

Sonoma County Employees' Retirement Association 2014

(A Pension Trust Fund for
The County of Sonoma, Santa Rosa, California)
Popular Annual Financial Report
For the Year ended December 31, 2014



Government Finance Officers Association

**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

Presented to

Sonoma County

**Employees' Retirement Association
California**

For its Annual
Financial Report
for the Fiscal Year Ended

December 31, 2013

Executive Director/CEO

MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2014

Chair

Brian Williams

Elected by Safety Members.
Present term expires 12/31/15

Trustee

Michael Gossman

Elected by General Members.
Present term expires 12/31/16

Trustee

David Sundstrom

Auditor/Controller/
Treasurer/Tax Collector
Ex-Officio Trustee

Trustee

Bill Adams

Elected by General Members.
Present term expires 12/31/14

Trustee

Greg Jahn

Appointed by
Board of Supervisors.
Present term expires 12/31/14

Trustee

Robert Williamson

Appointed by
Board of Supervisors.
Present term expires 12/31/16

Trustee

Donna Beels

Appointed by
Board of Supervisors.
Present term expires 12/31/14

Trustee

David Rabbitt

Appointed by
Board of Supervisors.
Present term expires 12/31/15

Alternate Trustee

John Pels

Elected by Retiree Members.
Present term expires 12/31/14

Trustee

Dianne Edwards

Elected by Retiree Members.
Present term expires 12/31/14

COMMENTS FROM SCERA'S ADMINISTRATOR

I am pleased to present this summary of the Annual Financial Report for the year ending December 31, 2014. The Comprehensive Annual Financial Report (CAFR) provides a more complete overview of SCERA's financial position and operating results and is available at the SCERA office or on-line at www.scretire.org.

Fund Status

SCERA's funding objective is to meet long-term benefit promises by achieving long-term full funding of the cost of benefits, seeking reasonable and equitable allocation of those costs, minimizing volatility of contributions where possible and consistent with other policy goals, and obtaining optimum returns consistent with the assumptions of prudent risk. Segal Consulting has completed an actuarial valuation as of December 31, 2014 and determined the actuarial funding status (the ratios of System assets to System liabilities) to be 86.3% using recommended assumptions in place as of the December 31, 2011 triennial experience study. If the market value of assets were used as of December 31, 2014, the funded ratio of SCERA would be 91.4%.

GASB 67 Implementation

SCERA staff worked with SCERA's audit firm Brown Armstrong Accountancy Corporation, and SCERA's actuarial firm, Segal Consulting, as well as the County of Sonoma, the Superior Court of California—County of Sonoma, and Valley of the Moon Fire District to ensure the smooth implementation of the new GASB pronouncements No. 67 and No. 68. These new pension standards address financial reporting by government pension plans and change the way pension liabilities and expenses are reported for both the System and the Employers. The GASB 67 changes are implemented in SCERA's current CAFR, and GASB 68 changes for the employers will be implemented in their 2015 financial statements.

Retirement Board

2014 brought significant change to the Board as we said goodbye to three of our members. Dianne Edwards, who served as both an Alternate Retired Member and Retired Member of the Board, Donna Beels who served as an Appointed Member and Bill Adams who served as a General Elected Member moved on. Each of these dedicated Board Members served SCERA well and exhibited the collegial, thoughtful deliberation this Board continues to enjoy. We will miss these former Board Members and wish them well in their new endeavors. SCERA also welcomed two new Board Members, Michael Gossman, a General Elected Member and Bob Williamson, an appointed Member. Both of these members hit the ground running and have provided valuable insights.

Investments

The System's largest investment related project for the year was the Asset-Liability study. SCERA conducts an Asset-Liability study every three years to provide an understanding of the dynamic relationship between the System's assets and liabilities, to illustrate the impact of different asset allocation mixes on required contributions and the System's funded status and to identify future trends in the financial health of the System. All of this helps the Board determine the appropriate risk level and asset allocation mix in light of the System's liabilities. The 2014 study confirmed the appropriateness of the System's current investment program and identified Infrastructure as a potential area of interest for future investing.

During 2014 SCERA made some investment manager changes. After having ended the relationship with one of the System's three Core Plus fixed income managers in late 2013 due to key staff departures, SCERA initiated a replacement manager search in the first quarter of 2014. With assistance from the System's investment consultant, SCERA selected DoubleLine, which specializes in mortgage portfolios, as their new Core Plus fixed income manager. In addition, due to organizational developments and a key staff departure, the relationship with one of SCERA's Global Equity managers was discontinued in 2013. After a thorough search, Hexavest was selected as the new Global Equity manager and they were funded in March 2014.

Other 2014 activities included the expansion of Parametric Clifton's responsibilities to include the rebalancing of the System's asset allocation using derivatives. The System's asset allocation policy now includes narrower ranges around the major asset class targets for rebalancing with derivatives and wider ranges for rebalancing with physical securities.

The System's portfolio returned a respectable return of 6.2% for 2014, yet it did fall short of our long-term assumed rate of return. Our assumed rate of return is the return we anticipate with our mix of assets over the long-term understanding that the returns over shorter periods will vary and, at times, significantly. The double-digit returns over three and five years are higher than normal and reflect the recovery after the large market downturn; but the 20 year returns are healthy, arguably more relevant, and consistent with long-term expectations

For the year ended December 31, 2014 the SCERA investment portfolio experienced a return of 6.2% compared to a return of 19.9% for the year ended December 31, 2013. The SCERA fund annualized rates of return over the last 3, 5, 10 and 20-year periods, were 13.6%, 11.1%, 6.8% and 8.6%, respectively

Strategic Plan

It was a year ago at the 2013 Retirement Board Annual Planning Session that the commitment to develop a long-term strategic plan was formed. With changing leadership at SCERA, the Board and Staff had the foresight to put a process in place for the development of long term goals and vision of SCERA's future. Throughout 2014, SCERA talked to its members, participating employers, union representatives, SCARE (the local retiree organization), community business leaders and each other. We confirmed that SCERA is prudently managing its investment portfolio, implementing appropriate internal controls, delivering superior customer service and ensuring benefits are paid timely and accurately.

At the 2014 Retirement Board Annual Planning Session, the Board, Staff, and interested participants spent a full day talking about all the information we had gathered and how it seemed to naturally sort into five broad goal areas: Organizational Culture; Contribution and Portfolio Management; Outreach and Partner Collaboration; Member Services and Benefits; and Operations. We had active participation from the Board, Staff and several interested parties who all offered their insights and suggestions in shaping our initiatives. The Strategic Plan was adopted in November and the following month a Business Plan was adopted that contains the action items Staff is committed to performing to move SCERA forward towards its strategic vision.

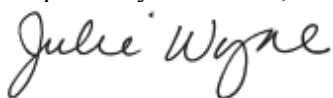
Governance

SCERA received a favorable tax determination letter from the Internal Revenue Service in January of 2014 indicating that the System was operating in compliance with federal tax regulations. As part of the federal tax compliance requirements, SCERA adopted certain tax regulations to ensure the System continues its operation in accordance with applicable tax regulations which have been approved by the County's Board of Supervisors as required. The regulations are effective January 1, 2015.

Popular Annual Financial Reporting Award

The GFOA has given the Popular Annual Financial Reporting Award (PAFR) to SCERA for the fiscal year ended December 31, 2013. The PAFR is sent to all SCERA members and includes highlights of the annual CAFR. We are very pleased to have received this prestigious national award.

Respectfully submitted,



Julie Wyne
Retirement Administrator

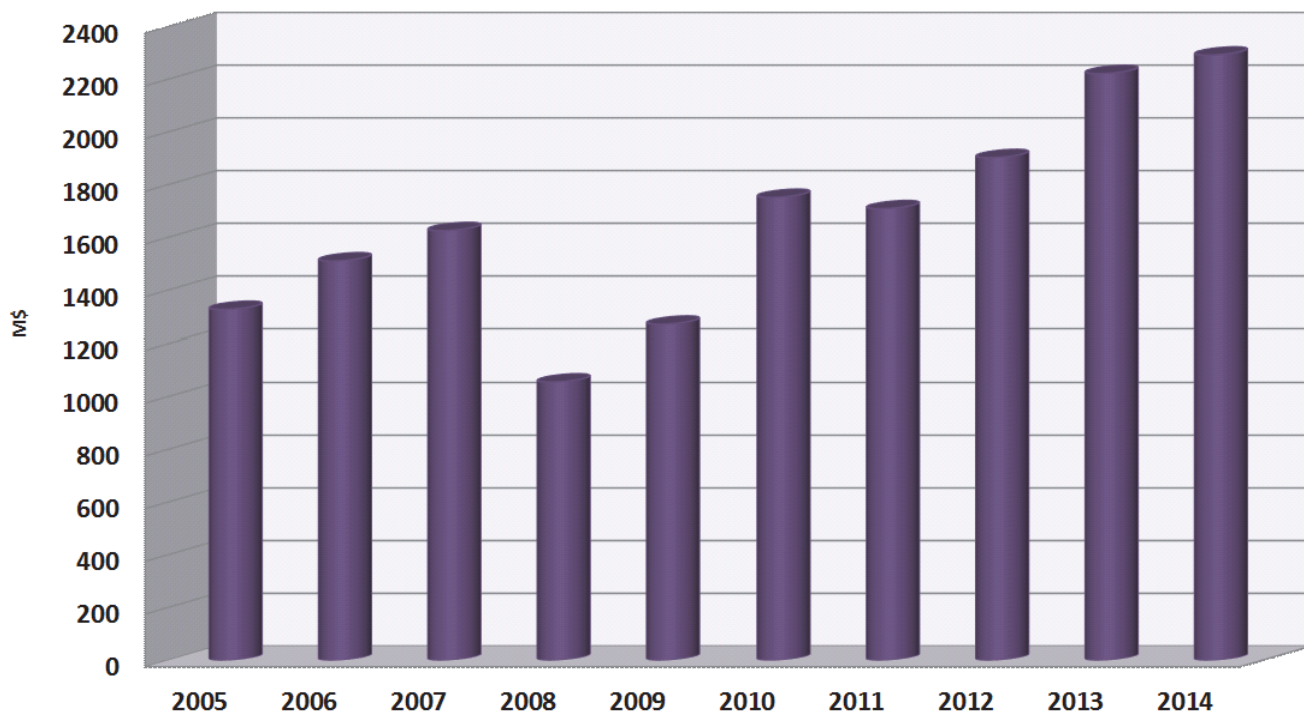
FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS

(All \$ in Millions)

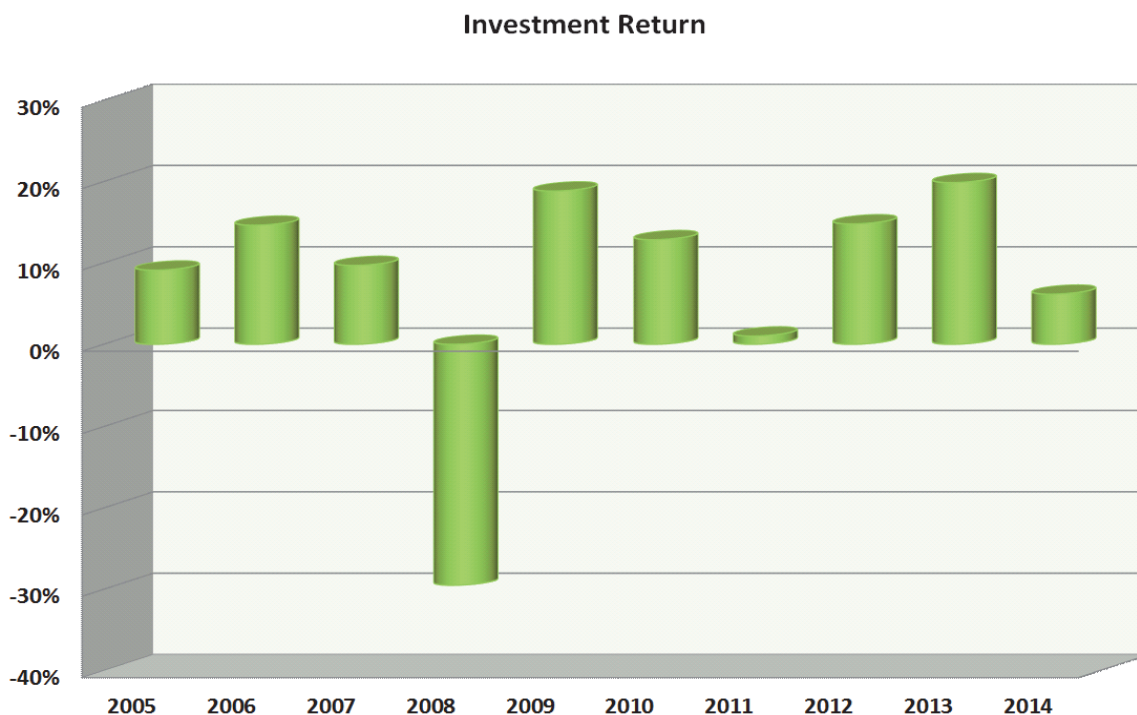
Fiscal year ending 12/31	Total Fund Net Assets	Increase (Decrease) in Net Assets
2014	\$2,293.5	\$ 70.7
2013	2,222.8	317.9
2012	1,904.9	195.1
2011	1,709.8	(43.0)
2010	1,752.8	480.3
2009	1,272.5	215.4
2008	1,057.1	(570.1)
2007	1,627.2	114.9
2006	1,512.3	184.7
2005	\$1,327.6	\$ 100.7

Fiduciary Net Position represents the net assets at fair value available to pay benefits.

SCERA Fiduciary Net Position Restricted for Pension Benefits



INVESTMENT RETURNS



PENSION BENEFIT ASSETS AND INVESTMENT RETURNS

(All \$ in Millions) Fiscal Year Ended December 31, 2014

Investment	Market Value	Percent Actual	2014 Return	3-Year Return	5-Year Return
Fixed Income	\$ 461.7	19.6%	4.2%	4.3%	6.2%
Benchmark: BC Aggregate			6.0%	2.7%	4.5%
Real Estate	376.1	16.0%	11.3%	12.4%	14.0%
Benchmark: NCREIF ODCE Index			12.5%	12.5%	13.9%
Domestic Equity	719.3	30.5%	12.4%	22.1%	17.1%
Benchmark: Russell 3000			12.6%	20.5%	15.6%
Non-U.S. Equity	383.0	16.3%	-4.0%	11.8%	5.6%
Benchmark: MSCI AC World ex-US IMI			-3.9%	9.2%	4.7%
Global Equity	414.4	17.6%	3.1%	13.3%	9.3%
Benchmark: MSCI ACWI IMI			3.8%	14.3%	9.5%
Total SCERA Fund	\$2,354.5	100.0%	6.2%	13.6%	11.1%
Benchmark: SCERA Policy Index			6.9%	12.5%	10.2%

This chart shows the fair value at fiscal year end, the actual percent of each asset type as a percentage of the entire portfolio and the investment returns for 1-year, 3-year and 5-year periods. The returns are shown before investment fees and administrative expenses. Benchmarks are market return comparisons for similar investments to the SCERA investment portfolio. The SCERA Policy Index provides an overall market return measure for the SCERA fund and represents the weighted average market return for SCERA investment classes.

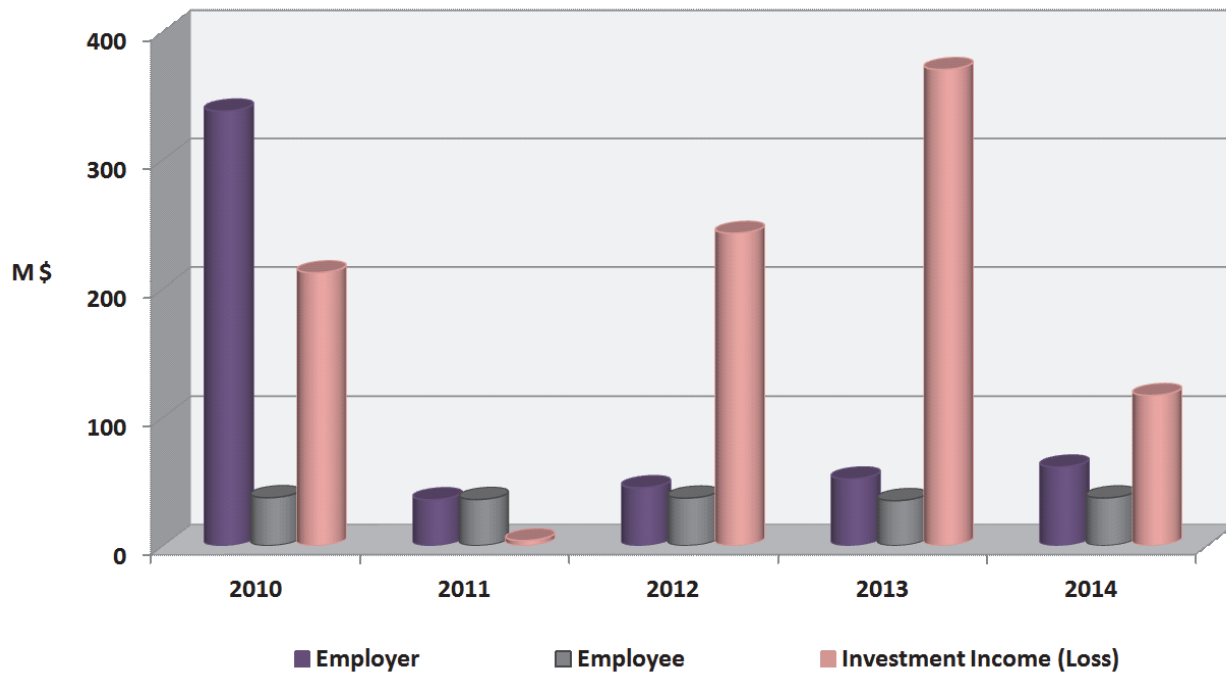
FUND REVENUE

(All \$ in Millions)

Fiscal year ending 12/31	Employer Pension Contributions	Employee Pension Contributions	Net Investment Income (Loss)	Total
2014	\$ 61.2	\$37.1	\$117.7	\$216.0
2013	51.9	35.5	370.2	457.6
2012	45.1	36.9	242.6	324.6
2011	35.7	35.9	3.9	75.5
2010	\$337.8*	\$37.3	\$211.7	\$586.8

* In September 2010, the County of Sonoma issued \$289.3 million in Pension Obligation Bonds increasing 2010 employer contributions.

SCERA Revenue



The primary sources of funds to finance retirement benefits are accumulated through income on investments and through the collection of employee and employer contributions.

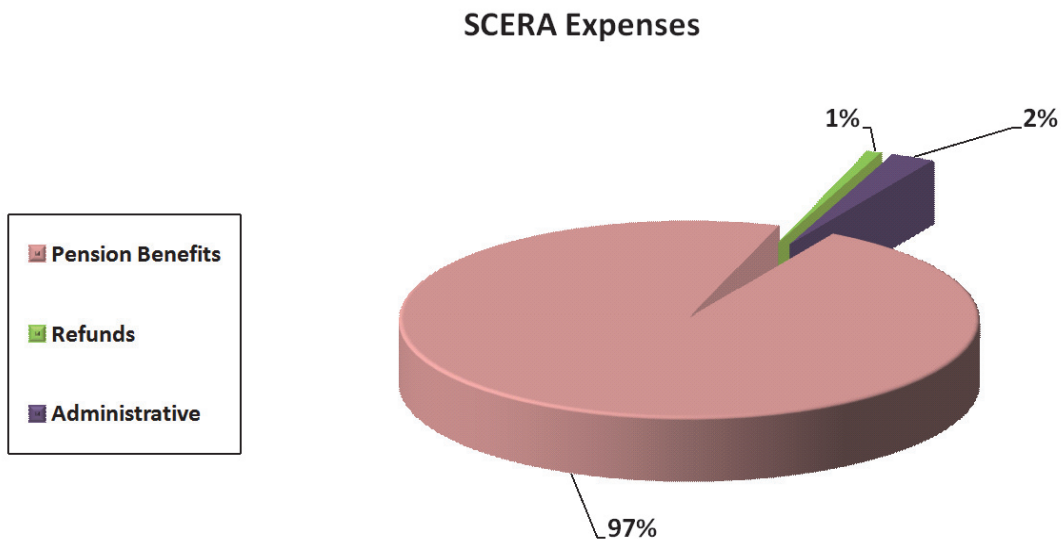
Net Investment Income is the total interest and dividends earned by all investments as well as the change in fair value of all investments, less investment fees.

FUND EXPENSES

(All \$ in Millions)

Fiscal year ending 12/31	Pension Benefits	Refunds	Other Expense	Admin Expense	Total
2014	\$140.4	\$1.3	\$0.5	\$3.1	\$145.3
2013	134.3	1.6	0.6	3.2	139.7
2012	123.8	2.1	0.6	3.0	129.5
2011	113.0	1.9	0.8	2.9	118.6
2010	\$101.6	\$1.7	\$0.5	\$2.7	\$106.5

The primary uses of assets are the payment of pension benefits to retirees and their beneficiaries, refund of contributions to former employees, and the cost of administering the system.



FUNDED RATIO

Actuarial Valuation Date	Funded Ratio
12/31/14	86.3%
12/31/13	81.8%
12/31/12*	79.0%
12/31/11	84.1%
12/31/10	88.4%

* The December 31, 2012 Actuarial Accrued Liability was recalculated by the Actuary to reflect the value of the elimination by the County of Sonoma of vacation and sick leave cash outs for all employees. This change resulted in a change of the funded ratio from 77.9% to 79.0%.

HISTORICAL MEMBERSHIP

Fiscal year ending 12/31	Number of Active Members	Number of Retired Members & Beneficiaries	Average Annual Benefit Received
2014	3,922	4,506	\$31,739
2013	3,833	4,394	31,210
2012	3,620	4,258	30,775
2011	3,587	4,021	29,531
2010	3,780	3,780	\$28,305

Membership includes the total number of active employees paying into the plan and the total number of retired members and beneficiaries drawing monthly pension benefits.

Average Annual Benefit is the average benefit received including the basic retirement pension plus COLAs.

ISSUED BY

Julie Wyne, *Retirement Administrator*

Kelly Jenkins, *Assistant Retirement Administrator*

Cathy Austin, *Retirement Accounting Manager*

James Failor, *Senior Investment Officer*

More detailed information can be found in the

SCERA

433 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403

or on our website at www.scretire.org.