William Blair

## Fixed Income

Brandywine Global Investment Management, LLC  
Brookfield  
TCW  
Neuberger Berman Fixed Income, LLC  
Prudential Investment Management  
SC Credit Opportunities Mandate, LLC  
State Street Global Advisors

## Real Assets

ACM Fund II, LLC  
ArcLight Energy Partners Fund VI, L.P.  
Brookfield Infrastructure Fund III, L.P.  
Brookfield Infrastructure Fund IV, L.P.  
Carlyle Power Partners II, L.P.  
Digital Colony Partners II, L.P.  
EnCap Energy Capital Fund IX, L.P.  
EnCap Energy Capital Fund X, L.P.  
EnCap Flatrock Midstream Fund III, L.P.  
EnCap Flatrock Midstream Fund IV, L.P.  
EQT Infrastructure Fund IV, SCSp  
Global Energy & Power Infrastructure Fund II, L.P.  
Harrison Street Social Infrastructure Fund, L.P.  
IFM Global Infrastructure (U.S.), L.P.  
ISQ Global Infrastructure Fund II, L.P.  
ISQ Global Infrastructure Fund III, L.P.  
Meridiam Infrastructure North America III, L.P.  
Meridiam Sustainable Infrastructure Europe IV, SLP  
NGP Royalty Partners, L.P.  
Paine Schwartz Food Chain Fund V, L.P.  
Pantheon SCERS SIRF MM, LLC  
Quantum Energy Partners VI, L.P.  
Quantum Energy Partners VII, L.P.  
State Street Global Advisors - Real Asset Strategy  
Tailwater Energy Fund III, L.P.  
Tailwater Energy Fund IV, L.P.  
Wastewater Opportunity Fund, LLC

## Real Estate

Asana Partners Fund II, L.P.  
Brookfield Premier Real Estate Partners, L.P.  
Carlyle China Realty, L.P.  
Carlyle China Rome Logistics, L.P.  
CIM Fund VIII, L.P.  
Clarion Lion Properties Fund, L.P.  
ECE European Prime Shopping Centre Fund II, SCS-SIF  
European Real Estate Debt Fund II, L.P.  
Hammes Partners II, L.P.  
Hammes Partners III, L.P.  
KKR Real Estate Partners Americas, L.P.  
LaSalle China Logistics Venture, L.P.  
MetLife Core Property Fund, L.P.  
NREP Nordic Strategies Fund, FCP-FIS  
NREP Nordic Strategies Fund II, SCSp  
NREP Nordic Strategies Fund III, SCSp  
NREP Nordic Strategies Fund IV, SCSp  
Principal US Property Account  
Prologis Targeted Europe Logistics Fund, L.P.  
Prologis Targeted US Logistics Fund, L.P.  
Sculptor Real Estate Fund III, L.P.  
Sculptor Real Estate Fund IV, L.P.  
Townsend Real Estate Fund, L.P.

## Absolute Return

Aristeia Partners, L.P.  
BlackRock Event Driven Equity Fund  
Davidson Kempner Institutional Partners, L.P.  
Eisler Capital Fund, L.P.  
Elliott International Limited  
Graham Global Investment Fund II SPC Ltd.  
KLS Diversified Fund, L.P.  
Lakewood Capital Partners, L.P.  
Laurion Capital Ltd.  
LMR Fund Ltd.  
MW Global Opportunities Fund  
PSquared Event Opportunity Fund, L.P.  
SC Absolute Return Fund, LLC - Diversifying Series  
SC Absolute Return Fund, LLC - Growth Series  
SC Absolute Return Fund, LLC - Series B  
Sculptor Domestic Partners II, L.P.  
Third Point Partners Qualified, L.P.  
Two Sigma Risk Premia Enhanced Fund, L.P.

## Private Credit

Ares Capital Europe Fund V, L.P.  
Athyrium Opportunities Fund II, L.P.  
Athyrium Opportunities Fund III, L.P.  
Benefit Street Partners Senior Secured Opportunities Fund, L.P.  
Benefit Street Partners Senior Secured Opportunities Fund II, L.P.  
IFM U.S. Infrastructure Debt Fund, L.P.



MCP Private Capital Fund IV, SCSp  
 OrbiMed Royalty and Credit Opportunities Fund III, L.P.  
 Shamrock Capital Debt Opportunities Fund I, L.P.  
 Silver Point Specialty Credit Fund II, L.P.  
 Summit Partners Credit Fund, L.P.  
 Summit Partners Credit Fund II, L.P.  
 Summit Partners Credit Fund III, L.P.  
 TCP Direct Lending Fund VIII-[S], LLC

**Private Equity**

Abbott Capital Private Equity Fund VI, L.P.  
 Accel-KKR Capital Partners IV, L.P.  
 Accel-KKR Capital Partners V, L.P.  
 Accel-KKR Capital Partners VI, L.P.  
 Accel-KKR Growth Capital Partners II, L.P.  
 Accel-KKR Growth Capital Partners III, L.P.  
 Atalaya Special Opportunities Fund V, L.P.  
 Atalaya Special Opportunities Fund VI, L.P.  
 Canvas Ventures 3, L.P.  
 Cortec Group Fund VII, L.P.  
 CRV Select, L.P.  
 CRV XVIII, L.P.  
 Davidson Kempner Long-Term Distressed Opportunities Fund IV, L.P.  
 Davidson Kempner Long-Term Distressed Opportunities Fund V, L.P.  
 Dyal II US Investors, L.P.  
 Dyal Capital Partners III, L.P.  
 Garrison Opportunity Fund III A LLC  
 Gridiron Capital Fund IV, L.P.  
 H.I.G. Bayside Loan Opportunity Fund III (Europe-US\$), L.P.  
 H.I.G. Capital Partners V, L.P.  
 H.I.G. Europe Capital Partners II, L.P.  
 HarbourVest International Private Equity Partners VI-Partnership Fund L.P.  
 HarbourVest Partners VIII, L.P.  
 Khosla Ventures IV, L.P.  
 Khosla Ventures V, L.P.  
 Khosla Ventures VI, L.P.  
 Khosla Ventures VII, L.P.  
 Linden Capital Partners III, L.P.  
 Linden Capital Partners IV, L.P.  
 Linden Capital Partners V, L.P.  
 Marlin Equity IV, L.P.  
 Marlin Equity Partners V, L.P.  
 Marlin Heritage, L.P.  
 Marlin Heritage II, L.P.  
 Marlin Heritage Europe, L.P.  
 New Enterprise Associates 14, L.P.  
 New Enterprise Associates 15, L.P.  
 New Enterprise Associates 16, L.P.  
 New Enterprise Associates 17, L.P.  
 OrbiMed Private Investments VIII, L.P.  
 Private Equity Partners X, L.P.

RCP Multi-Fund Feeder (SCERS), L.P.  
 RRJ Capital Master Fund II, L.P.  
 RRJ Capital Master Fund III, L.P.  
 Shamrock Capital Content Fund II, L.P.  
 Shamrock Capital Growth Fund V, L.P.  
 Sixth Street Opportunities Partners III, L.P.  
 Sixth Street Opportunities Partners IV (A), L.P.  
 Spectrum Equity VII, L.P.  
 Spectrum Equity VIII-A, L.P.  
 Spectrum Equity IX-A, L.P.  
 Strategic Value Special Situations Fund V, L.P.  
 Summit Partners Europe Growth Equity Fund II, L.P.  
 Summit Partners Europe Growth Equity Fund III, L.P.  
 Summit Partners Venture Capital Fund III-A, L.P.  
 Summit Partners Venture Capital Fund IV-A, L.P.  
 Summit Partners Venture Capital Fund V-A, L.P.  
 Thoma Bravo Fund XI, L.P.  
 Thoma Bravo Fund XII, L.P.  
 Thoma Bravo Fund XIII, L.P.  
 Threshold Ventures III, L.P.  
 Trinity Ventures XI, L.P.  
 Trinity Ventures XII, L.P.  
 TSG7 A, L.P.  
 TSG7 B, L.P.  
 TSG8, L.P.  
 Waterland Private Equity Fund V, C.V.  
 Waterland Private Equity Fund VI, C.V.  
 Wayzata Opportunities Fund III, L.P.  
 Wynnchurch Capital Partners V, L.P.

**Investment Consultant**

Cliffwater, LLC  
 The Townsend Group  
 Verus Advisory, Inc.

**Proxy Advisor**

Glass Lewis & Co.  
 Institutional Shareholder Services, Inc.

**Legal Counsel**

Foley & Lardner LLP  
 Nossaman LLP

**Other Investment Service Providers**

BSR & Co. LLP - tax services  
 Capital Economics - investment-related economic research  
 Colmore Inc. - investment accounting third-party service provider  
 Financial Recovery Technologies - class action and antitrust litigation recovery  
 Strock & Strock & Lavan LLP



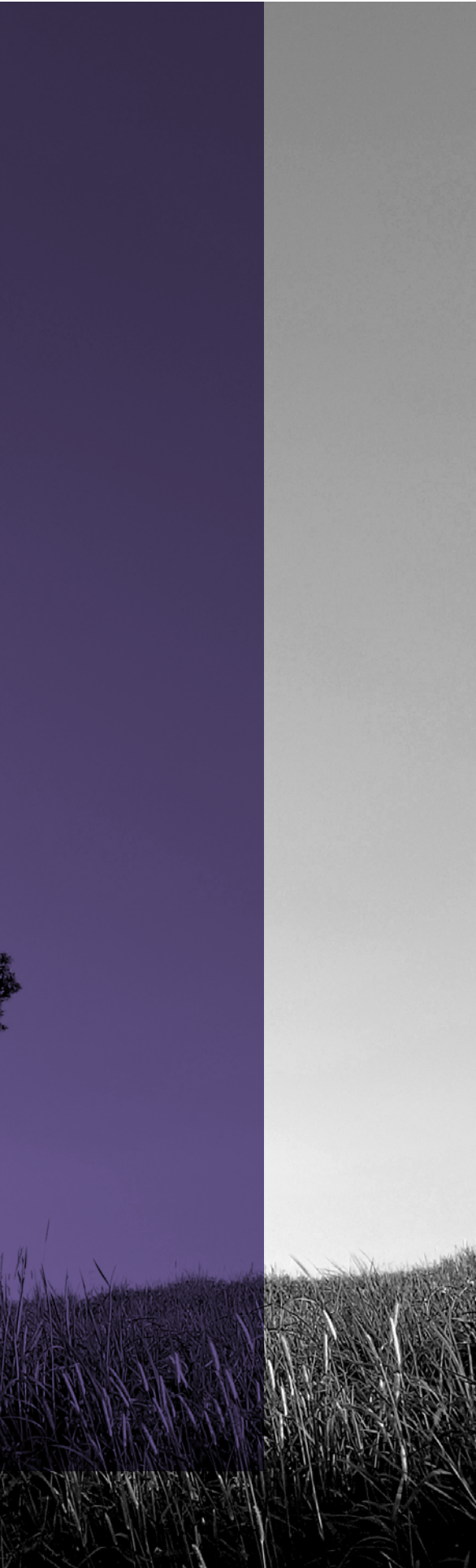


A large, leafy tree stands in a field of tall grass. The entire image has a purple tint. The tree is the central focus, with its branches spreading out. The grass in the foreground is also visible.

## CORE VALUES

*Responsibility —  
by taking ownership of  
work, following through,  
holding ourselves  
accountable, and  
embracing ethical behavior.*





# **SECTION 4**

# **ACTUARIAL**

# ACTUARIAL CERTIFICATION LETTER

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180 Howard Street  
Suite 1100  
San Francisco, CA 94105-6147  
segalco.com

## Via Email

February 4, 2022

Board of Retirement  
Sacramento County Employees' Retirement System  
980 9th Street, Suite 1900  
Sacramento, CA 95814-2738

## Re: Actuarial Valuation for the Sacramento County Employees' Retirement System

Dear Members of the Board:

Segal prepared the June 30, 2021 annual actuarial valuation of the Sacramento County Employees' Retirement System. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices and SCERS' funding policy adopted by the Board on June 19, 2013 and reaffirmed by the Board on March 17, 2021. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters set by the Actuarial Standards of Practice (ASOPs). This letter supersedes our previous letter dated November 1, 2021.

As part of the June 30, 2021 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the System's financial statements. For actuarial valuation purposes, Plan assets are valued at actuarial value. Under this method, the assets used to determine employer contribution rates take into account fair value by recognizing the differences between the total actual investment return at fair value and the expected investment return from the prior six years. Investment gains/losses are recognized over a seven-year period and the deferred return is further adjusted, if necessary, so that the actuarial value of assets will stay within 30% of the fair value of assets.

One of the general goals of an actuarial valuation is to establish contribution rates which, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL). The UAAL is amortized over different periods depending on the source.



Board of Retirement  
 Sacramento County Employees' Retirement System  
 February 4, 2022  
 Page 2

The System's remaining outstanding balance of the June 30, 2012 UAAL is amortized as a level percentage of payroll over a declining 23-year period (with 14 years remaining as of June 30, 2021). Effective with the June 30, 2013 valuation, the change in UAAL that arises due to actuarial gains or losses or from changes in actuarial assumptions or methods at each valuation is amortized as a level percentage of payroll over its own declining 20-year period. Any change in UAAL that arises due to plan amendments will be amortized as a level percentage of payroll over its own declining 15-year period and any change in UAAL due to retirement incentive programs will be amortized as a level percentage of payroll over its own declining period of up to 5 years. The progress being made towards meeting the funding objective through June 30, 2021 is illustrated in the Schedule of Funding Progress.

Notes number 1, 4 and 5 to the Basic Financial Statements and the Required Supplemental Information (RSI) included in the Financial Section were prepared by the System based on the results of the Governmental Accounting Standards Board Statement 67 (GASBS 67) actuarial valuation as of June 30, 2021 and the Actuarial Valuation and Review as of June 30, 2021, both prepared by Segal. For the Financial Section of the Annual Comprehensive Financial Report (ACFR), Segal provided the Schedule of Changes in Net Pension Liability and Schedule of Employer Contributions as shown in the RSI. A listing of the other supporting schedules Segal prepared for inclusion in the Actuarial and Statistical Sections of the System's ACFR is provided below. These schedules were prepared based on the results of the actuarial valuation as of June 30, 2021 for funding purposes. All other schedules in the Actuarial and Statistical Sections of the System's ACFR were prepared by the System.

1. Retirees and beneficiaries added to and removed from retiree payroll;
2. Schedule of funded liabilities by type; and
3. Schedule of retiree members by type of benefit.

The valuation assumptions included in the Actuarial Section, including the assumptions for determining optional form of benefits, were adopted by the Retirement Board based on the June 30, 2019 Actuarial Experience Study recommending assumptions for use starting with the June 30, 2020 valuation. It is our opinion that the assumptions used in the June 30, 2021 valuation produce results, which, in the aggregate, anticipate the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of June 30, 2022 and assumptions approved in that analysis will be applied in the June 30, 2023 valuation.

In the June 30, 2021 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 80.6% to 82.1%.<sup>1</sup> The employer's rate has increased from 31.10% of payroll to 32.04% of payroll (after reflecting the final of the two-year phase-in of the change in UAAL rate due to changes in actuarial assumptions included in the June 30, 2019 Actuarial Experience Study), while the employee's rate has decreased from 12.25% of payroll to 12.20% of payroll. The increase in the employer's rate is primarily a result of the phase-in of the change in UAAL

<sup>1</sup> If the Contingency Reserve were no longer included in the non-valuation reserves and amounts which are added to actuarial accrued liability, the ratio of the valuation assets to actuarial accrued liabilities would equal 84.2% as of June 30, 2021.





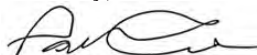
Board of Retirement  
Sacramento County Employees' Retirement System  
February 4, 2022  
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rate due to changes in actuarial assumptions included in the June 30, 2019 Actuarial Experience Study. The decrease in the employee's rate is primarily due to changes in active member demographics.

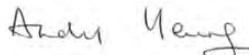
In the June 30, 2021 valuation, the actuarial value of assets excluded \$1,634.6 million in deferred investment gains, which represented about 13% of the fair value of assets. If these deferred investment gains were recognized immediately in the actuarial value of assets, and the Contingency Reserve were not included in the non-valuation reserves and amounts which are added to the actuarial accrued liability,<sup>2</sup> the funded percentage would increase from 84.2% to 96.8%, and the aggregate employer contribution rate would decrease from 32.04% of payroll to 21.3% of payroll. (Note that in calculating both of these contribution rates, the amount in the Contingency Reserve has been excluded from the actuarial value of assets.)

The undersigned are Members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,



Paul Angelo, FSA, MAAA, FCA, EA  
Senior Vice President and Actuary



Andy Yeung, ASA, MAAA, FCA, EA  
Vice President and Actuary

ST/bbf  
Enclosures

<sup>2</sup> Starting with the GASBS 67 Actuarial Valuation as of June 30, 2021 (see revised report dated February 3, 2022), the Contingency Reserve set aside by the Board is applied to reduce the Net Pension Liability as of June 30, 2021. The Plan Fiduciary Net Position as a percentage of the Total Pension Liability as of June 30, 2021 equals 96.8%.

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

GASB Statement No. 67 rules only redefine pension liability and expense for financial reporting purposes, and do not apply to contribution amounts for pension funding purposes. Employers and pension plans can still develop and adopt funding policies under current practices. SCERS' Board of Retirement and management staff are responsible for establishing and maintaining the System's funding policy. When measuring the total pension liability, GASB uses the same actuarial cost method (Entry Age Method) and the same type of discount rate (expected return on assets) as SCERS uses for funding. This means that the Normal Cost component of the annual plan cost is determined on the same basis for funding and financial reporting.

The following assumptions and methods were based on the June 30, 2019, actuarial experience study, which was adopted by the Board in May 2020. These assumptions and methods were used to complete the June 30, 2021, actuarial valuation report.

Valuation Interest Rate and Rate of Return on Investments:	6.75%, net of administration and investment expenses
Inflation Rate:	2.75%
Real Across-the-Board Salary Increase:	0.25%
Projected Salary Increases:	4.25% - 10.50%
	Varying by service plus merit and longevity increases, and includes inflation at 2.75% plus real across-the-board salary increase of 0.25%.
Member Contribution Crediting Rate:	5-year Treasury rate, assuming sufficient net investment earnings
Post-Retirement Cost-of-Living Adjustment:	
Miscellaneous Tier 1	2.75%
Miscellaneous Tier 2	0.00%
Miscellaneous Tier 3	2.00%
Miscellaneous Tier 4	2.00%
Miscellaneous Tier 5	2.00%
Safety Tier 1	2.75%
Safety Tier 2	2.00%
Safety Tier 3	2.00%
Safety Tier 4	2.00%
Post-Retirement Mortality:	
a) Service	<b>Miscellaneous Members</b> - Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10%, projected generationally with the two-dimensional mortality improvement scale MP-2019.
	<b>Safety Members</b> - Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates decreased by 5% for males, projected generationally with the two-dimensional mortality improvement scale MP-2019.



SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

b) Disability	<b>Miscellaneous Disabled Members</b> - Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.
	<b>Safety Disabled Members</b> - Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.
	<b>All Beneficiaries</b> - Pub-2010 Contingent Survivor Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.
Withdrawal Rates and Service Retirement Rates:	Refer to the June 30, 2019, Actuarial Experience Study.
Pre-Retirement Mortality:	<b>Miscellaneous Members</b> - Pub-2010 General Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.
	<b>Safety Members</b> - Pub-2010 Safety Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected generationally with the two-dimensional mortality improvement scale MP-2019.
Mortality Rates for Member Contributions:	<b>Miscellaneous Members</b> - Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates increased by 10%, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2019, weighted 40% male and 60% female.
	<b>Safety Members</b> - Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) with rates decreased by 5% for males, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2019, weighted 75% male and 25% female.
Disability Rates: Refer to June 30, 2019 Actuarial Experience Study	<b>Miscellaneous Members</b> - 40% of disabled Miscellaneous members would receive a duty disability, and 60% will be assumed to receive a non-duty disability.
	<b>Safety Members</b> - 90% of disabled Safety members would receive a duty disability, and 10% will be assumed to receive a non-duty disability.
Average Entry Ages:	Miscellaneous Members – 35 Safety Members – 29
Percentage of Members Married at Retirement:	Male Members – 80% Female Members – 55%
Retirement Age for Deferred Vested Members:	Miscellaneous Members – 59 Safety Members – 52



SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Percentage Eligible for Reciprocal Benefits:	Miscellaneous Members – 30% Safety Members – 40%
Actuarial Value of Assets:	The fair value of assets less unrecognized returns in each of the last six years. Unrecognized return is equal to the difference between actual and expected returns on a fair value basis and is recognized over a seven-year period. The Actuarial Value of Assets (AVA) is limited by a 30% corridor; the AVA cannot be less than 70% of the fair value of assets, nor greater than 130% of the fair value of assets.
Valuation Value of Assets:	Actuarial value of assets reduced by the value of non-valuation reserves and designations.
Actuarial Cost Method:	Entry Age Actuarial Cost Method. Entry Age is the age on the valuation date minus years of service. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are based on costs allocated as a level percentage of compensation.
Amortization Policy:	The balance of the UAAL as of June 30, 2012 shall be amortized separately from any future changes in UAAL over a period of 23 years as of June 30, 2012.
	Any new UAAL as a result of actuarial gains or losses identified in the annual valuation as of June 30 will be amortized over a period of 20 years.
	Any new UAAL as a result of changes in actuarial assumptions or methods will be amortized over a period of 20 years.
	The change in UAAL as a result of any Plan amendments will be amortized over a period of 15 years and the change in UAAL resulting from retirement incentive programs will be amortized over a period of up to 5 years.
Changes in Actuarial Assumptions:	None.



# SUMMARY OF PLAN PROVISIONS

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Briefly summarized below are the major provisions of the County Employees’ Retirement Law of 1937, as amended through June 30, 2021, that are applicable to the Sacramento County Employees’ Retirement System, a cost-sharing multiple-employer defined benefit pension plan.

## Membership

Miscellaneous employees entering before September 27, 1981, are Tier 1 members. Miscellaneous employees entering on or after September 27, 1981, are Tier 2 members. Miscellaneous employees entering on or after June 27, 1993, but before January 1, 2012, are Tier 3 members. County Miscellaneous employees entering on or after January 1, 2012, but before January 1, 2013, are Tier 4 members. Miscellaneous employees entering on or after January 1, 2013, are Tier 5 members.

Safety members entering before June 25, 1995, are Tier 1 members. Safety members entering on or after June 25, 1995, but before January 1, 2012, are Tier 2 members. Safety employees entering on or after January 1, 2012, but before January 1, 2013, are members of Tier 3. Safety members entering on or after January 1, 2013, are Tier 4 members.

## Final Average Salary

Final average salary (FAS) is defined as the highest 12 consecutive months of compensation earnable for Miscellaneous Tier 1 and Safety Tier 1 and highest 36 consecutive months for Miscellaneous Tier 2, Tier 3, Tier 4 and Tier 5 and Safety Tier 2, Tier 3 and Tier 4.

## Return of Contributions

Upon separation from service, a member may elect to leave his or her contributions on deposit. If the member has five or more years of service, he or she may elect to receive a deferred benefit when eligible for retirement. Regardless of “vested” status, members may request a return of contributions, plus interest, at any time.

## Service Retirement Benefit

Miscellaneous Tier 1, Tier 2, Tier 3 and Tier 4 and Safety Tier 1, Tier 2 and Tier 3 members with 10 years of service who have attained the age of 50 are eligible to retire. All members with 30 years of service (20 years for Safety), regardless of age, are eligible to retire.

Miscellaneous Tier 5 and Safety Tier 4 members with 5 years of service who have attained the age of 52 (age 50 for Safety) are eligible to retire.

The benefit expressed as a percentage of monthly FAS per year of service, depending on age at retirement, is illustrated below for typical ages. For members whose benefits are integrated with Social Security, the benefit is reduced by one-third of the percentage shown below times the first \$350 of monthly FAS per year of service after January 1, 1956.

Age	Miscellaneous Tier 1, 2 and 3	Miscellaneous Tier 4	Miscellaneous Tier 5	Safety Tier 1 and 2	Safety Tier 3	Safety Tier 4
50	1.48%	1.18%	N/A	3.00%	2.29%	2.00%
55	1.95	1.49	1.30%	3.00	3.00	2.50
60	2.44	1.92	1.80	3.00	3.00	2.70
62	2.61	2.09	2.00	3.00	3.00	2.70
65	2.61	2.43	2.30	3.00	3.00	2.70
67 and over	2.61	2.43	2.50	3.00	3.00	2.70





### **Disability Benefit**

Members with five years of service, regardless of age, are eligible for non-service connected disability.

For Miscellaneous Tier 1 members, the benefit is 1.5% (1.8% for Safety Tier 1 members) of FAS for each year of service. If this benefit does not equal one-third of FAS, the benefit is increased by the same percentage of FAS for the years which would have been credited to age 65 (age 55 for Safety members), but the total benefit in this case cannot be more than one-third of FAS.

For Tier 2, Tier 3, Tier 4 and Tier 5 members, the benefit is 20% of FAS for the first five years of service plus 2% for each additional year for a maximum of 40% of FAS.

If the disability is service connected, the member may retire regardless of length of service, with a benefit of 50% of FAS or 100% Service Retirement benefit, if greater.

### **Death Benefit (Before Retirement)**

In addition to the return of contributions, a death benefit is payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the retirement system, based on the final year's average salary, but not to exceed six (6) month's salary.

If a member dies while eligible for service retirement or non-service connected disability, the spouse receives 60% of the allowance that the member would have received for retirement.

If a member dies in the performance of duty, the spouse or minor child receives the greater of 50% of the member's final average salary or 100% of the Service Retirement benefit.

### **Death Benefit (After Retirement)**

If a member dies after retirement, a \$4,000 lump sum burial allowance is paid to the beneficiary or estate. If the retirement was for service connected disability, 100% of the member's allowance as it was at death is continued to the eligible spouse for life.

If the retirement was for other than service connected disability and the member elected the unmodified option, 60% of the member's allowance is continued to an eligible spouse for life.

An eligible spouse is a surviving spouse who was married to the member at least one year prior to the date of retirement.

### **Maximum Benefit**

The maximum benefit payable to all Miscellaneous and Safety members or beneficiaries is the lower of 100% of FAS or the qualified plan dollar limits established by the Internal Revenue Service.

### **Cost-of-Living Adjustments**

The maximum increase in retirement allowance is 4% per year for Miscellaneous Tier 1 and Safety Tier 1 members and 2% for Safety Tier 2, Tier 3 and Tier 4, and Miscellaneous Tier 3, Tier 4 and Tier 5 members.

Miscellaneous Tier 2 members have no cost-of-living benefit. The cost-of-living increases effective in the month of April are based on the average annual change in the Consumer Price Index for the calendar year preceding April.



**Contribution Rates**

Basic member contribution rates are designed to provide an average annuity at age 55 equal to 1/240 of FAS for Miscellaneous Tier 1, 2 and 3 members, at age 60 equal to 1/120 of FAS for Miscellaneous Tier 4 members and 1/100 of FAS at age 50 for Safety Tier 1, Tier 2 and Tier 3 members. For Miscellaneous Tier 5 and Safety Tier 4 members, the rates are 50% of the Normal Cost rate. For members integrated with Social Security, the above contributions except for Miscellaneous Tier 5 and Safety Tier 4 are reduced by one-third of that portion of such contribution payable with respect to the first \$350 of monthly salary. Cost-of-living contribution rates are designed to pay for one-half of the future cost-of-living costs. Member contributions are refundable upon termination from the system.



## SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Number of Active Members	Annual Payroll (in thousands)	Annual Average Pay (in thousands)	% Increase/ (decrease) in Average Pay*
6/30/2021	Miscellaneous	10,479	\$841,176	\$80.3	2.60%
	Safety	2,021	240,787	119.1	1.83
	Total	12,500	\$1,081,963	\$86.6	2.28%
6/30/2020	Miscellaneous	10,565	\$826,569	\$78.2	3.21%
	Safety	2,085	243,943	117.0	3.80
	Total	12,650	\$1,070,512	\$84.6	3.33%
6/30/2019	Miscellaneous	10,584	\$802,318	\$75.8	2.86%
	Safety	2,094	236,023	112.7	3.52
	Total	12,678	\$1,038,341	\$81.9	3.02%
6/30/2018	Miscellaneous	10,586	\$780,148	\$73.7	2.24%
	Safety	2,091	227,668	108.9	0.43
	Total	12,677	\$1,007,816	\$79.5	2.07%
6/30/2017	Miscellaneous	10,577	\$762,440	\$72.1	3.26%
	Safety	2,010	217,919	108.4	2.31
	Total	12,587	\$980,359	\$77.9	2.84%
6/30/2016	Miscellaneous	10,363	\$723,429	\$69.8	1.80%
	Safety	2,030	215,126	106.0	2.20
	Total	12,393	\$938,555	\$75.7	1.88%
6/30/2015	Miscellaneous	10,093	\$692,138	\$68.6	1.84%
	Safety	1,979	205,203	103.7	1.36
	Total	12,072	\$897,341	\$74.3	1.78%
6/30/2014	Miscellaneous	10,085	\$679,079	\$67.3	(0.15)%
	Safety	1,964	200,920	102.3	(0.01)
	Total	12,049	\$879,999	\$73.0	- %
6/30/2013	Miscellaneous	10,113	\$681,789	\$67.4	0.30%
	Safety	1,913	195,868	102.4	4.38
	Total	12,026	\$877,657	\$73.0	1.39%
6/30/2012	Miscellaneous	10,256	\$689,438	\$67.2	0.75%
	Safety	1,899	186,234	98.1	4.70
	Total	12,155	\$875,672	\$72.0	1.69%

Source: Actuarial Valuation reports from June 30, 2021 through 2021.

Note: Refer to the *Participating Employers in the Introductory Section* for a list of participating employers who have joined the System for the last ten years.

\*Reflects the increase in average salary for members at the beginning of the year versus those at the end of the year. It does not reflect the average salary increases received by members who worked the full year.



## RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM RETIREE PAYROLL

Valuation Date	At Beginning of Year	Added During Year	Removed During Year	At End of Year	Annual Retiree Payroll (in thousands)	Payroll Added During Year* (in thousands)	Payroll Removed During Year (in thousands)	% Increase In Annual Retiree Payroll	Average Annual Allowance
6/30/2021	12,732	702	383	13,051	\$590,038	\$44,004	\$12,916	5.56%	\$45,210
6/30/2020	12,381	693	342	12,732	558,950	47,214	11,455	6.83	43,901
6/30/2019	11,883	789	291	12,381	523,191	49,436	8,402	8.51	42,252
6/30/2018	11,396	758	271	11,883	482,157	44,173	7,891	8.14	40,572
6/30/2017	10,960	750	314	11,396	445,875	40,102	9,332	7.41	39,126
6/30/2016	10,541	727	308	10,960	415,105	35,144	8,591	6.83	37,875
6/30/2015	10,049	776	284	10,541	388,552	40,636	7,849	9.22	36,861
6/30/2014	9,634	674	259	10,049	355,765	31,335	6,746	7.42	35,403
6/30/2013	9,239	635	240	9,634	331,176	29,416	6,431	7.46	34,376
6/30/2012	8,821	660	242	9,239	308,191	29,693	5,511	8.51	33,358

Source: Prepared by Segal

Note: Participants are counted once for each benefit received.

\* Includes data adjustments and automatic cost-of-living adjustments granted on April 1.



# ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

(Amounts Expressed in Millions)

	Plans Year Ended June 30									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Prior Valuation Unfunded Actuarial Liability	\$2,464	\$2,192	\$2,090	\$2,016	\$1,200	\$1,190	\$1,268	\$1,413	\$1,308	\$962
Salary Increase Greater (Less) than Expected	(36)	11	(24)	(40)	(3)	(39)	(39)	(138)	(113)	(102)
Asset Return Less (Greater) than Expected	3	20	8	6	3	62	(24)	(38)	152	257
Other Experience	(51)	25	118	108	(8)	(13)	(15)	15	66	58
Economic and Non-Economic Assumption Changes	-	216	-	-	824	-	-	16	-	133
<b>Ending Unfunded Actuarial Accrued Liability</b>	<b>\$2,380</b>	<b>\$2,464</b>	<b>\$2,192</b>	<b>\$2,090</b>	<b>\$2,016</b>	<b>\$1,200</b>	<b>\$1,190</b>	<b>\$1,268</b>	<b>\$1,413</b>	<b>\$1,308</b>

Source: Prepared using extracted data from Actuarial Valuations from June 30, 2012 through 2021.



## SCHEDULE OF FUNDED LIABILITIES BY TYPE

(Dollar Amounts Expressed in Thousands)

Valuation Date	Aggregate Accrued Liabilities for				Portion of Accrued Liabilities Covered by Reported Assets			
	Active Member Contributions	Retired / Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions	Retired / Vested Members	Active Members (Employer Financed Portion)
6/30/2021	\$909,340	\$8,299,868	\$4,100,498	\$13,309,706	\$10,929,549	100%	100%	42%
6/30/2020	875,808	7,857,941	3,959,906	12,693,655	10,229,760	100	100	38
6/30/2019	820,202	7,354,648	3,720,670	11,895,520	9,703,313	100	100	41
6/30/2018	756,179	6,879,316	3,577,768	11,213,263	9,123,004	100	100	42
6/30/2017	713,290	6,410,447	3,557,261	10,680,998	8,665,226	100	100	43
6/30/2016	677,596	5,635,248	3,123,246	9,436,090	8,236,402	100	100	62
6/30/2015	645,591	5,356,228	3,026,860	9,028,679	7,838,825	100	100	61
6/30/2014	632,969	4,939,239	3,008,720	8,580,928	7,321,993	100	100	58
6/30/2013	619,660	4,566,212	3,025,108	8,210,980	6,797,757	100	100	53
6/30/2012	595,979	4,284,864	2,957,380	7,838,223	6,529,895	100	100	56

Source: Prepared by Segal

Events affecting year to year comparability:

- 6/30/2012 Investment return assumption decreased from 7.75% to 7.50%;  
Inflation assumption decreased from 3.50% to 3.25%;  
Salary increase assumption decreased; and  
COLA increase assumption for Tier 1 decreased from 3.40% to 3.25%.
- 6/30/2013 Actuarial cost method changed from Aggregate Entry Age Normal Cost Method to Individual Entry Age Normal Cost Method; and  
Changes to the amortization periods used for various future changes in liability:
- UAAL established as a result of Early Retirement Incentive Program for LEMA is amortized over a 10-year period beginning June 30, 2010;
  - UAAL as a result of actuarial gains or losses as of June 30 will be amortized over a 20-year period;
  - UAAL as a result of changes in actuarial assumptions or methods to be amortized over a 20-year period;
  - Change in UAAL as a result of plan amendments to be amortized over a 15-year period; and
  - UAAL as a result from retirement incentive programs will be amortized over a period up to 5 years.
- 6/30/2014 Changes to post-retirement mortality rates and termination rates before retirement;  
Changes to retirement age and benefit for deferred vested members; and  
Changes to annual rates of compensation increase.
- 6/30/2017 Investment return assumption decreased from 7.50% to 7.00%;  
Inflation assumption decreased from 3.25% to 3.00%;  
Salary increase assumption decreased while merit and promotional component of salary increase assumption increased;  
COLA increase assumption for Tier 1 decrease from 3.25% to 3.00%; and  
Modification in non-economic assumptions.
- 6/30/2020 Investment return assumption decrease from 7.00% to 6.75%;  
Inflation assumption decreased from 3.00% to 2.75%;  
Salary increase assumption decreased while merit and promotional component of salary increase assumption increased;  
COLA increase assumption for Tier 1 decreased from 3.00% to 2.75%; and  
Modification in non-economic assumptions.





## SCHEDULE OF FUNDING PROGRESS

(Dollar Amounts Expressed in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Actuarial Accrued Liability (AAL)* (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll** (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/2021	\$10,929,549	\$13,309,706	\$2,380,157	82.1%	\$1,081,961	220.0%
6/30/2020	10,229,760	12,693,655	2,463,894	80.6	1,070,512	230.2
6/30/2019	9,703,313	11,895,520	2,192,207	81.6	1,038,341	211.1
6/30/2018	9,123,004	11,213,263	2,090,259	81.4	1,007,815	207.4
6/30/2017	8,665,226	10,680,998	2,015,772	81.1	980,359	205.6
6/30/2016	8,236,402	9,436,090	1,199,688	87.3	938,555	127.8
6/30/2015	7,838,825	9,028,679	1,189,854	86.8	897,341	132.6
6/30/2014	7,312,993	8,580,928	1,267,935	85.2	879,999	144.1
6/30/2013	6,797,757	8,210,980	1,413,223	82.8	877,657	161.0
6/30/2012	6,529,895	7,838,223	1,308,328	83.3	875,672	149.4

Source: Prepared using extracted data from Actuarial Valuations from June 30, 2012 through 2021.

\*Includes contingency reserve and retiree death benefit reserves.

\*\*Covered payroll is based on actuarial assumed salary growth.



## PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

### MORTALITY RATE (%)

Age	Miscellaneous		Safety	
	Male	Female	Male	Female
20	0.04%	0.01%	0.04%	0.01%
25	0.02	0.01	0.03	0.02
30	0.03	0.01	0.04	0.02
35	0.04	0.02	0.04	0.03
40	0.06	0.03	0.05	0.04
45	0.09	0.05	0.07	0.06
50	0.13	0.08	0.10	0.08
55	0.19	0.11	0.15	0.11
60	0.28	0.17	0.23	0.14
65	0.41	0.27	0.35	0.20

Note: Generational projections beyond the base year (2010) are not reflected in the above mortality rates. All Miscellaneous pre-retirement deaths are assumed to be nonservice-connected. For Safety, 50% pre-retirement deaths are assumed to be nonservice-connected and the rest are assumed to be service-connected.

### DISABILITY RATE (%)

Age	Miscellaneous	Safety
20	-%	0.05%
25	0.01	0.05
30	0.02	0.08
35	0.04	0.22
40	0.08	0.36
45	0.16	0.46
50	0.23	0.68
55	0.31	0.92
60	0.41	1.12
65	0.63	-

Note: For Miscellaneous, 40% of disabilities are assumed to be service-connected disabilities and the other 60% are assumed to be nonservice-connected disabilities. For Safety, 90% of disabilities are assumed to be service-connected disabilities and the other 10% are assumed to be nonservice-connected disabilities.

Source: Actuarial Valuation report as of June 30, 2021.



WITHDRAWAL RATE (%)  
LESS THAN FIVE YEARS OF SERVICE

Years of Service	Miscellaneous	Safety
Less than 1	13.00%	5.00%
1 - 2	8.00	4.50
2 - 3	6.50	4.00
3 - 4	5.50	2.50
4 - 5	5.25	2.50

Note: 55% of the Miscellaneous members and 50% of the Safety members are assumed to elect a withdrawal of contributions upon separation. The remaining 45% and 50% of Miscellaneous and Safety members, respectively, are assumed to elect a deferred retirement benefit.

WITHDRAWAL RATE (%)  
FIVE OR MORE YEARS OF SERVICE

Age	Miscellaneous	Safety
20	5.25%	2.00%
25	5.25	2.00
30	5.10	2.00
35	4.40	1.55
40	3.40	1.10
45	2.70	1.00
50	2.44	1.00
55	2.34	1.00
60	2.24	1.00
65	1.48	-

Note: 30% of the Miscellaneous members and 15% of the Safety members are assumed to elect a withdrawal of contributions upon separation. The remaining 70% and 85% of Miscellaneous and Safety members, respectively, are assumed to elect a deferred retirement benefit. No withdrawal is assumed after a member is eligible to retire.

Source: Actuarial Valuation report as of June 30, 2021.







CORE VALUES

*Solutions —  
by working with urgency to  
help one another succeed,  
fostering teamwork and  
collaboration, and asking  
for help when needed.*





## **SECTION 5** **STATISTICAL**

## SUMMARY OF STATISTICAL DATA

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Issued in May 2004, pronouncement GASB Statement No. 44, *Economic Conditioning Reporting: The Statistical Section*, establishes and modifies requirements related to the supplementary information presented in this section of the report.

The pension trust fund is accounted for under the accrual basis of accounting. Information is provided for the last ten years ended June 30, 2021 for the following five objectives: financial trends; revenue capacity; demographic and economic; and operating.

Financial trends are presented on pages 111 to 115. The schedules contain trend information to aid in understanding how the System's financial performance has changed over time.

Revenue capacity is presented on pages 111, 113 and 114. The schedules contain information regarding the contribution amount and rate history for the last ten years.

Demographic and economic information is presented on pages 116 to 120. These schedules offer demographic and economic indicators to enhance understanding of the environment within which the System's financial activities take place. The schedules show the average monthly benefit payments followed by the System membership.

Operating information is presented on pages 121 and 122. These schedules contain pension plan data to assist in understanding how the information in the financial report relates to the pension plan the System administers. This section includes the schedules of principal participating employers and active members.





## SCHEDULE OF ADDITIONS BY SOURCE

(Dollar Amounts Expressed in Thousands)

Fiscal Year Ended June 30:	Member Contributions	Employer Contributions	Net Investment Income / (Loss)	Other Income	Health Premiums Collected from Members and Employers	Total
2021	\$120,597	\$295,269	\$2,753,409	\$3,081	\$32,362	\$3,204,718
2020	126,354	276,230	301,373	2,939	-	706,896
2019	121,843	285,642	672,786	2,940	-	1,083,211
2018	99,906	198,513	841,370	3,119	-	1,142,908
2017	89,489	203,928	1,048,915	-	-	1,342,332
2016	77,494	209,020	(72,399)	-	-	214,115
2015	68,143	222,959	158,222	-	-	449,324
2014	57,635	210,503	1,107,152	-	-	1,375,290
2013	68,242	189,664	785,449	-	-	1,043,355
2012	65,690	179,098	(3,414)	-	-	241,374

Source: Audited Financial Statements from June 30, 2012 through 2021.

## SCHEDULE OF DEDUCTIONS BY TYPE

(Dollar Amounts Expressed in Thousands)

Year Ended June 30:	Benefits Paid						Total
	Service*	Survivor Benefits	Retiree Death Benefits	Administrative Expenses	Withdrawals	Health Premiums Remitted to Health Carriers	
2021	\$571,304	\$2,954	\$1,071	\$9,165	\$3,092	\$32,362	\$619,948
2020	534,026	2,804	868	8,460	3,053	-	549,211
2019	498,939	2,803	1,202	7,601	2,909	-	513,454
2018	461,808	2,625	921	6,888	2,954	-	475,196
2017	426,292	2,479	983	6,906	2,312	-	438,972
2016	399,690	2,443	1,223	6,362	2,346	-	412,064
2015	368,788	2,404	1,177	5,854	2,288	-	380,511
2014	341,756	2,116	1,018	5,665	2,729	-	353,284
2013	317,308	2,225	1,295	5,719	2,739	-	329,286
2012	295,598	2,284	882	6,288	3,040	-	308,092

\* Amounts reported here include both service and disability retirement benefits and active death benefits.

Source: Audited Financial Statements from June 30, 2012 through 2021 and SCERS Retired Member Pension Payroll Data.



# SCHEDULE OF ADMINISTRATIVE EXPENSES

FOR THE LAST TEN FISCAL YEARS ENDED JUNE 30

(Dollar Amounts Expressed in Thousands)

Type of Expenses	2021	2020	2019*	2018	2017	2016	2015	2014	2013	2012
Salaries and benefits	\$5,585	\$5,439	\$5,128	\$4,078	\$3,984	\$3,506	\$3,445	\$3,300	\$3,284	\$3,530
County allocated expenses	1,143	852	488	557	-	-	-	-	-	-
Professional services	751	649	606	879	1,149	1,081	811	786	857	1,146
Rent and lease	530	524	582	557	488	501	456	460	432	458
Information technology	632	365	133	157	-	-	-	-	-	-
Printing and postage	190	215	177	202	-	-	-	-	-	-
Pension payroll services	177	182	185	208	-	-	-	-	-	-
Insurance liability	96	92	97	89	-	-	-	-	-	-
Depreciation	-	-	-	-	27	34	36	36	36	37
Equipment purchases and maintenance	-	-	-	-	61	26	32	21	24	44
Other	61	142	205	161	1,197	1,214	1,074	1,062	1,086	1,073
<b>Total</b>	<b>\$9,165</b>	<b>\$8,460</b>	<b>\$7,601</b>	<b>\$6,888</b>	<b>\$6,906</b>	<b>\$6,362</b>	<b>\$5,854</b>	<b>\$5,665</b>	<b>\$5,719</b>	<b>\$6,288</b>

\* In fiscal year ended June 30, 2019, the System revised the presentation of the administrative expenses as reported in the Other Supplemental Information section. As a result, certain amounts have been revised to present at a detail level.

Source: Audited Financial Statements from June 30, 2012 through 2021.



# SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION

FOR THE LAST TEN FISCAL YEARS ENDED JUNE 30

(Dollar Amounts Expressed in Thousands)

	2021	2020	2019	2018	2017
Member contributions	\$120,597	\$126,354	121,843	\$99,906	\$89,489
Employer contributions	295,269	276,230	285,642	198,513	203,928
Net investment income / (loss)	2,753,409	301,373	672,786	841,370	1,048,915
Other Income	3,081	2,939	2,940	3,119	-
Health Premiums Collected from Members and Employers	32,362	-	-	-	-
<b>Total additions</b>	<b>3,204,718</b>	<b>706,896</b>	<b>1,083,211</b>	<b>1,142,908</b>	<b>1,342,332</b>
Benefits paid	575,329	537,698	502,944	465,354	429,754
Withdrawal of contributions	3,092	3,053	2,909	2,954	2,312
Administrative expenses	9,165	8,460	7,601	6,888	6,906
Health Premiums Remitted to Health Carriers	32,362	-	-	-	-
<b>Total deductions</b>	<b>619,948</b>	<b>549,211</b>	<b>513,454</b>	<b>475,196</b>	<b>438,972</b>
Change in net position	2,584,770	157,685	569,757	667,712	903,360
<b>Net position, beginning</b>	<b>9,979,379</b>	<b>9,821,694</b>	<b>9,251,937</b>	<b>8,584,225</b>	<b>7,680,865</b>
<b>Net position, ending</b>	<b>\$12,564,149</b>	<b>\$9,979,379</b>	<b>\$9,821,694</b>	<b>\$9,251,937</b>	<b>\$8,584,225</b>
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Member contributions	\$77,494	\$68,143	\$57,635	\$68,242	\$65,690
Employer contributions	209,020	222,959	210,503	189,664	179,098
Net investment income / (loss)	(72,399)	158,222	1,107,152	785,449	(3,414)
Other Income	-	-	-	-	-
<b>Total additions</b>	<b>214,115</b>	<b>449,324</b>	<b>1,375,290</b>	<b>1,043,355</b>	<b>241,374</b>
Benefits paid	403,356	372,369	344,890	320,828	298,764
Withdrawal of contributions	2,346	2,288	2,729	2,739	3,040
Administrative expenses	6,362	5,854	5,665	5,719	6,288
Health Premiums Remitted to Health Carriers	-	-	-	-	-
<b>Total deductions</b>	<b>412,064</b>	<b>380,511</b>	<b>353,284</b>	<b>329,286</b>	<b>308,092</b>
Change in net position	(197,949)	68,813	1,022,006	714,069	(66,718)
<b>Net position, beginning</b>	<b>7,878,814</b>	<b>7,810,001</b>	<b>6,787,995</b>	<b>6,073,926</b>	<b>6,140,644</b>
<b>Net position, ending</b>	<b>\$7,680,865</b>	<b>\$7,878,814</b>	<b>\$7,810,001</b>	<b>\$6,787,995</b>	<b>\$6,073,926</b>

Source: Audited Financial Statements from June 30, 2012 through 2021.

# SCHEDULE OF EMPLOYER CONTRIBUTION RATES

Actuarial Valuation Date	COUNTY <sup>1</sup>									
	Miscellaneous					Safety				
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	Tier 1	Tier 2	Tier 3	Tier 4	
6/30/2021	25.37%	21.70%	24.83%	24.48%	23.43%	72.96%	58.70%	57.47%	52.37%	
6/30/2020	24.38	20.87	24.07	23.65	22.59	66.07	57.35	56.01	51.10	
6/30/2019	22.03	19.17	22.20	21.91	20.96	61.78	53.75	53.11	49.35	
6/30/2018	20.19	17.74	20.43	19.92	18.98	54.68	48.31	47.40	43.85	
6/30/2017	18.43	15.85	18.62	17.96	16.96	48.41	44.28	43.33	39.72	
6/30/2016	15.83	13.85	15.89	15.01	14.11	41.30	37.44	36.51	34.11	
6/30/2015	16.26	15.01	17.41	15.25	14.13	42.11	39.42	37.73	34.40	
6/30/2014	17.58	16.55	19.24	15.96	14.87	42.59	41.56	39.92	35.13	
6/30/2013 <sup>2</sup>	22.91	20.71	23.29	17.91	17.14	43.59	41.92	41.06	35.61	
6/30/2012 <sup>3</sup>	20.83	18.28	21.18	16.33	15.01	41.85	37.00	35.55	29.28	

Actuarial Valuation Date	COURT				SPECIAL DISTRICTS		
	Miscellaneous				Miscellaneous		
	Tier 1	Tier 2	Tier 3	Tier 5	Tier 1	Tier 3	Tier 5
6/30/2021	29.10%	25.78%	29.92%	23.39%	N/A	37.65%	31.24%
6/30/2020 <sup>4</sup>	28.20	24.95	29.21	22.55	N/A	36.89	30.36
6/30/2019	24.97	22.91	27.01	20.92	33.26	35.19	29.21
6/30/2018	23.40	22.05	25.41	18.95	31.42	33.33	26.97
6/30/2017	21.59	20.11	23.56	16.93	30.00	31.86	25.34
6/30/2016	18.16	16.87	19.84	14.08	26.27	27.85	22.19
6/30/2015	17.99	16.66	19.83	14.09	25.92	27.76	22.02
6/30/2014	18.55	17.54	20.65	14.87	26.16	28.26	22.48
6/30/2013 <sup>2</sup>	22.91	20.71	23.29	17.14	30.00	30.50	24.19
6/30/2012 <sup>3</sup>	20.83	18.28	21.18	15.01	27.77	28.25	22.03

Source: Actuarial Valuation reports from June 30, 2012 through 2021.

Note: Actuarial Valuations are prepared subsequent to fiscal year-end and determine rates which pertain to the following fiscal year. For example, the Actuarial Valuation as of June 30, 2021 is used to determine rates for the fiscal year 2022-23.

<sup>1</sup> Effective for the June 30, 2012 Actuarial Valuation, County includes County elected officials (Board of Supervisors, Sheriff, District Attorney and Assessor).

<sup>2</sup> Effective July 1, 2014, subsequent to the completion of the actuarial valuation for the year ended June 30, 2013, the County and several bargaining groups entered into an agreement for members to pick up an additional portion of the total normal cost in fiscal year 2014-15. The County employer contribution rates shown have not been adjusted to reflect the members agreeing to pick up an additional portion of the normal cost.

<sup>3</sup> Miscellaneous Tier 5 and Safety Tier 4 plans were established effective January 1, 2013.

<sup>4</sup> As of June 30, 2020, there are no Miscellaneous Tier 1 members reported for Special Districts.

# SCHEDULE OF BENEFITS PAID AND WITHDRAWALS BY TYPE

FOR THE LAST TEN FISCAL YEARS ENDED JUNE 30

(Dollar Amounts Expressed in Thousands)

	2021	2020	2019	2018	2017
<b>Type of Benefit</b>					
Service Retirement Benefits	\$571,304	\$534,026	\$498,939	\$461,808	\$426,292
Survivor Benefits	2,954	2,804	2,803	2,625	2,479
Death Benefits-Before Retirement	232	198	326	248	218
Death Benefits-After Retirement	839	670	876	673	765
<b>Total Benefit Paid</b>	<b>\$575,329</b>	<b>\$537,698</b>	<b>\$502,944</b>	<b>\$465,354</b>	<b>\$429,754</b>
<b>Type of Withdrawal</b>					
Death	\$218	\$259	\$826	\$704	\$298
Separation	2,774	2,745	2,022	2,173	1,974
Miscellaneous	100	49	61	77	40
<b>Total Withdrawals</b>	<b>\$3,092</b>	<b>\$3,053</b>	<b>\$2,909</b>	<b>\$2,954</b>	<b>\$2,312</b>
	2016	2015	2014	2013	2012
<b>Type of Benefit</b>					
Service Retirement Benefits	\$399,690	\$368,788	\$341,756	\$317,308	\$295,598
Survivor Benefits	2,443	2,404	2,116	2,225	2,284
Death Benefits-Before Retirement	352	411	312	542	189
Death Benefits-After Retirement	871	766	706	753	693
<b>Total Benefit Paid</b>	<b>\$403,356</b>	<b>\$372,369</b>	<b>\$344,890</b>	<b>\$320,828</b>	<b>\$298,764</b>
<b>Type of Withdrawal</b>					
Death	\$522	\$320	\$445	\$547	\$365
Separation	1,786	1,815	2,211	2,153	2,663
Miscellaneous	38	153	73	39	12
<b>Total Withdrawals</b>	<b>\$2,346</b>	<b>\$2,288</b>	<b>\$2,729</b>	<b>\$2,739</b>	<b>\$3,040</b>

Source: Audited Financial Statements from June 30, 2012 through 2021 and SCERS Retired Member Pension Payroll Data.





# SCHEDULE OF DISTRIBUTION OF RETIRED MEMBERS AND BENEFICIARIES BY TYPE AND BY MONTHLY AMOUNT

AS OF JUNE 30, 2021

Amount of Monthly Benefit	Total Number of Retired Members	Type of Retirement *									
		1	2	3	4	5	6	7	8	9	10
\$1 - \$499	779	562	17	3	7	7	87	17	7	1	15
\$500 - \$999	1,285	913	27	8	-	-	134	62	51	3	23
\$1,000 - \$1,499	1,412	1,059	54	15	4	3	125	43	48	2	8
\$1,500 - \$1,999	1,279	957	46	17	19	7	117	28	25	2	7
\$2,000 - \$2,499	1,104	850	34	9	36	8	104	17	7	5	10
\$2,500 - \$2,999	991	799	15	5	36	11	73	6	6	9	11
\$3,000 - \$3,499	846	692	6	3	34	6	79	4	2	7	2
\$3,500 - \$3,999	704	568	6	1	30	22	52	1	-	6	1
\$4,000 - \$4,499	663	526	-	-	33	25	49	-	-	17	2
\$4,500 - \$4,999	570	472	2	-	23	22	27	1	-	12	2
\$5,000 and Over	3,418	3,201	2	1	65	29	79	4	1	21	4
<b>Total</b>	<b>13,051</b>	<b>10,599</b>	<b>209</b>	<b>62</b>	<b>287</b>	<b>140</b>	<b>926</b>	<b>183</b>	<b>147</b>	<b>85</b>	<b>85</b>

Amount of Monthly Benefit	Type of Retirement (Continued)*							Option Selected **			
	11	12	13	15	16	17	Unmodified	1	2	3	4
\$1 - \$499	-	46	-	-	3	7	560	60	140	6	13
\$500 - \$999	-	60	-	-	-	4	968	103	184	9	21
\$1,000 - \$1,499	4	43	2	-	-	2	1,128	95	161	18	10
\$1,500 - \$1,999	-	53	1	-	-	-	1,046	68	152	10	3
\$2,000 - \$2,499	1	22	1	-	-	-	920	56	112	10	6
\$2,500 - \$2,999	1	17	2	-	-	-	834	41	109	2	5
\$3,000 - \$3,499	-	7	3	-	-	1	722	40	71	6	7
\$3,500 - \$3,999	-	9	5	-	1	2	593	32	65	7	7
\$4,000 - \$4,499	-	7	4	-	-	-	570	22	64	4	3
\$4,500 - \$4,999	-	1	8	-	-	-	490	25	46	2	7
\$5,000 and Over	-	3	6	1	1	-	3,053	85	251	16	13
<b>Total</b>	<b>6</b>	<b>268</b>	<b>32</b>	<b>1</b>	<b>5</b>	<b>16</b>	<b>10,884</b>	<b>627</b>	<b>1,355</b>	<b>90</b>	<b>95</b>

**\* Type of Retirement:**

- 1 Service Retirement
- 2 Non-Service Connected Disability, age 55 and older
- 3 Non-Service Connected Disability, under age 55
- 4 Service Connected Disability, age 55 and older
- 5 Service Connected Disability, under age 55
- 6 Beneficiary of Service Retiree
- 7 Survivor Death Benefits
- 8 Beneficiary of Non-Service Connected Disability Retiree
- 9 Beneficiary of Service Connected Disability Retiree
- 10 Divorce Receiving Benefits
- 11 Interim Non-Service Connected Disability Retirement
- 12 Non-Member Receiving Benefits
- 13 Survivor Death Benefits-Service Connected Death
- 15 Beneficiary of Survivor Death Benefit-Service Connected Death
- 16 Beneficiary of Non-Member
- 17 Beneficiary of Divorce Receiving Benefits

**\*\* Option Selected:**

**Unmodified:**  
 Qualified service retirement or non-service connected disability retirement beneficiary receives 60 percent continuance.  
 Qualified service connected disability retirement beneficiary receives 100 percent continuance.

The following options reduce the retired member's monthly benefit:

- Option 1** - Beneficiary receives lump sum or member's unused contributions.
- Option 2** - Beneficiary having an insurable interest in member's life receives 100 percent of member's reduced monthly benefit.
- Option 3** - Beneficiary having an insurable interest in member's life receives 50 percent of member's reduced monthly benefit.
- Option 4** - Benefits paid to person having an insurable interest in member's life as nominated by member's written designation.

Source: SCERS Retired Member Pension Payroll Data.



# SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

AS OF JUNE 30, 2021

	Monthly Allowances				Average Benefit
	Count	Basic	COL	Total	
<b>Miscellaneous Members</b>					
Service Retirement					
Unmodified	7,101	\$19,189,482	\$4,984,858	\$24,174,340	\$3,404
Option 1	481	929,586	227,173	1,156,759	2,405
Option 2, 3, & 4	995	2,227,629	479,968	2,707,597	2,721
Total	8,577	22,346,697	5,691,999	28,038,696	3,269
Non-Service Disability					
Unmodified	226	264,921	120,551	385,472	1,706
Option 1	19	15,798	11,330	27,128	1,428
Option 2, 3, & 4	15	17,036	4,302	21,338	1,423
Total	260	297,755	136,183	433,938	1,669
Service Disability					
Unmodified	171	339,521	149,746	489,267	2,861
Option 1	6	10,641	1,945	12,586	2,098
Option 2, 3, & 4	5	5,434	2,219	7,653	1,531
Total	182	355,596	153,910	509,506	2,799
Beneficiary	1,308	1,418,700	922,975	2,341,675	1,790
<b>Total Miscellaneous</b>	<b>10,327</b>	<b>24,418,748</b>	<b>6,905,067</b>	<b>31,323,815</b>	<b>3,033</b>
<b>Safety Members</b>					
Service Retirement					
Unmodified	1,744	10,229,536	3,247,379	13,476,915	7,728
Option 1	60	276,309	77,170	353,479	5,891
Option 2, 3, & 4	218	1,060,705	219,209	1,279,914	5,871
Total	2,022	11,566,550	3,543,758	15,110,308	7,473
Non-Service Disability					
Unmodified	13	20,632	11,126	31,758	2,443
Option 1	1	850	239	1,089	1,089
Option 2, 3, & 4	3	6,009	1,376	7,385	2,462
Total	17	27,491	12,741	40,232	2,367
Service Disability					
Unmodified	223	746,588	394,190	1,140,778	5,116
Option 1	16	53,999	23,229	77,228	4,827
Option 2, 3, & 4	6	14,079	7,676	21,755	3,626
Total	245	814,666	425,095	1,239,761	5,060
Beneficiary	440	849,852	605,879	1,455,731	3,308
<b>Total Safety</b>	<b>2,724</b>	<b>13,258,559</b>	<b>4,587,473</b>	<b>17,846,032</b>	<b>6,551</b>
<b>Total Miscellaneous and Safety</b>	<b>13,051</b>	<b>\$37,677,307</b>	<b>\$11,492,540</b>	<b>\$49,169,847</b>	<b>\$3,768</b>

Source: Prepared by Segal.

Note: Refer to page 116 for the description of retirement options.



# SCHEDULE OF AVERAGE BENEFIT PAYMENTS

FOR THE LAST TEN FISCAL YEARS

Retirement Effective Date	Years of Credited Service						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
<b>7/1/20 - 6/30/21</b>							
Average monthly benefit	\$1,799	\$1,497	\$2,444	\$3,051	\$5,108	\$7,455	\$4,872
Average monthly final average salary	\$7,692	\$8,219	\$7,798	\$7,280	\$8,590	\$10,065	\$11,804
Number of retired members	12	32	68	81	142	100	120
<b>7/1/19 - 6/30/20</b>							
Average monthly benefit	\$592	\$1,536	\$2,071	\$3,145	\$5,080	\$6,892	\$7,396
Average monthly final average salary	\$8,973	\$8,086	\$6,622	\$7,114	\$8,492	\$9,281	\$9,572
Number of retired members	32	69	79	93	107	86	88
<b>7/1/18 - 6/30/19</b>							
Average monthly benefit	\$779	\$1,298	\$1,901	\$2,796	\$4,733	\$6,594	\$6,747
Average monthly final average salary	\$9,039	\$6,946	\$5,802	\$6,371	\$7,603	\$9,081	\$8,160
Number of retired members	32	55	84	127	105	84	107
<b>7/1/17 - 6/30/18</b>							
Average monthly benefit	\$431	\$1,152	\$1,881	\$3,028	\$5,149	\$6,273	\$6,686
Average monthly final average salary	\$8,199	\$6,531	\$6,288	\$6,862	\$8,435	\$8,778	\$8,134
Number of retired members	37	74	81	123	71	113	90
<b>7/1/16 - 6/30/17</b>							
Average monthly benefit	\$628	\$1,275	\$1,698	\$2,681	\$4,249	\$6,279	\$6,902
Average monthly final average salary	\$8,186	\$6,730	\$5,728	\$5,993	\$7,463	\$8,503	\$8,475
Number of retired members	35	58	108	115	88	108	73
<b>7/1/15 - 6/30/16</b>							
Average monthly benefit	\$581	\$1,110	\$1,768	\$2,378	\$4,268	\$5,083	\$6,630
Average monthly final average salary	\$8,700	\$6,355	\$5,856	\$5,568	\$7,428	\$7,410	\$7,934
Number of retired members	23	87	118	69	88	94	69
<b>7/1/14 - 6/30/15</b>							
Average monthly benefit	\$569	\$1,052	\$1,845	\$2,524	\$4,305	\$6,378	\$6,557
Average monthly final average salary	\$8,340	\$6,184	\$5,967	\$6,047	\$7,236	\$8,574	\$7,768
Number of retired members	33	74	109	98	89	112	89
<b>7/1/13 - 6/30/14</b>							
Average monthly benefit	\$488	\$1,216	\$1,558	\$2,583	\$4,490	\$5,190	\$7,239
Average monthly final average salary	\$7,757	\$6,710	\$5,223	\$6,071	\$7,727	\$7,345	\$8,539
Number of retired members	17	62	128	85	75	77	72
<b>7/1/12 - 6/30/13</b>							
Average monthly benefit	\$494	\$994	\$1,652	\$2,832	\$3,936	\$5,519	\$6,151
Average monthly final average salary	\$7,477	\$5,415	\$5,608	\$6,613	\$6,831	\$7,730	\$7,524
Number of retired members	28	63	128	69	77	73	55
<b>7/1/11 - 6/30/12</b>							
Average monthly benefit	\$504	\$1,093	\$1,631	\$2,703	\$3,986	\$5,740	\$6,064
Average monthly final average salary	\$7,652	\$6,041	\$5,545	\$6,279	\$7,059	\$8,120	\$7,246
Number of retired members	35	77	118	58	102	66	75

Source: SCERS Retired Member Pension Payroll Data.



# SCHEDULE OF AVERAGE BENEFIT PAYMENTS

FOR THE LAST TEN FISCAL YEARS

As of	Years Since Retirement						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
<b>6/30/2021:</b>							
Average monthly benefit	\$4,141	\$3,762	\$4,041	\$4,110	\$3,053	\$3,037	\$2,351
Number of retired members	3,133	2,960	2,303	2,008	1,021	820	806
<b>6/30/2020:</b>							
Average monthly benefit	\$3,894	\$3,796	\$3,972	\$3,904	\$3,026	\$2,970	\$2,314
Number of retired members	3,149	2,951	2,147	1,840	1,108	757	780
<b>6/30/2019:</b>							
Average monthly benefit	\$3,766	\$3,616	\$3,891	\$3,687	\$2,877	\$2,893	\$2,204
Number of retired members	3,242	2,817	2,161	1,621	1,068	728	744
<b>6/30/2018:</b>							
Average monthly benefit	\$3,645	\$3,615	\$3,868	\$2,923	\$2,716	\$2,725	\$2,074
Number of retired members	3,140	2,652	2,421	1,262	984	715	709
<b>6/30/2017:</b>							
Average monthly benefit	\$3,472	\$3,592	\$3,783	\$2,666	\$2,720	\$2,359	\$1,983
Number of retired members	3,027	2,475	2,365	1,214	1,006	646	663
<b>6/30/2016:</b>							
Average monthly benefit	\$3,398	\$3,550	\$3,560	\$2,626	\$2,623	\$2,175	\$1,963
Number of retired members	2,946	2,418	2,152	1,181	966	642	625
<b>6/30/2015:</b>							
Average monthly benefit	\$3,409	\$3,456	\$3,371	\$2,616	\$2,532	\$2,098	\$1,818
Number of retired members	2,933	2,241	1,958	1,250	942	601	616
<b>6/30/2014:</b>							
Average monthly benefit	\$3,240	\$3,392	\$3,177	\$2,503	\$2,493	\$2,026	\$1,709
Number of retired members	2,809	2,254	1,726	1,199	901	586	574
<b>6/30/2013:</b>							
Average monthly benefit	\$3,272	\$3,412	\$2,603	\$2,400	\$2,438	\$1,902	\$1,676
Number of retired members	2,635	2,512	1,368	1,123	882	590	524
<b>6/30/2012:</b>							
Average monthly benefit	\$3,237	\$3,355	\$2,352	\$2,449	\$2,142	\$1,805	\$1,643
Number of retired members	2,468	2,467	1,314	1,140	813	562	475

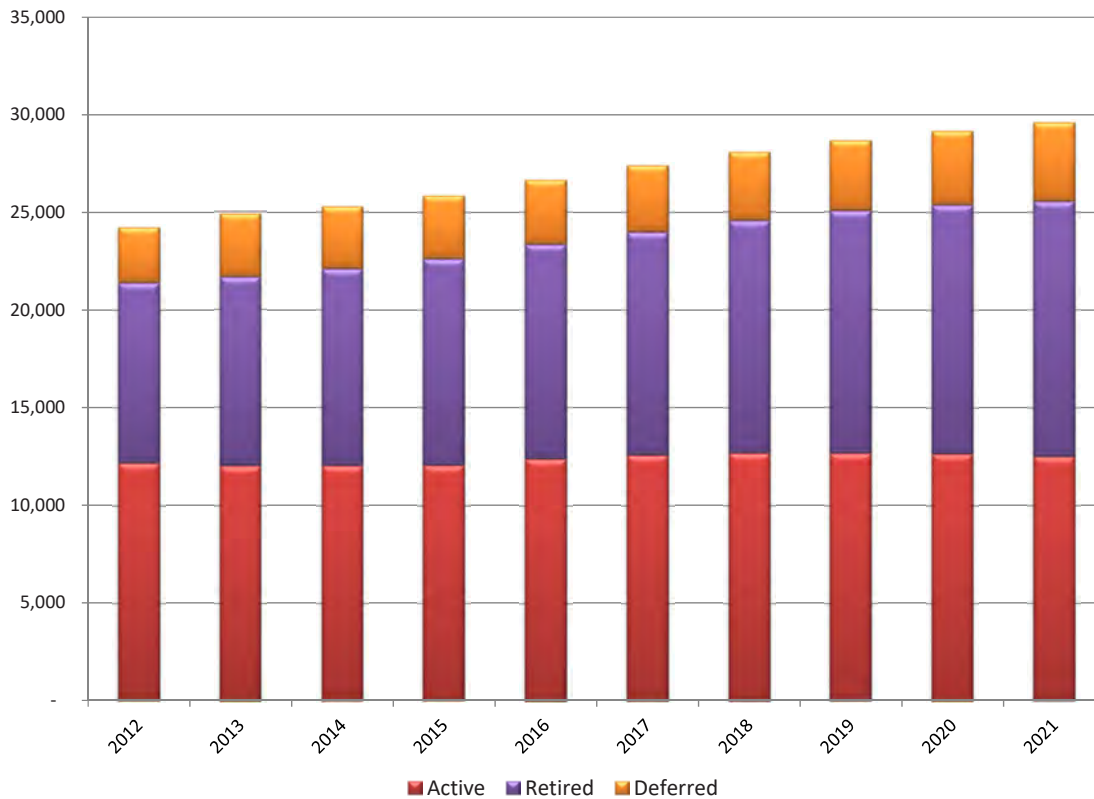
Source: SCERS Retired Member Pension Payroll Data.



## CHANGES IN SYSTEM MEMBERSHIP

Fiscal Year Ended June 30:	Members			Total
	Active	Retired	Deferred	
2021	12,500	13,051	4,054	29,605
2020	12,650	12,732	3,791	29,173
2019	12,678	12,381	3,602	28,661
2018	12,677	11,883	3,509	28,069
2017	12,587	11,396	3,425	27,408
2016	12,393	10,960	3,301	26,654
2015	12,072	10,541	3,261	25,874
2014	12,049	10,049	3,201	25,299
2013	12,026	9,634	3,249	24,909
2012	12,155	9,239	2,851	24,245

## SYSTEM MEMBERSHIP AT A GLANCE



Source: Actuarial Valuations from June 30, 2012 through 2021.



# SCHEDULE OF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS - SUMMARY

CURRENT FISCAL YEAR AND NINE FISCAL YEARS AGO

Participating Employer	2021			2012		
	Covered Employees	Rank	Percent of Total System	Covered Employees	Rank	Percent of Total System
Sacramento County	11,189	1	89.51%	10,804	1	88.89%
Superior Court	603	2	4.82	698	2	5.74
S.E.T.A.	576	3	4.61	566	3	4.66
Sunrise Recreation and Park District	51	4	0.41	21	4	0.17
Carmichael Recreation and Park District	21	5	0.17	20	5	0.16
Mission Oaks Recreation and Park District	19	6	0.15	12	7	0.10
Orangevale Recreation and Park District	13	7	0.10	15	6	0.12
Rio Linda Elverta Recreation & Park District	9	8	0.07	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Elected Officials <sup>2</sup>	8	8	0.06	8	8	0.07
Elk Grove Cosumnes Cemetery District	5	9	0.04	5	9	0.04
Fair Oaks Cemetery District	5	10	0.04	4	10	0.03
Galt-Arno Cemetery District	1	11	0.01	1	11	0.01
Sacramento Metropolitan Fire District	-	12	0.00	-	12	0.00
U.C. Davis Medical Center	-	12	0.00	1	11	0.01
<b>Total</b>	<b>12,500</b>		<b>100.00%</b>	<b>12,155</b>		<b>100.00%</b>

<sup>1</sup> Rio Linda Elverta Recreation & Park District became a participating employer on October 1, 2017.

<sup>2</sup> Elected Officials consist of Board of Supervisors (5), Assessor (1), District Attorney (1), and Sheriff (1).

Source: SCERS Active Member Data.



# SCHEDULE OF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS - DETAIL

FOR THE LAST TEN FISCAL YEARS ENDED JUNE 30

SCERS Member Agency	Plan	2021	2020	2019	2018	2017
Carmichael Recreation and Park District	Misc.	21	21	22	23	19
Elk Grove Cosumnes Cemetery District	Misc.	5	6	6	7	5
Fair Oaks Cemetery District	Misc.	5	4	4	4	5
Galt-Arno Cemetery District	Misc.	1	1	1	2	2
Mission Oaks Recreation and Park District	Misc.	19	20	23	22	23
Orangevale Recreation and Park District	Misc.	13	13	12	13	14
Rio Linda Elverta Recreation & Park District	Misc.	9	8	8	9	-
Sacramento Metropolitan Fire District	Safety	-	-	-	-	-
S.E.T.A.	Misc.	576	593	533	536	516
Sunrise Recreation and Park District	Misc.	51	50	68	69	55
U.C. Davis Medical Center	Misc.	-	-	-	-	-
Elected Officials <sup>1</sup>	Misc.	7	7	7	7	7
Elected Officials <sup>1</sup>	Safety	1	1	1	1	1
<b>Total Special District Members</b>	Misc.	707	723	684	692	646
	Safety	1	1	1	1	1
<b>Superior Court Members</b>	Misc.	603	652	648	640	658
<b>Sacramento County Members</b>	Misc.	9,169	9,190	9,252	9,254	9,273
	Safety	2,020	2,084	2,093	2,090	2,009
<b>Total Members</b>	Misc.	10,479	10,565	10,584	10,586	10,577
	Safety	2,021	2,085	2,094	2,091	2,010
	<b>Total</b>	<b>12,500</b>	<b>12,650</b>	<b>12,678</b>	<b>12,677</b>	<b>12,587</b>

SCERS Member Agency	Plan	2016	2015	2014	2013	2012
Carmichael Recreation and Park District	Misc.	20	19	21	21	20
Elk Grove Cosumnes Cemetery District	Misc.	6	4	6	5	5
Fair Oaks Cemetery District	Misc.	4	4	4	4	4
Galt-Arno Cemetery District	Misc.	1	1	1	1	1
Mission Oaks Recreation and Park District	Misc.	11	12	12	12	12
Orangevale Recreation and Park District	Misc.	13	13	13	15	15
Rio Linda Elverta Recreation & Park District	Misc.	-	-	-	-	-
Sacramento Metropolitan Fire District	Safety	-	-	-	-	-
S.E.T.A.	Misc.	548	544	547	565	566
Sunrise Recreation and Park District	Misc.	19	22	22	21	21
U.C. Davis Medical Center	Misc.	-	-	-	-	1
Elected Officials <sup>1</sup>	Misc.	7	7	7	7	7
Elected Officials <sup>1</sup>	Safety	1	1	1	1	1
<b>Total Special District Members</b>	Misc.	629	626	633	651	652
	Safety	1	1	1	1	1
<b>Superior Court Members</b>	Misc.	651	631	625	632	698
<b>Sacramento County Members</b>	Misc.	9,083	8,836	8,827	8,830	8,906
	Safety	2,029	1,978	1,963	1,912	1,898
<b>Total Members</b>	Misc.	10,363	10,093	10,085	10,113	10,256
	Safety	2,030	1,979	1,964	1,913	1,899
	<b>Total</b>	<b>12,393</b>	<b>12,072</b>	<b>12,049</b>	<b>12,026</b>	<b>12,155</b>

<sup>1</sup> Elected Officials consist of Board of Supervisors (5), Assessor (1), District Attorney (1), and Sheriff (1), who were miscellaneous members, and one sheriff who was a safety member.

Source: SCERS Active Member Data.



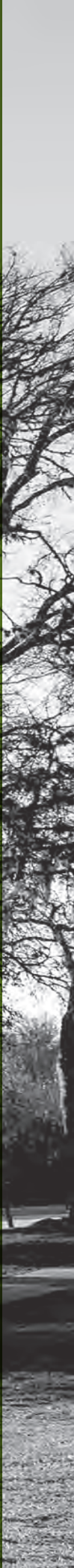
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SACRAMENTO COUNTY  
EMPLOYEES' RETIREMENT SYSTEM

980 9th Street, Suite 1900  
Sacramento, CA 95814

[www.SCERS.org](http://www.SCERS.org)

**SACRAMENTO COUNTY EMPLOYEES'  
RETIREMENT SYSTEM**

**REPORT TO THE AUDIT COMMITTEE AND  
BOARD OF RETIREMENT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2021**



**SACRAMENTO COUNTY EMPLOYEES'  
RETIREMENT SYSTEM**

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**REQUIRED COMMUNICATIONS TO THE MEMBERS OF THE AUDIT  
COMMITTEE AND BOARD OF RETIREMENT IN ACCORDANCE  
WITH PROFESSIONAL STANDARDS (SAS 114)**

To the Audit Committee and Board of Retirement of the  
Sacramento County Employees' Retirement System  
Sacramento, California

We have audited the financial statements of the Sacramento County Employees' Retirement System (SCERS) as of and for the fiscal year ended June 30, 2021, and have issued our report dated February 25, 2022. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 23, 2021. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Matters**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SCERS are described in Note 2, Summary of Significant Accounting Policies, to the financial statements. As described in Note 2 the financial statements, SCERS adopted Governmental Accounting Standards Board (GASB) Statement No. 84 – *Fiduciary Activities* during the fiscal year ended June 30, 2021. We noted no transactions entered into by SCERS during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting SCERS' financial statements were:

- Management's estimate of the fair value of investments, which was derived by various methods as detailed in the notes to the financial statements. We evaluated the key factors and assumptions used to develop the estimate of the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.
- The contribution amounts, as detailed in the notes to the financial statements, which are based on the long-term expected rate of return on pension plan investments and actuarial assumptions and methods. We evaluated the key factors and assumptions used to develop the estimates of the contribution amounts in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosures for cash and investments in Note 2 and Note 3 to the financial statements, Summary of Significant Accounting Policies and Cash and Investments, respectively, were derived from SCERS' investment policy. Management's estimate of the fair value of investments was derived by various methods as detailed in the notes.
- The disclosures related to the funding policy, net pension liability, and actuarial methods and assumptions in Note 4, Pension Liability and Significant Assumptions, and Note 5, Contributions Required and Contributions Made, were derived from actuarial valuations, which involved estimates of the value of reported amounts and probabilities about the occurrence of future events far into the future.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 25, 2022.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to SCERS' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SCERS' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### *Other Matters*

We applied certain limited procedures to the Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Employer Contributions, Schedule of Annual Money-Weighted Rate of Return, and Notes to the Required Supplementary Information (RSI), which are RSI that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 the audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Administrative Expenses, Schedule of Investment Fees and Expenses, and Schedule of Payments to Consultants, which accompany the financial statements but are not RSI. With respect to this other supplemental information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplemental information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory, investment, actuarial, and statistical sections, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide assurance on it.

**Restriction on Use**

This information is intended solely for the use of the Audit Committee, Board of Retirement, and management of SCERS and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Stockton, California  
February 25, 2022

**SCERS**  
**Uncorrected Misstatements**  
**6/30/2021**

The uncorrected misstatements are a result of SCERS' cut off procedures for financial reporting and timing of the actuarial valuation for Governmental Accounting Standards Board Statement No. 67. Roll forwards from March 31st balances were utilized as estimates since June 30th statements from investment managers were not available by the cutoff date for financial reporting.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Private Equity		
Net appreciation in fair value of investments	\$ -	\$ 9,652,878
Real Estate		
Net appreciation in fair value of investments	-	6,976,061
Real Assets		
Net appreciation in fair value of investments	-	21,139,563

The result of the above uncorrected misstatements journal entry is as follows, representing a 0.3% increase in the net position of SCERS.

Net adjustment to investments	\$ 37,768,502	
Net adjustment to net appreciation in fair value of investments		\$ 37,768,502



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Audit Committee and Board of Retirement of the  
Sacramento County Employees' Retirement System  
Sacramento, California

We have audited, in accordance with the 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, the financial statements of the Sacramento County Employees' Retirement System (SCERS) as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise SCERS' basic financial statements, and have issued our report thereon dated February 25, 2022.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered SCERS' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SCERS' internal control. Accordingly, we do not express an opinion on the effectiveness of SCERS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of SCERS' financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether SCERS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SCERS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCERS' internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Stockton, California  
February 25, 2022

**AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY,  
INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING (MANAGEMENT LETTER)**

To the Audit Committee and Board of Retirement of the  
Sacramento County Employees' Retirement System  
Sacramento, California

We have audited, in accordance with the 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, the financial statements of the Sacramento County Employees' Retirement System (SCERS), as of and for the year ended June 30, 2021, and have issued our report thereon dated February 25, 2022. In planning and performing our audit of the financial statements, we considered SCERS's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SCERS's internal control. Accordingly, we do not express an opinion on the effectiveness of SCERS's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we did not identify any deficiencies in internal control that we consider to be significant deficiencies. However, significant deficiencies may exist that have not been identified.

Also, during our audit, we became aware of a certain matter that is an opportunity for strengthening internal controls and operating efficiencies. The recommendation listed in this report summarizes our comments and suggestions regarding this matter.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various SCERS personnel, and we will be pleased to discuss these in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

**Restriction on Use**

This report is intended solely for the information and use of the Audit Committee, Board of Retirement, and management of SCERS and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Stockton, California  
February 25, 2022

## **Current Year Agreed Upon Conditions and Recommendations**

### **Agreed Upon Condition 1 – COMPASS**

#### **Condition**

The County's general ledger system (COMPASS), which is also utilized by SCERS, contains several accounts where transaction detail for the current year includes activity dating to the system's implementation.

#### **Recommendation**

We recommend that SCERS implement a process for maintaining open managed accounts to ensure that only valid open items are reported in account transaction detail. Valid open items should only include outstanding amounts that have no offsetting entry. In addition, SCERS should review the validity of remaining open items as of June 30<sup>th</sup> of each fiscal year going forward.

#### **Management Response**

Management concurs with auditor's recommendation and is currently evaluating the extensiveness and scope of this open account clearing project. Management anticipates this project will involve four primary phases, i.e., **Phase I**—Complete preliminary assessment and evaluation; **Phase II**—Implement initial account clearing to be completed by SCERS' staff accountants; **Phase III**—Contract or outsource follow on account clearing services to be completed by independent accounting firm; and, **Phase IV**—Institute a periodic closing schedule (e.g., monthly and quarterly) and accompanying management review process.

### **Status of Prior Year Agreed Upon Recommendations**

None.