

SCERA

Sonoma County Employees' Retirement Association 2020



(A Pension Trust Fund for The County of Sonoma, Santa Rosa, California)
Popular Annual Financial Report For the Year ended December 31, 2020



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, 2019

Christopher P. Morrill

Executive Director/CEO

MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2020

Chair
Christel Querijero

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

Trustee
John Pels

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

Trustee
Brian Williams

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

Trustee
Travis Balzarini

Elected by General Members.
Present term expires
December 31, 2022

Trustee
Erick Roeser

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

Trustee
Robert Williamson

Appointed by
Board of Supervisors.
Present term expires
December 31, 2022

Trustee
Susan Gorin

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

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
Greg Jahn

Appointed by
Board of Supervisors.
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, 2020. The Annual Comprehensive Financial Report (ACFR) 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 91.3%.

Investments

The year 2020 was, of course, an unusual one due to the COVID-19 pandemic. As the result of social-distancing guidelines the Board and Investment Committee meetings transitioned to videoconference after February. Despite the challenges, the investments team continued to carry out its responsibilities, albeit with some modifications. Due diligence on the Plan's investment managers is performed on an ongoing basis by our investment consultant, Aon, and supplemented by SCERA's investment staff. SCERA normally meets with each of the Plan's managers on-site once every three years. After two on-site due diligence meetings in February, staff conducted six by way of videoconference later in the year. These virtual due diligence meetings may be supplemented with follow-up on-site meetings, where warranted, after business travel has returned.

Aon performed the triennial Asset-Liability (AL) study for the Plan in 2020. In the study, an actuarial team models both the assets and the liabilities over a long future horizon with a range of market outcomes. This produces a distribution of different funding outcomes for both the current asset allocation mix as well as alternative mixes. The conclusion was that the Board and the Plan's consultant continue to be comfortable with the Plan's asset allocation.

The Board received educational presentations in 2020 on "risk parity", the outlook for market returns in light of the pandemic, our investment consultant's approach to operational due diligence, the principles of 130/30 investing, the real estate appraisal process, market index construction and the risks of investing in poor Rule of Law countries. The Board also heard from a China expert on the risk of investing in the Chinese market. SCERA's staff has been increasingly concerned over the last couple of years regarding the growing weight to China in the most common non-US and global equity indices. Never before have these benchmarks had such a large exposure to a country with a poor rule of law. SCERA staff identified and presented on the Rule of Law Index which is published by the World Justice Project, a spinoff from the American Bar Association. Discussions on this topic continued into early 2021 and, in an effort to manage this risk, the Board ultimately adopted a new "Rule of Law" investment guideline.

For calendar year 2020, the Plan's investment portfolio returned 8.6% gross-of-fees. With annual investment management fees of approximately 0.5%, this equates to a return of 8.1% net-of-fees, a return above the current Actuarial Assumed Rate-of-Return (ROR) of 7.0%.

Four of the last five calendar years have produced returns greater than the assumed ROR, which more than offset the negative return from 2018, producing an above-par five-year gross-of-fees return of 9.4%. To monitor interim progress, we tend to look more toward "smoothed" five-year returns rather than focusing on the more volatile nature of annual returns. SCERA's performance over twenty-five years is 7.8% gross-of-fees, which on an after-fee basis is broadly in-line with our long-term expectations. Given the long-term nature of the Plan, this return is arguably even more relevant.

Operations

At the beginning of the year, SCERA staff spent a considerable amount of time adapting to the shelter in place orders issued by the Sonoma County Health Officer and revamping its workplace to enable employees to work from home. SCERA was required to submit a reentry plan to the County of Sonoma and the union covering certain SCERA employees and negotiate a safe return to the office, which was completed in early June. Board and Committee meetings were handled virtually from March through the end of the year and the office remained closed to the public and to SCERA members unless they had an appointment. Despite this change in protocols, SCERA did not have to implement its Continuity of Operations Plan, as staff was able to complete all necessary job functions.

One of SCERA's participating plan sponsors, Sonoma Valley Fire District (formerly Valley of the Moon Fire District) underwent an organizational change, merging neighboring fire districts into a new organization. The new Sonoma Valley Fire District did not gain any additional employees as a result of the merger and its revenue stream was not negatively impacted. SCERA determined that the scope of the organizational change was such that the Sonoma Valley Fire District met the criteria for continuing membership in the plan and executed a participation agreement and the respective governing bodies passed resolutions.

Retirement Board

2020 saw the reelection of Neil Baker to the Retired Alternate position, and the election of Tim Tuscany to the Retired Member position, replacing long time Board Member John Pels for the term beginning January 1, 2021. Greg Jahn and Joe Tambe were both reappointed to the Board by the Sonoma County Board of Supervisors for the term beginning January 1, 2021. 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 Brian Williams, Chair, and Robert Williamson, Vice Chair, and our Investment Committee officers consist of Greg Jahn, Chair, and Erick Roeser, 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, 2019. The PAFR is sent to all SCERA members and includes highlights of the annual AR. This was the sixteenth 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

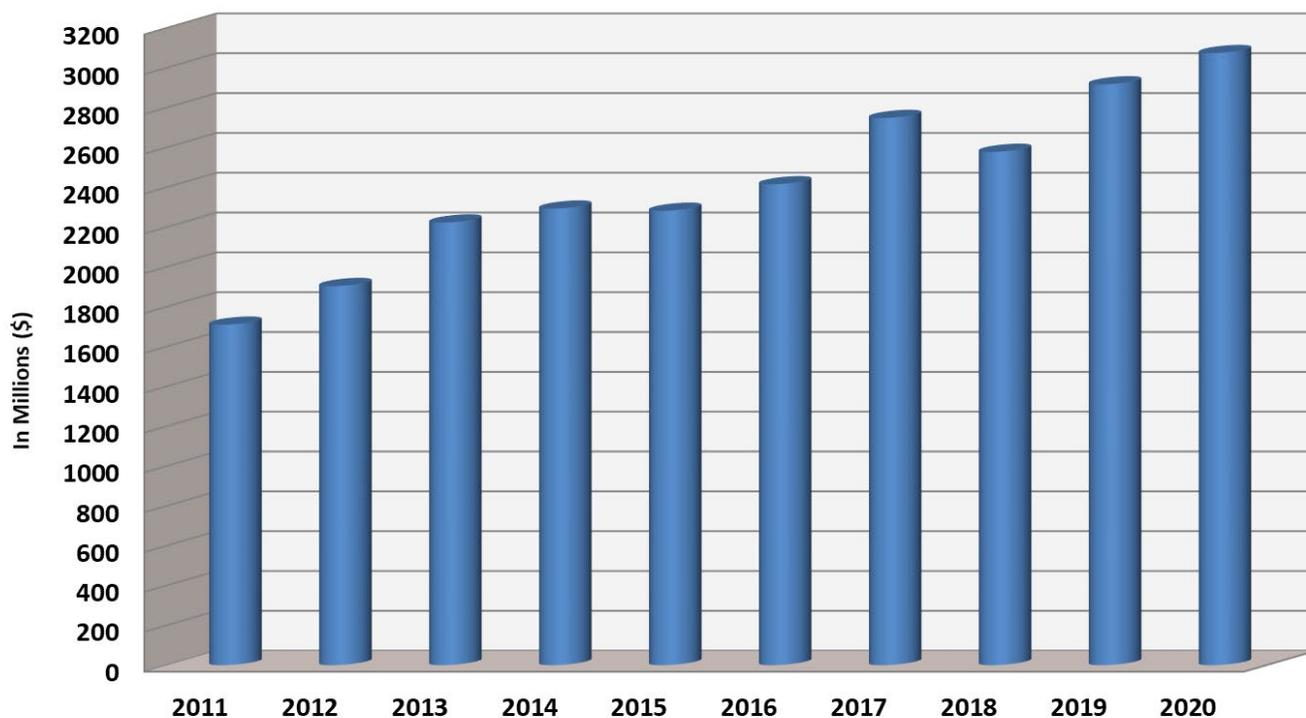
FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS

(All \$ in Millions)

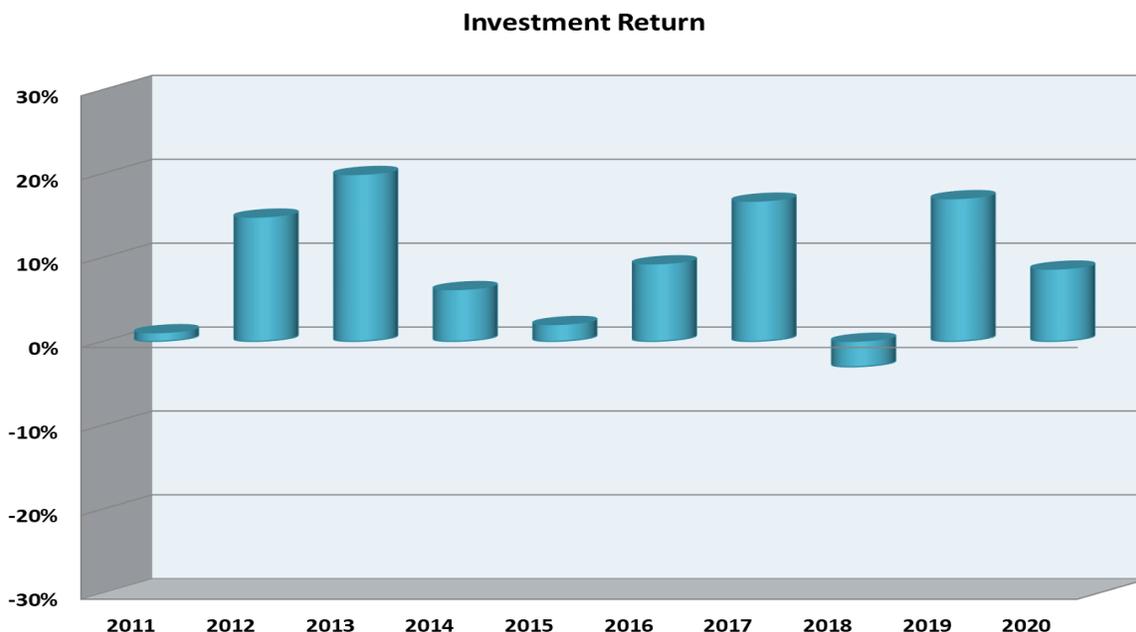
Fiscal year ending 12/31	Total Fund Net Position	Increase (Decrease) in Net Position
2020	\$3,073.7	\$ 156.8
2019	2,916.9	339.1
2018	2,577.8	(170.2)
2017	2,748.0	333.2
2016	2,414.8	132.7
2015	2,282.1	(11.4)
2014	2,293.5	70.7
2013	2,222.8	317.9
2012	1,904.9	195.1
2011	\$1,709.8	\$ (43.0)

Fiduciary Net Position represents the net assets at fair value available to pay benefits. SCERA's Net Position as of December 31, 2020 is \$3,073.7 million. This amount reflects an increase of 5%, primarily as a result of a net investment gain of \$225.0 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, 2020

Investment	Market Value	Percent Actual	2020 Return	3-Year Return	5-Year Return
Fixed Income	\$ 534.5	17.1%	9.0%	5.6%	5.2%
Benchmark: BC Aggregate			7.5%	5.3%	4.4%
Real Assets	550.0	17.6%	2.7%	5.1%	5.9%
Benchmark: NCREIF ODCE Index			1.2%	4.9%	6.2%
Domestic Equity	679.3	21.8%	10.9%	10.7%	14.4%
Benchmark: Russell 3000			20.9%	14.5%	15.4%
Non-US Equity	649.2	20.8%	9.6%	4.3%	8.6%
Benchmark: MSCI AC World ex-US IMI			11.1%	4.8%	9.0%
Global Equity	581.5	18.6%	5.5%	4.6%	8.2%
Benchmark: MSCI Global Equity Blend			16.6%	10.1%	12.2%
Opportunistic	53.5	1.7%	(3.1)%	7.5%	N/A
Cash	75.1	2.4%	0.4%	1.4%	1.1%
Total SCERA Fund	\$3,123.1	100%	8.6%	7.2%	9.4%
Benchmark: SCERA Policy Index			12.7%	8.8%	10.1%

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.

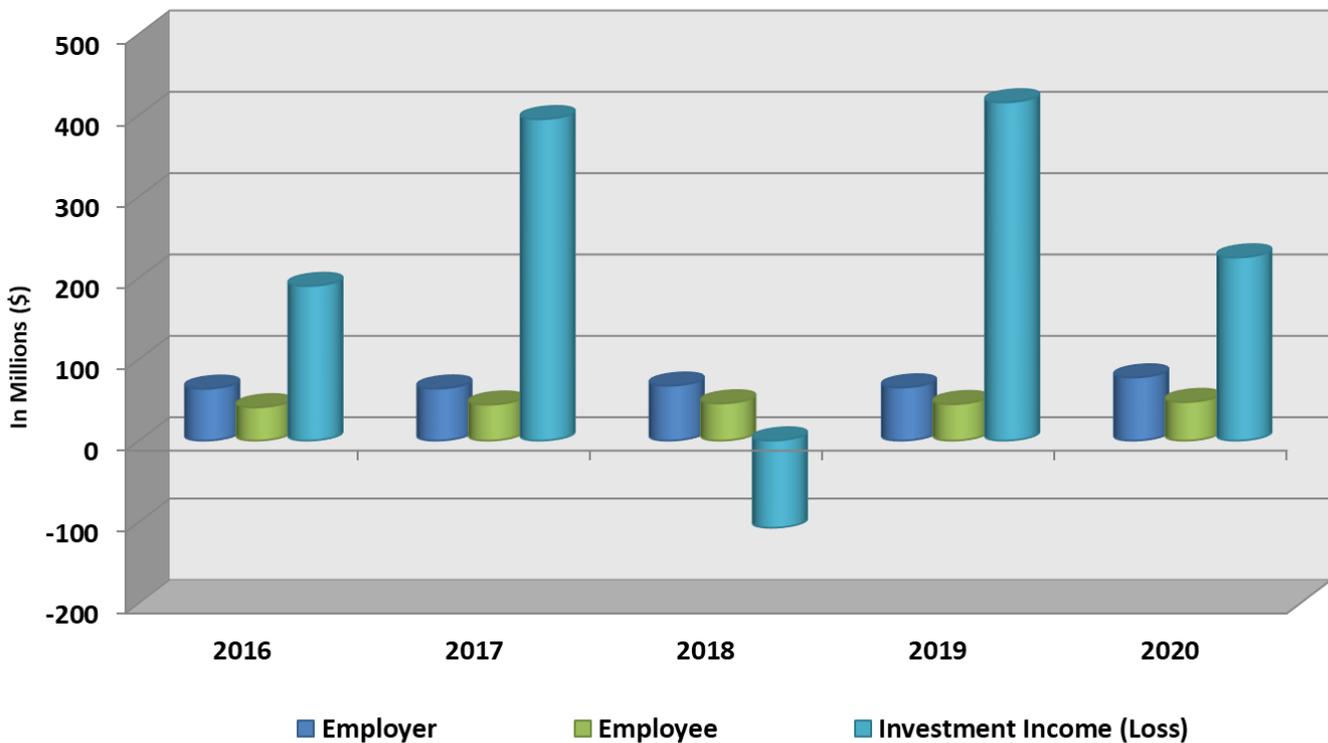
FUND REVENUE

(All \$ in Millions)

Fiscal year ending 12/31	Employer Pension Contributions	Employee Pension Contributions	Net Investment Income (Loss)*	Total
2020	\$77.5	\$47.4	\$ 225.0	\$349.9
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

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, 2020 totaled \$349.9 million. Good investment income in 2020 was the result of strong equity, 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.

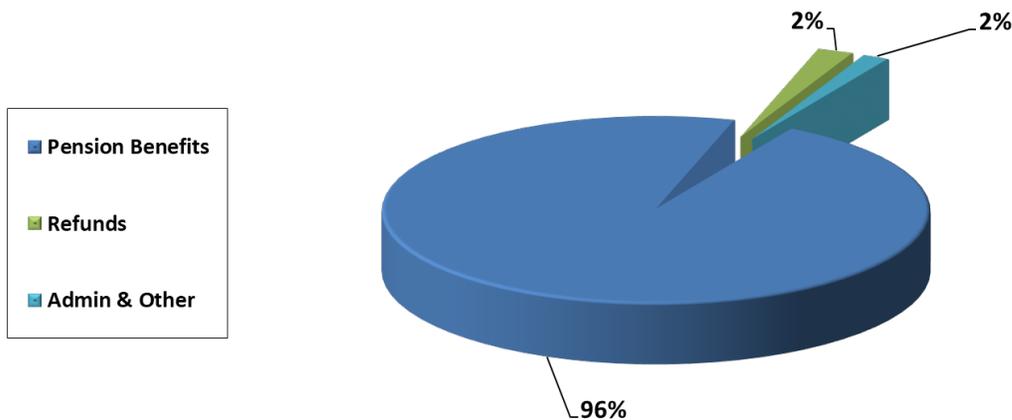
FUND EXPENSES

(All \$ in Millions)

Fiscal year ending 12/31	Pension Benefits	Refunds	Admin & Other Expense	Total
2020	\$186.0	\$4.1	\$3.0	\$193.1
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

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 4% in 2020 due to an increasing number of retirees and withdrawals. Administrative and other expenses decreased by 14% in 2020, made up in large part of a decrease in both actuarial and legal expenses.

SCERA Expenses



FUNDED RATIO

Actuarial Valuation Date	Funded Ratio
12/31/20	91.3%
12/31/19	89.4%
12/31/18	86.8%
12/31/17	87.7%
12/31/16	85.5%

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 91.3%.

HISTORICAL MEMBERSHIP

Fiscal year ending 12/31	Number of Active & Deferred Members	Number of Retired Members & Beneficiaries	Average Annual Benefit Received
2020	5,535	5,347	\$35,315
2019	5,435	5,250	34,781
2018	5,316	5,096	34,247
2017	5,291	4,936	33,591
2016	5,224	4,812	\$32,961

Membership includes the total number of active employees paying into the plan; inactive members with contributions still in 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
ACFR which is available at:

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

or on our website at www.scretire.org.