



Sonoma County Employees' Retirement Association 2019



(A Pension Trust Fund for The County of Sonoma, Santa Rosa, California)
Popular Annual Financial Report For the Year ended December 31, 2019



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, 2018

Christopher P. Merrill

Executive Director/CEO

MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2019

Chair
Michael Gossman

Elected by General Members.
Present term expires
December 31, 2019

Trustee
Christel Querijero

Elected by General Members.
Present term expires
December 31, 2020

Trustee
Brian Williams

Elected by Safety Members.
Present term expires
December 31, 2021

Trustee
Susan Gorin

Appointed by
Board of Supervisors.
Present term expires
December 31, 2021

Trustee
Erick Roeser

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

Trustee
Robert Williamson

Appointed by
Board of Supervisors.
Present term expires
December 31, 2019

Trustee
Greg Jahn

Appointed by
Board of Supervisors.
Present term expires
December 31, 2020

Trustee
Joe Tambe

Appointed by
Board of Supervisors.
Present term expires
December 31, 2020

Alternate Trustee
Neil Baker

Elected by Retiree Members.
Present term expires
December 31, 2020

Trustee
John Pels

Elected by Retiree Members.
Present term expires
December 31, 2020

COMMENTS FROM SCERA'S CHIEF EXECUTIVE OFFICER

I am pleased to present this summary of the Annual Financial Report for the year ending December 31, 2019. The Comprehensive Annual Financial Report (CAFR) provides a more complete overview of SCERA's financial position and operation results and is available at the SCERA office or on-line at www.scretire.org.

Actuarial Funding Status

SCERA's funding objective is to meet 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 assumption of prudent risk. Pursuant to provisions in the County Employees Retirement Law of 1937, SCERA engages an independent actuarial firm to perform actuarial valuations of the System annually. As of this latest actuarial valuation, the actuarial funding status (the ratio of System assets to System liabilities) is 89.4%.

Investments

SCERA began 2019 with no managers on "watch" and ended the year with two managers on "watch", Templeton and GMO. Managers are placed on "watch" when there are concerns that warrant a heightened level of oversight and manager reporting but do not yet justify termination. Templeton manages a non-US equity portfolio for SCERA and GMO is an asset allocation manager measured against a 65% global equity/35% domestic fixed income benchmark. Templeton was placed on "watch" due to concerns regarding an extended period of underperformance and changes in the investment team leadership, as well as adjustments to the portfolio construction process. GMO was placed on "watch" due to a long period of underperformance, the long cycle over which the firm's "mean reversion" approach seems to be playing out and concerns regarding client and asset retention.

During 2019, SCERA discontinued its "Unconstrained Bond" mandate with Neuberger Berman, an allocation with a policy weight of 3% of Plan assets. The 3% released from Unconstrained Bonds was reallocated to Core Fixed Income, taking that policy weight from 13% to 16%.

SCERA continued to invest its "Opportunistic" allocation in 2019, which has a 0% to 6% policy weight. The allocation's purpose is to capitalize on outsized opportunities resulting from significant market dislocations. We believe that accessible and meaningful dislocations are not common and are typically not long-lived. Consequently, there have been periods in the past when this allocation was unused as we expect there will be in the future.

The Board received educational presentations in 2019 on private real estate debt and currency hedging. Real estate debt represents a large share of the private real estate investment universe and possesses some attractive characteristics. However, SCERA did not pursue this as a separate mandate because of the current level of fees and because SCERA already has real estate debt exposure in its publicly traded core fixed income portfolio. SCERA periodically reconsiders its currency hedging policy, which continues to be that non-dollar exposures are not systematically hedged by SCERA from the top down.

For calendar year 2019, the Plan's investment portfolio returned 17.0% gross-of-fees. With annual fees of approximately 0.5%, this equates to a return of 16.5% net-of-fees, a return well above the current Actuarial Assumed Rate-of-Return (ROR) of 7.0%. The strength of 2019 offsets the negative return of the previous calendar year, producing an above-par five-year gross-of-fees return of 8.1%. The volatile nature of individual years is why, from an operational point of view, the Plan uses a "smoothed" five-year return methodology to monitor interim progress. SCERA's performance over twenty-five years is 8.5% gross-of-fees, which on an after-fee basis is broadly in-line with the long-term expectations that pertained to the period. Given the long-term nature of the Plan, we view this to be a more relevant return. The long-term perspective of the Plan allows it to focus on trends and not the short-term gyrations of the financial markets. The fund uses a five year smoothing methodology to monitor financial performance rather than fixate on volatile individual years. Calendar year 2019 was an exceptionally strong year that has lifted the five-year return to above long-term expectations. The longer horizon 10- and 25-year returns are healthy and in-line with expectations. We remain confident that over the longer term, the Plan's well-diversified mix of assets has the ability to achieve the assumed investment ROR.

Operations

SCERA procured an asset liability modeling study through its investment consultant, Aon, to review the System's current asset allocation, provide capital market assumptions to estimate future performance, and suggest possible changes to SCERA's asset mix based on expressed views from the SCERA Board and executive staff. This study, which will be completed in 2020, will form the basis of discussions with the Board on the proper alignment of liabilities and assets, and is a precursor to the triennial experience study.

In anticipation of additional unfunded actuarial accrued liability payments from SCERA's plan sponsors, SCERA updated its Actuarial Funding Policy to add flexibility in applying the additional payments so that the Plan Sponsor and the System can work together to maximize the impact of these payments. The policy was also updated to comply with provisions in the Public Employees' Pension Reform Act regarding plan surpluses.

Retirement Board

2019 saw the reelection of Brian Williams, the Safety Member, and the appointment of Sonoma County Board of Supervisors member Susan Gorin, who replaced Supervisor David Rabbitt. Ms. Gorin began her tenure on the Board in January of 2019. We are very pleased with the election and appointment of these Trustees and greatly appreciate the continuity of our Board. The Board officers consist of Michael Gossman, Chair, and Robert Williamson, Vice Chair, and our Investment Committee officers consist of Greg Jahn, Chair, and Brian Williams, Vice Chair.

Popular Annual financial Reporting Award

SCERA received the GFOA's Award for Outstanding Achievement in Popular Annual Financial Reporting for its Popular Annual Financial Report (PAFR) for the fiscal year ended December 31, 2018. The PAFR is sent to all SCERA members and includes highlights of the annual CAFR. This was the fifteenth year the PAFR was submitted to the GFOA and we are very pleased that the PAFR again received the Certificate of Achievement.

Respectfully submitted,

Julie Wyne
Chief Executive Officer

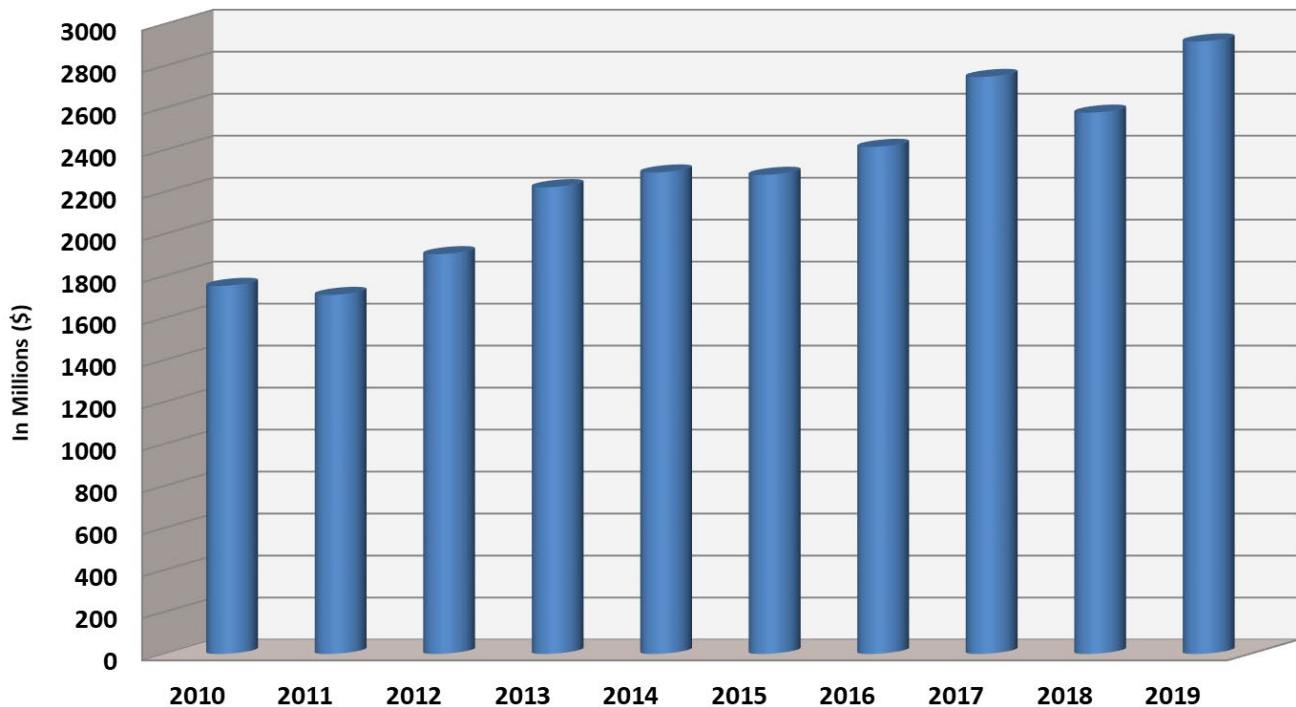
FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS

(All \$ in Millions)

Fiscal year ending 12/31	Total Fund Net Position	Increase (Decrease) in Net Position
2019	\$2,916.9	\$ 339.1
2018	2,577.8	(170.2)
2017	2,748.0	333.2
2016	2,414.8	132.7
2015	2,282.1	(11.4)
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

Fiduciary Net Position represents the net assets at fair value available to pay benefits. SCERA's Net Position as of December 31, 2019 is \$2,916.9 million. This amount reflects an increase of 13%, primarily as a result of a net investment gain of \$415.6 million.

SCERA Fiduciary Net Position Restricted for Pension Benefits



INVESTMENT RETURNS



PENSION BENEFIT ASSETS AND INVESTMENT RETURNS

(All \$ in Millions) Fiscal Year Ended December 31, 2019

Investment	Market Value	Percent Actual	2019 Return	3-Year Return	5-Year Return
Fixed Income	\$ 501.3	16.9%	7.0%	4.3%	3.6%
Benchmark: BC Aggregate			8.7%	4.0%	3.0%
Real Assets	505.4	17.0%	4.3%	6.5%	7.7%
Benchmark: NCREIF ODCE Index			5.3%	7.1%	9.0%
Domestic Equity	624.6	21.0%	30.3%	14.8%	12.8%
Benchmark: Russell 3000			31.0%	14.6%	11.2%
Non-US Equity	599.4	20.2%	19.4%	9.9%	5.9%
Benchmark: MSCI AC World ex-US IMI			21.6%	9.8%	6.0%
Global Equity	435.7	14.7%	22.1%	8.6%	6.5%
Benchmark: MSCI Global Equity Blend			26.8%	9.1%	8.0%
Global Asset Allocation	140.9	4.7%	17.8%	8.4%	5.4%
Benchmark: Global Asset Allocation Blend			20.6%	9.8%	7.0%
Opportunistic	61.1	2.1%	12.7%	11.8%	N/A
Cash	101.9	3.4%	2.1%	1.6%	1.0%
Total SCERA Fund	\$2,970.3	100%	17.0%	9.8%	8.1%
Benchmark: SCERA Policy Index			18.7%	9.9%	7.7%

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 investments similar 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.

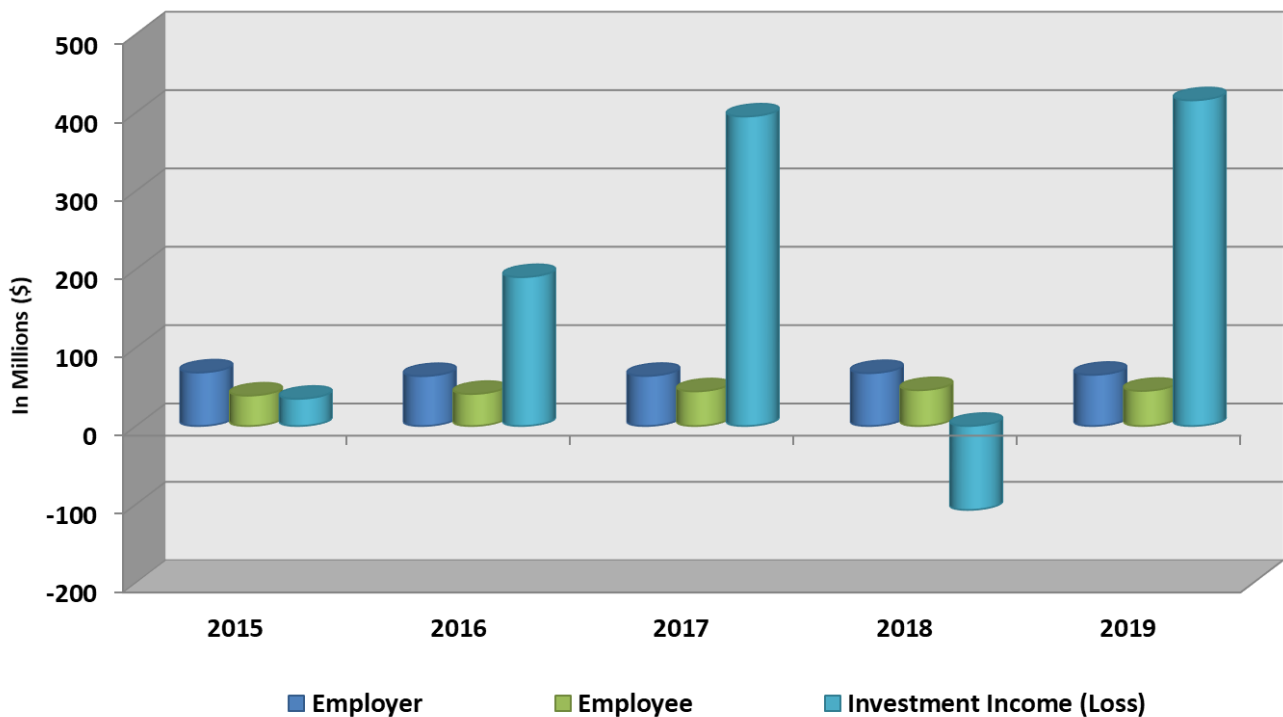
FUND REVENUE

(All \$ in Millions)

Fiscal year ending 12/31	Employer Pension Contributions	Employee Pension Contributions	Net Investment Income (Loss)*	Total
2019	\$65.1	\$44.7	\$415.6	\$ 525.4
2018	67.4	45.6	(107.1)	5.9
2017	63.8	44.2	394.9	502.9
2016	63.6	40.8	190.0	294.4
2015	\$68.2	\$38.7	\$ 34.6	\$141.5

The primary sources to finance the benefits SCERA provides to its members are accumulated through income on investments and through the collection of employee and employer contributions. The income sources for the fiscal year ended December 31, 2019 totaled \$525.4 million. Strong investment income in 2019 was the result of excellent equity returns along with good fixed income and real asset returns.

SCERA Revenue



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

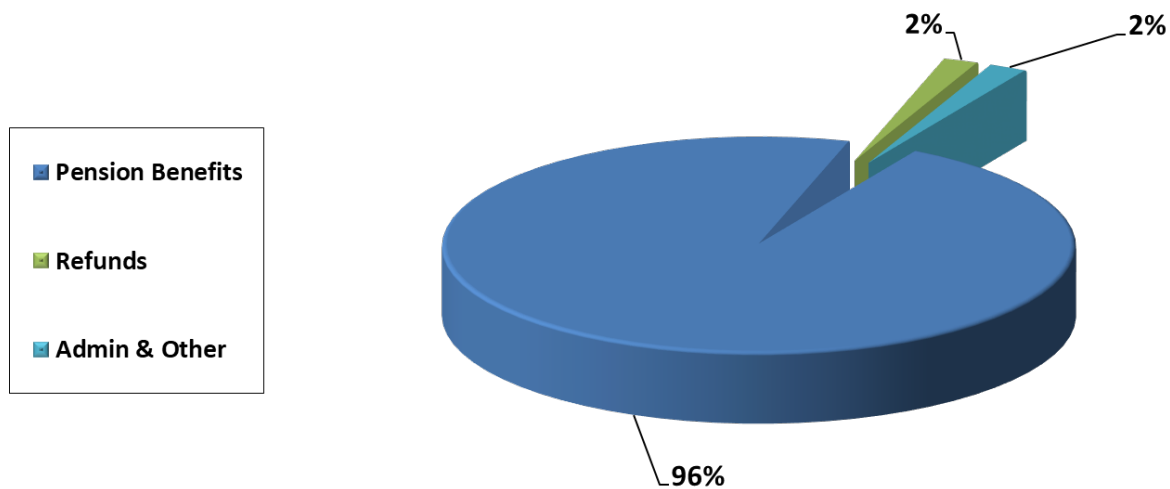
FUND EXPENSES

(All \$ in Millions)

Fiscal year ending 12/31	Pension Benefits	Refunds	Admin & Other Expense	Total
2019	\$179.4	\$3.3	\$3.6	\$186.3
2018	170.4	2.2	3.6	176.2
2017	163.0	3.0	3.7	169.7
2016	155.2	2.3	4.2	161.7
2015	\$147.3	\$2.1	\$3.5	\$152.9

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. Pension Benefits and refunds increased 6% in 2019 due to an increasing number of retirees and withdrawals. Administrative and other expenses remained basically flat in 2019.

SCERA Expenses



FUNDED RATIO

Actuarial Valuation Date	Funded Ratio
12/31/19	89.4%
12/31/18	86.8%
12/31/17	87.7%
12/31/16	85.5%
12/31/15	84.9%

SCERA's funding objective is to meet benefit promises by achieving long-term 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 assumption of prudent risk. As of the latest actuarial valuation, the funded status (the ratio of SCERA assets to SCERA liabilities) is 89.4%.

HISTORICAL MEMBERSHIP

Fiscal year ending 12/31	Number of Active Members	Number of Retired Members & Beneficiaries	Average Annual Benefit Received
2019	4,040	5,250	\$34,781
2018	4,021	5,096	34,247
2017	4,110	4,936	33,591
2016	4,112	4,812	32,961
2015	4,071	4,653	\$32,286

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, *Chief Executive Officer*

Kelly Jenkins, *Assistant Chief Executive Officer*

Cathy Austin, *Finance and Retiree Services Manager*

James Failor, *Chief Investment Officer*

More detailed information can be found in the
CAFR which is available at:

SCERA
433 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403

or on our website at www.scretire.org.

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Santa Rosa, CA 95403-9089

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