# Sonoma County Employees' Retirement Association 2023



A Pension Trust Fund & Component Unit of the
County of Sonoma, California and Participating Employers

Annual Comprehensive Financial Report For the Year Ended December 31, 2023

# *2023 Annual Comprehensive Financial Report*

For the year ended December 31, 2023

***Sonoma County Employees' Retirement Association***

A Pension Trust Fund and Component Unit of the
County of Sonoma, California and Participating Employers

ISSUED BY:


Julie Wyne
Chief Executive Officer

Cheryl Enold
Finance & Retiree Services Manager

Jim Failor
Chief Investment Officer



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SCERA

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Cover: Designed by Valdemar Galvan

SCERA

# *Introductory Section*

Sonoma County Employees' Retirement Association
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***Julie Wyne***
***Chief Executive Officer***

June 3, 2024

Sonoma County Employees' Retirement Association
Board of Retirement
Santa Rosa, California

Dear Board Members:

As the Chief Executive Officer (CEO) of the Sonoma County Employees' Retirement Association (the System or SCERA), I am pleased to present this Annual Comprehensive Financial Report (ACFR) for the year ended December 31, 2023.

The Sonoma County Employees' Retirement Association is a public employee defined benefit retirement system that was established by the County of Sonoma (the County) on January 1, 1946. SCERA is administered by the Board of Retirement (Board) to provide retirement, disability, and survivor benefits for its members under the California State Government Code, Section 31450 et seq. (County Employees Retirement Law of 1937 "CERL") and Section 7522 et seq. (the California Public Employees' Pension Reform Act of 2013 (PEPRA)). SCERA provides pension and survivor benefits to the safety and general members employed by Sonoma County, Superior Court of California – County of Sonoma (Superior Court), and Sonoma Valley Fire District.

Responsibility for the accuracy of the data, along with the completeness and fairness of the information presented in this Annual Comprehensive Financial Report, rests with SCERA's management. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present both SCERA's financial position and operating results.

**Introductory Section**

SCERA is governed by the California Constitution, the CERL, PEPRA, and the bylaws, regulations, resolutions, policies, and procedures adopted by the Board. The Sonoma County Board of Supervisors may also adopt resolutions, as permitted by the CERL, which may affect benefits of SCERA members. SCERA operates its plan in conformance with Internal Revenue Service rules and regulations.

The Sonoma County Board of Supervisors and governing bodies of participating districts adopt the benefit formulas and plan provisions that apply to SCERA members. The SCERA Board is responsible for establishing policies governing the administration of the retirement plan, setting actuarial funding policies, making benefit determinations, and managing the investment of the System's assets. The day-to-day management of SCERA is delegated to a CEO appointed by the Board and employed directly by the System.

The SCERA Board is a nine-member Board, four of whom are appointed by the Sonoma County Board of Supervisors, four of whom are elected by SCERA's membership, and the Sonoma County Treasurer. In addition, the SCERA Board has an Alternate Retired Board Member position elected by the retired members of SCERA. Board members, with the exception of the Sonoma County Treasurer, serve three-year terms of office with no term limits. The Sonoma County Treasurer serves in an ex-officio capacity as a function of the office of Treasurer.

**Financial Information**

Brown Armstrong Accountancy Corporation provides financial statement independent audit services to SCERA. The independent audit, for the plan year ending December 31, 2023, states that SCERA's financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP), are free of material misstatement and sufficient internal accounting controls exist to provide safekeeping of assets and fair presentation of the financial statements and supporting schedules. SCERA recognizes that even sound internal controls have inherent limitations. We believe that SCERA's internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This Letter of Transmittal complements the information in the MD&A and should be read in conjunction with it. The MD&A can be found on pages 15 through 20.

**Actuarial Funding Status**

SCERA's funding objective is to meet benefit promises by achieving long-term full funding of the cost of negotiated 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. The greater the level of overall plan funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential.

Pursuant to provisions in the County Employees Retirement Law of 1937, SCERA engages Segal, an independent actuarial firm, to perform actuarial valuations of the System annually. As of December 31, 2023, the funding status (the ratio of Valuation Value of Assets to Actuarial Accrued Liabilities) is 93.8%.

Additionally, every three years, a triennial experience study is completed, comparing the System's experience over the prior three years to the System's assumptions. The economic and non-economic assumptions may be updated at the time each triennial valuation is performed and the updated assumptions are used in the annual valuation, which serves as the basis for changes in member and employer contribution rates necessary to properly fund the System. In advance of each triennial experience study, the System procures an asset liability modeling study conducted by its investment consultant, Aon. This study, and any resulting asset allocation changes, helps SCERA's actuary in the development of the System's investment return assumption recommendation.

The most recent triennial experience study was completed by Segal in 2021 and performed on data for the period of January 1, 2018 through December 31, 2020. The resulting assumption changes were implemented for the plan year beginning January 1, 2022.

**Investments**

The Board has exclusive control of all investments of the System and is responsible for the establishment of investment objectives, strategies, and policies. The Board is authorized to invest in any form or type of investment deemed prudent in the informed opinion of the Board. Members of the Board serve in a fiduciary capacity in discharging their duties with respect to SCERA and the investment portfolio and are bound to act in the best interests of the plan participants when making investment decisions. The assets of SCERA are exclusively managed by external professional investment management firms (a listing of all investment professionals who provide services to SCERA can be found on page 10 of this report).

The investment staff closely monitors the activity of these managers and assists the Board with implementation of investment policies and long-term investment strategies. The Investment Policy Statement establishes the investment program goals, risk philosophy, asset allocation policies, performance objectives, investment management policies and risk controls. A summary of the asset allocation can be found in the Investment Section of this report.

**Investments (continued)**

For the year ended December 31, 2023, the SCERA investment portfolio experienced a return of 13.63% compared to a return of minus 6.87% for the year ended December 31, 2022. The SCERA fund annualized rates of return over the last 3, 5, 10 and 20-year periods, were 7.38%, 9.48%, 7.72%, and 7.51%, respectively.

**Service Efforts and Accomplishments**

**Operations**

SCERA welcomed two new Accountants in our Finance and Retiree Services Division, one at an entry level and one at an advanced level, to replace a retiring employee. There is one final position to be filled and that will round out the division. SCERA also hired an Office Assistant to replace an employee that was promoted internally.

In 2022 the SCERA Board created an ad hoc Committee of four Trustees and the CEO to explore the retiree Cost of Living Adjustment (COLA) program currently in place as the lack of sufficient reserve balances has silenced the discussion of whether funding exists for a COLA. The last COLA granted was a Purchasing Power COLA in 2008 that was payable to retirees and beneficiaries that had lost more than 20% of their purchasing power.

The ad hoc Committee met twice before meeting with County representatives towards the end of the year. Attendees discussed the history of the COLA program, highlighting the partnership between the County and SCERA in designing a COLA solution that could be prudently funded; the combination of policy decisions and economic downturns that led to the current inability to recommend a Purchasing Power COLA; and the path to bringing the County and SCERA together to evaluate the program and make policy decisions to shape the future program characteristics. Attendees also discussed the fact that SCERA has been unable to recommend an ad hoc Purchasing Power COLA to the Board of Supervisors since 2008 because there have not been sufficient excess earnings to fully fund it. The County requested that COLA policy discussions continue after the County and several bargaining units conclude their active bargaining discussions.

The active bargaining discussions are set to commence sometime before May of 2024. Once the active bargaining discussions have concluded, the County will have a better understanding of any resulting cost implications and will be better positioned to move forward with further Retiree COLA Program policy discussions. In the meantime, SCERA and County Executive staff are committed to continued discussions about the Retiree COLA Program to identify the information necessary to queue up a meaningful policy discussion.

The SCERA Board did discuss changing its Interest Crediting and Reserve Policy in early 2024 to modify several policy features that would result in the abolishment of the Negative Contingency Reserve.

**Budget**

The Board approves SCERA's annual budget. The CERL limits SCERA's annual administrative expenses, excluding the costs of administration for computer software and hardware, computer technology consulting service ("IT costs") and actuarial and investment related expenses, to twenty-one hundredths of one percent (0.21%) of the System's actuarial accrued liability. SCERA has chosen to include IT costs in its administrative budget subject to the 0.21% limit. SCERA's administrative expenses have historically been far below this limitation and this year was no exception. In 2023, SCERA's administrative expense, including IT costs, totaled $3.8 million and was 0.11% of SCERA's actuarial accrued liability.

**Governance**

SCERA's Strategic Plan covers a five-year period from 2023 through 2027, and in line with its strategic goals SCERA adopted an annual Business Plan. SCERA's Business Plan highlights the routine actions that staff performs each year and indicates how these actions keep SCERA in line with its strategic goals. Projects above and beyond routine actions, like the annual investment plan, are highlighted in the Business Plan. It is important to recognize the daily work that keeps SCERA's operations running, in addition to highlighting special projects. By doing so, SCERA is providing a more comprehensive view of the strategic work that staff is performing annually.

SCERA discussed the status of its reserves, pursuant to the COLA policy, and communicated to the Sonoma County Administrator and Sonoma County Association of Retired Employees' Board President the inability to recommend a COLA based upon the insufficiency of the reserves, the loss of purchasing power since the last COLA was granted, and the cost of a COLA should one be able to be granted.

**Retirement Board**

General Member Travis Balzarini was re-elected to his position and the Board of Supervisors reappointed Bob Williamson. We are very pleased with the election and appointment of these Trustees and greatly appreciate the continuity of our Board. The Board officers were Brian Williams, Chair, and Robert Williamson, Vice Chair, and our Investment Committee officers were Greg Jahn, Chair, and Erick Roeser, Vice Chair.

**Certificates of Achievement**

These awards recognize contributions to the practice of government finance exemplifying outstanding financial management. In doing so, they stress practical, documented work that offers leadership to the profession.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SCERA for its Annual Comprehensive Financial Report for the fiscal year ended December 31, 2022. To be awarded a Certificate of Achievement, a government agency must publish an easily readable and efficiently organized Annual Comprehensive Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. This is the twenty fourth consecutive year that a Certificate of Achievement has been received for the SCERA Annual Comprehensive Financial Report.

SCERA received from the GFOA an Award for Outstanding Achievement in Popular Annual Financial Reporting for its Popular Annual Financial Report (PAFR) for the fiscal year ended December 31, 2022. The PAFR is sent to all SCERA members and includes highlights of the Annual Comprehensive Financial Report. This was the nineteenth year the PAFR was submitted to the GFOA, and we are very pleased that the PAFR again received the Certificate of Achievement.

The Public Pension Coordinating Council (PPCC) presented its Public Pension Standards Award to SCERA in recognition of compliance with professional standards for plan funding and administration for 2022. This is the eighth year SCERA participated in and received an award from the PPCC program which judges a retirement system's Comprehensive Benefit Program, Funding Adequacy, Actuarial Valuation, Independent Audit, Investments and Communications.

**Acknowledgements**

The compilation of this report reflects the combined and dedicated effort of SCERA's staff under the leadership of the Board of Retirement. SCERA staff and the Board do an excellent job keeping SCERA operations running smoothly. I am very proud of the dedication shown by each member of the SCERA team, and our advisors, and the continued service to our members through the investment of plan assets, participation in public meetings and performance of all the necessary tasks to successfully administer the plan. I am honored to be part of this organization.

Respectfully submitted,

Julie Wyne

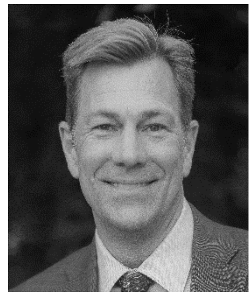
Chief Executive Officer

## Members of the Board of Retirement

As of December 31, 2023

Chair
**Brian Williams**

Elected by Safety Members.
Present term expires
December 31, 2024

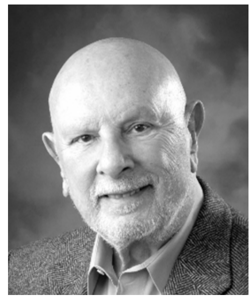


Trustee
**Erick Roeser**

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

Vice Chair
**Robert Williamson**

Appointed by Board of Supervisors.
Present term expires
December 31, 2025



Trustee
**Joe Tambe**

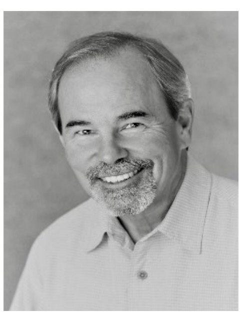
Appointed by Board of Supervisors.
Present term expires
December 31, 2023

Trustee
**Amos Eaton**

Elected by General Members.
Present term expires
December 31, 2023

Trustee
**Tim Tuscany**

Elected by Retiree Members.
Present term expires
December 31, 2023



Trustee
**Chris Coursey**

Appointed by Board of Supervisors.
Present term expires
December 31, 2024

Trustee
**Travis Balzarini**

Elected by General Members.
Present term expires
December 31, 2025

Trustee
**Greg Jahn**

Appointed by Board of Supervisors.
Present term expires
December 31, 2023

Alternate Trustee
**Neil Baker**

Elected by Retiree Members.
Present term expires
December 31, 2023

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Sonoma County Employees' Retirement Association**

**California**

For its Annual Comprehensive
Financial Report
for the Fiscal Year Ended

**December 31, 2022**

Executive Director/CEO

PPCC

Public Pension Coordinating Council

## *Public Pension Standards Award*
## *For Funding and Administration*
## *2022*

Presented to

## *Sonoma County Employees' Retirement Association*

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

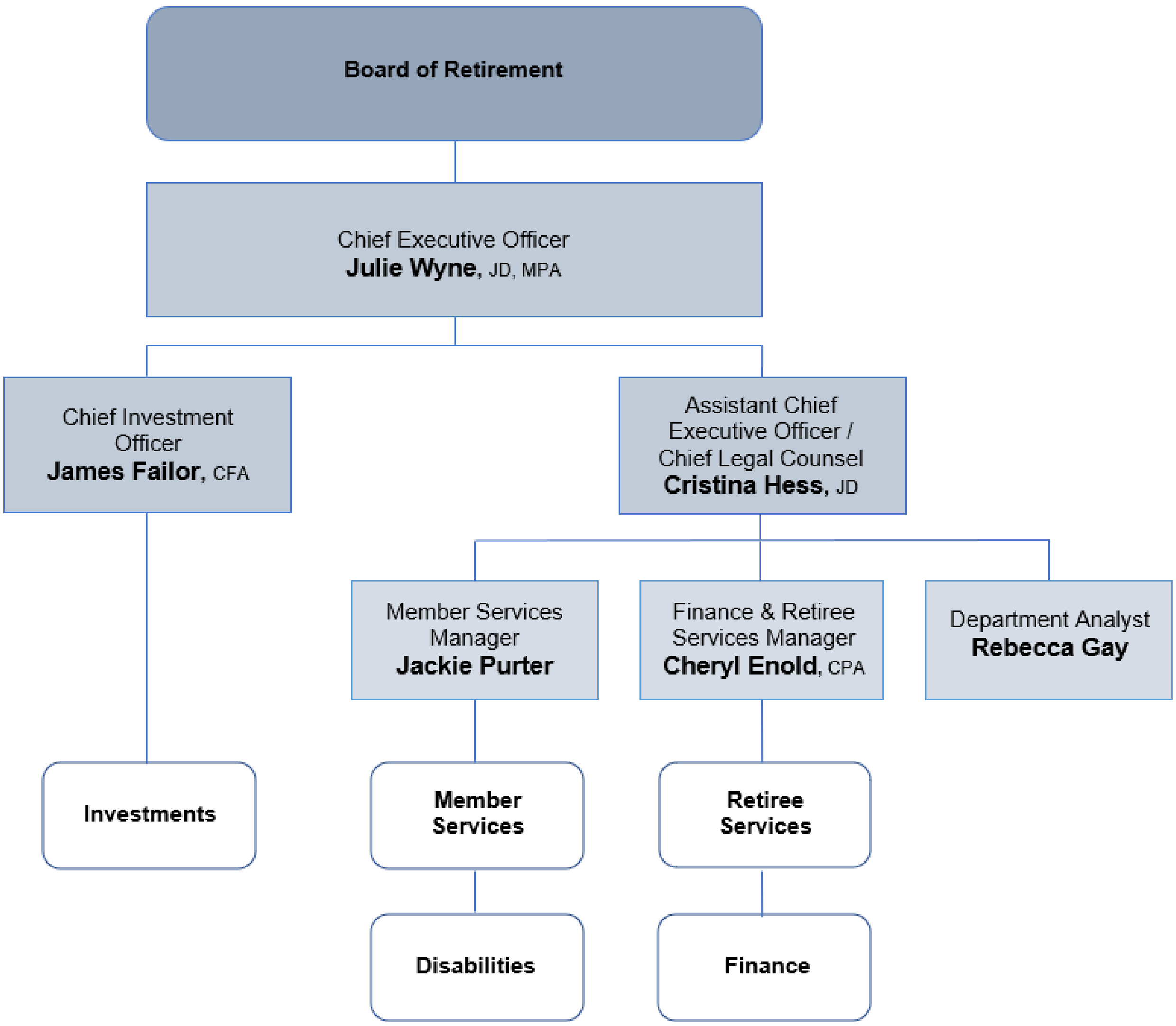
*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

# Administrative Organization Chart




See page 10 for consulting services and investment managers and pages 58 and 59 for schedules of management fees and broker commissions.

## Professional Consultants

as of December 31, 2023

### *Consulting Services*

**Actuary**
Segal

**Auditors**
Brown Armstrong Accountancy Corporation

**Investment Custodians**
State Street, Inc.

**Data Processing**
Information Systems, County of Sonoma
Levi, Ray and Shoup

**Investment Consultants**
Aon Hewitt Investment Consulting, Inc. (Aon)

**Legal Counsel**
County Counsel, County of Sonoma
Ice Miller, LLP
Mayer Brown, LLP
Nossaman, LLP

### *Investment Managers*

**Fixed Income**
DoubleLine Capital LP
Guggenheim Partners Investment Management LLC
Pacific Investment Management Company (PIMCO)
Reams Asset Management Company

**Broad Mandate US Equity**
Jacobs Levy

**Large Cap US Equity**
State Street Global Advisors Index Strategy

**Small Cap US Equity**
Systematic Financial Management

**Non-US Equity**
Arrowstreet International Equity Fund
State Street Global Advisors Index Strategy

**Global Equity**
Dodge and Cox
State Street Global Advisors Index Strategy

**Real Assets**
Axium Infrastructure North America Fund II
Fiera Comox Global Agriculture Open-End Fund
IFM Global Infrastructure Fund
J.P. Morgan Strategic Property Fund
KKR Diversified Core Infrastructure Fund LP
UBS AgriVest Farmland Fund
UBS Trumbull Property Fund

**Opportunistic**
Davidson Kempner Special Opportunity Funds III & IV

**Overlays**
Parametric – Cash Overlay

# *Financial Section*

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITOR'S REPORT**

To the Audit Committee and Board of Retirement of the
Sonoma County Employees' Retirement Association
Santa Rosa, California

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying Statement of Fiduciary Net Position of the Sonoma County Employees' Retirement Association (SCERA), a pension trust fund of the County of Sonoma, as of December 31, 2023, and the related Statement of Changes in Fiduciary Net Position for the year then ended and the related notes to the financial statements, which collectively comprise SCERA's basic financial statements as listed in the table of contents.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of SCERA as of December 31, 2023, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SCERA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SCERA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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661-324-4971

FRESNO
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Fresno, CA 93720
559-476-3592

STOCKTON
2423 West March Lane, Suite 202
Stockton, CA 95207
209-451-4833

Management is also responsible for maintaining a current plan instrument, including all SCERA plan amendments; administering SCERA; and determining that SCERA's transactions that are presented and disclosed in the financial statements are in conformity with the SCERA's plan provisions, including maintaining sufficient records with respect to each of the participants, to determine the benefits due or which may become due to such participants.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 SCERA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SCERA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) and required supplementary information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), 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 MD&A and RSI in accordance with GAAS, 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 Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SCERA's basic financial statements. The other supplementary information 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. Such 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. The 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 GAAS. In our opinion, the other supplementary information as listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Information***

Management is responsible for the other information included in the Annual Comprehensive Financial Report. The other information comprises the introductory, investment, actuarial, and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

***Report on Summarized Comparative Information***

We have previously audited SCERA's December 31, 2022, financial statements, and our report dated May 31, 2023, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2024, on our consideration of SCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 SCERA's 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 SCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Stockton, California
June 3, 2024

SCERA
Sonoma County Employees' Retirement Association
433 Aviation Boulevard, Suite 100, Santa Rosa, CA 95403
Tel: (707) 565-8100 / Fax: (707) 565-8102 / www.scretire.org

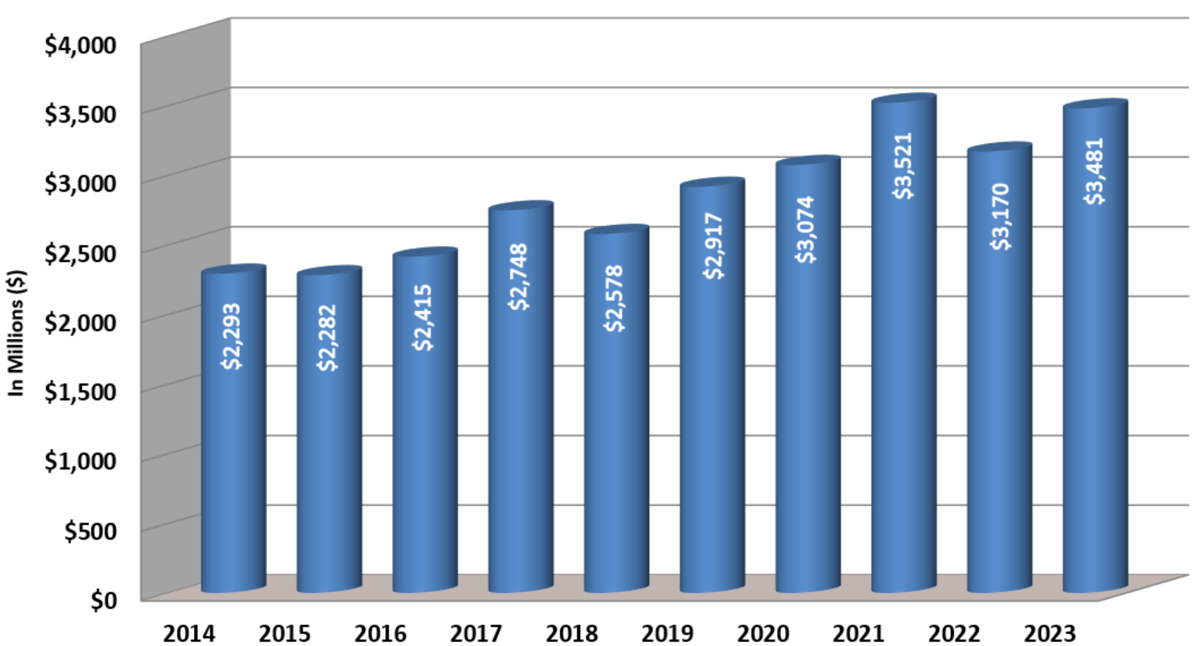
**Introduction**

Management is pleased to provide this discussion and analysis (MD&A) of the financial activities of the Sonoma County Employees' Retirement Association (the System, the Plan, or SCERA) for the year ended December 31, 2023. Readers are encouraged to consider the information presented here in conjunction with the information included in the Letter of Transmittal found in the Introductory Section on page 2 of this Annual Comprehensive Financial Report (ACFR).

**Financial Highlights**

- SCERA's fiduciary net position as of December 31, 2023, is $3,481 million. This amount reflects an increase of 10% in fiduciary net position during 2023, primarily as a result of a net investment gain of $400 million.
- SCERA's funding objective is to meet the long-term benefit obligations through contributions and investment income. As of December 31, 2023, the date of our last actuarial valuation, the actuarial funding ratio for SCERA was 93.8%. The funding ratio is computed by the actuary and uses the actuarial value of assets that incorporate smoothing of investment returns over a five-year period. If the fair value of Fiduciary Net Position were used as of December 31, 2023, the funded ratio for SCERA would be approximately 93.3%.
- Revenues (additions to net position) for the year were $531 million. This was comprised of $78 million of employer contributions, $53 million of member contributions, and investment gains of $400 million.
- Expenses (deductions in net position) for the year were $220 million, an increase of $11 million (5%) over the prior year. The majority of the increase in expenses came from a $11 million (5%) increase in pension benefit payments.

**SCERA Fiduciary Net Position Restricted for Pension Benefits**



## Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to SCERA's financial statements, which are comprised of the following components:

- Statement of Fiduciary Net Position (page 22)
- Statement of Changes in Fiduciary Net Position (page 23)
- Notes to the Financial Statements (pages 24 through 41)

The Statement of Fiduciary Net Position is a snapshot of account balances at year-end. It indicates the assets available for future payments to retirees and any current liabilities owed at this time.

The Statement of Changes in Fiduciary Net Position provides a view of the current year additions to and deductions from the System. This statement covers the activity over a one-year period.

These statements are in compliance with various pronouncements of the Governmental Accounting Standards Board (GASB) in accordance with Generally Accepted Accounting Principles (GAAP).

These pronouncements require certain disclosures and also require the state and local governments to report using the full accrual method of accounting. SCERA complies with all material, applicable aspects of these pronouncements.

The Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position report information about SCERA's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments. All capital assets are depreciated over their useful lives.

Over time, increases and decreases in SCERA's fiduciary net position are one indicator of whether its financial health is improving or deteriorating. There are other factors that should also be considered in measuring SCERA's overall financial health.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. Please note that this report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

### Summary of Fiduciary Net Position

As of December 31,

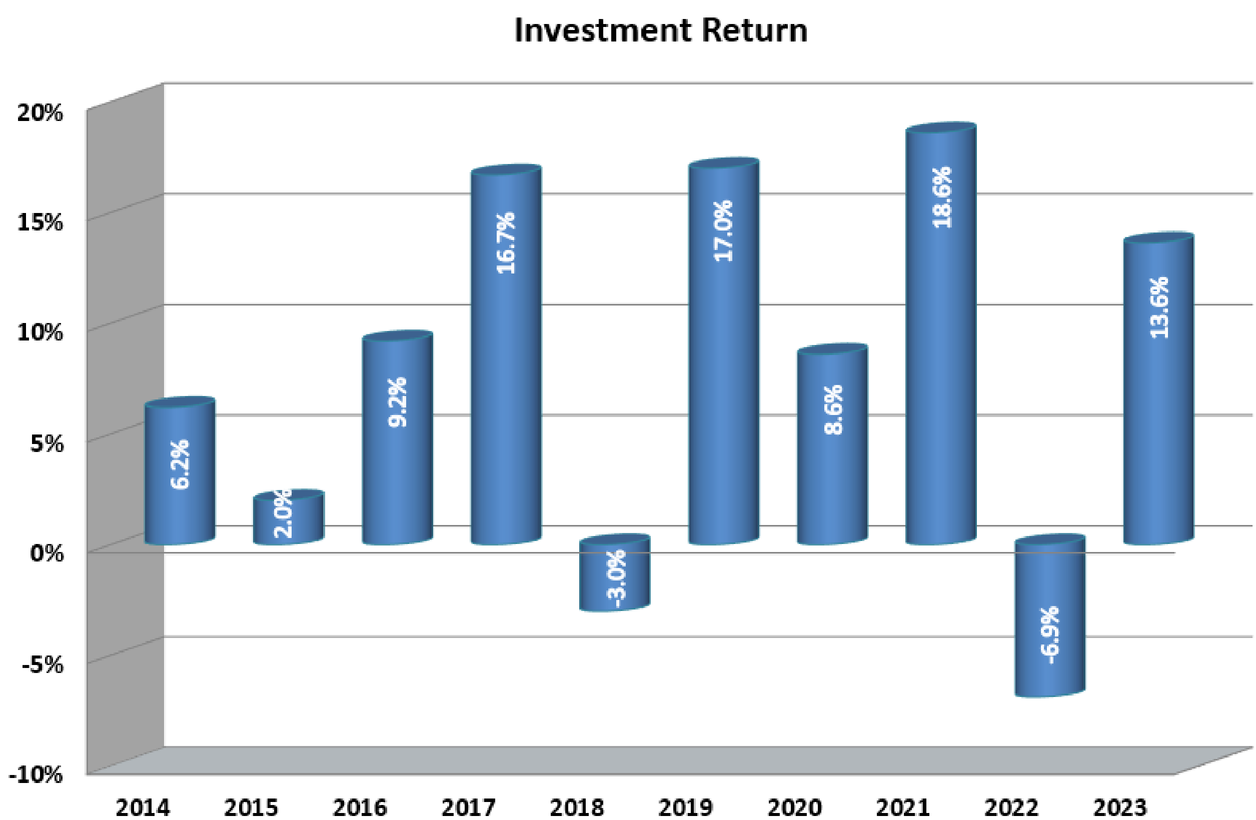
| (Dollars in Thousands) | 2023 | 2022 | Increase (Decrease) Amount | % Change |
|---|---|---|---|---|
| Cash and Short-Term Investments | $ 92,342 | $ 137,302 | $ (44,960) | (33)% |
| Receivables | 95,825 | 70,765 | 25,060 | 35% |
| Investments | 3,502,891 | 3,141,404 | 361,487 | 12% |
| Securities Lending Collateral | 93,200 | 87,575 | 5,625 | 6% |
| Prepaid Expense | 98 | 71 | 27 | 38% |
| Capital Assets, net | 1,733 | 1,806 | (73) | (4)% |
| Total Assets | 3,786,089 | 3,438,923 | 347,166 | 10% |
| Accounts Payable | 3,176 | 3,223 | (47) | (1)% |
| Security Purchases Payable | 173,273 | 138,384 | 34,889 | 25% |
| Collateral Held for Securities Lent | 93,200 | 87,575 | 5,625 | 6% |
| Unearned Revenue | 35,294 | 40,109 | (4,815) | (12)% |
| Total Liabilities | 304,943 | 269,291 | 35,652 | 13% |
| **Fiduciary Net Position Restricted for Pension Benefits** | $ 3,481,146 | $ 3,169,632 | $ 311,514 | 10% |

**The Retirement Fund as a Whole**

SCERA's fiduciary net position increased 10% in 2023 reflecting investment returns of 13.63%, combined with pension benefit and refund payment increases of 5%. However, as you can see from the ten-year investment return graph below, investment returns can vary significantly from year to year. SCERA maintains a diversified investment portfolio and asset allocation that is structured to meet the long-term funding requirements of the System. Reflective of variations in the investment markets, the five, ten, and twenty-year returns are 9.48%, 7.72%, and 7.51%, respectively. This illustrates the importance of a long-term investment strategy incorporating structured diversification and a balanced investment portfolio as well as an asset smoothing policy. SCERA Management and Actuary concur that SCERA remains in a financial position that will enable the System to meet its obligations to participants and beneficiaries. The current financial position results from a strong and successful investment program, risk management and strategic planning.

**Investment Analysis**

Investment returns, gross of fees, were strong in 2023 with a return of 13.63%. The returns were unfavorable in 2022 with a minus 6.87% at the total portfolio level. SCERA's target asset allocation includes 21.5% domestic equities, 21.5% Non-US equities, 16% global equities, 15% fixed income, 26% real assets and up to 6% in cash and overlay investments. SCERA's asset allocation is set based on a comprehensive investment policy. SCERA's domestic equity returns were 25.86%, 15.41%, and 17.30% for the one, three and five-year periods ended December 31, 2023, respectively. SCERA's non-US equity returns for the same periods were 19.69%, 7.47%, and 10.18%, respectively. SCERA's returns for fixed income over these same periods were 7.45%, -1.08%, and 2.45%, respectively. Real assets produced returns of 0.61%, 9.50%, and 7.07%, respectively, for the same one, three, and five-year periods. For additional information on SCERA investments see the Investment Section (pages 50 through 62).



**Summary of Reserves**
As of December 31,

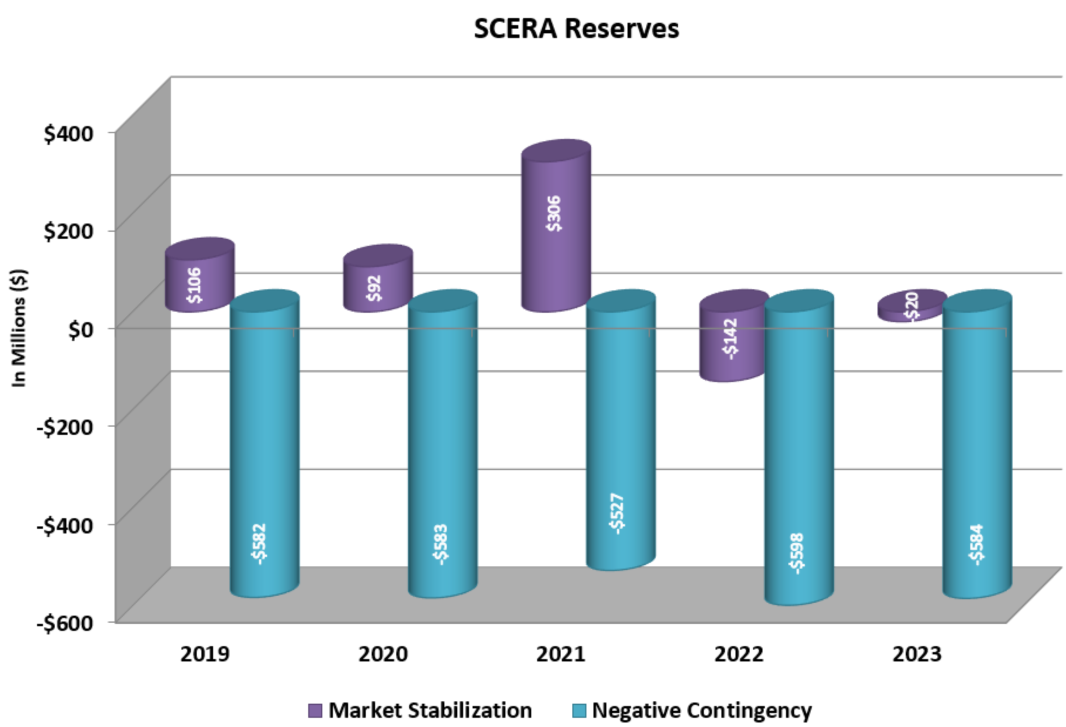
| (Dollars in Thousands) | 2023 | 2022 | 2021 |
|---|---|---|---|
| Member Reserve | $ 629,503 | $ 610,594 | $ 600,996 |
| Employer Reserve | 1,136,849 | 1,057,966 | 997,870 |
| Annuitant Reserve | 2,295,149 | 2,215,297 | 2,116,287 |
| Cost of Living Reserve-Current | 23,312 | 25,354 | 27,917 |
| Interest Fluctuation Reserve | - | - | - |
| Market Stabilization Reserve | (19,541) | (141,542) | 305,856 |
| Negative Contingency Reserve | (584,126) | (598,037) | (527,565) |
| Total | $ 3,481,146 | $ 3,169,632 | $ 3,521,361 |

**Reserves**

SCERA's reserves are established from contributions and the accumulation of investment income after satisfying investment and administrative expenses. They are not required by GAAP, but they equate to the fiduciary net position restricted for pension benefits. Under GAAP, investments are stated at fair value instead of cost and include the recognition of unrealized gains and losses in the current period. SCERA has adopted a five-year smoothing methodology for investment gains and losses. As a result, investment gains and losses are held in the Market Stabilization Reserve account and recognized over a five-year period. This has the effect of smoothing both positive and negative fluctuations in investment performance versus assumptions and has a stabilizing effect on contribution rates.

An understanding of the smoothing methodology is an essential part of measuring SCERA's overall financial health.

Investment returns were 13.63% in 2023, which is higher than the assumed rate of 6.75%. The 2023 results were included in 5-year smoothing bringing the Market Stabilization Reserve to a negative $19.5 million as of December 31, 2023. The Market Stabilization Reserve can vary widely from year to year as noted in this summary of reserves over the past three years. The fluctuation from year to year is due to investment performance versus the actuarial assumed rate-of-return and the five-year recognition of prior investment experience.



## Summary of Changes in Fiduciary Net Position

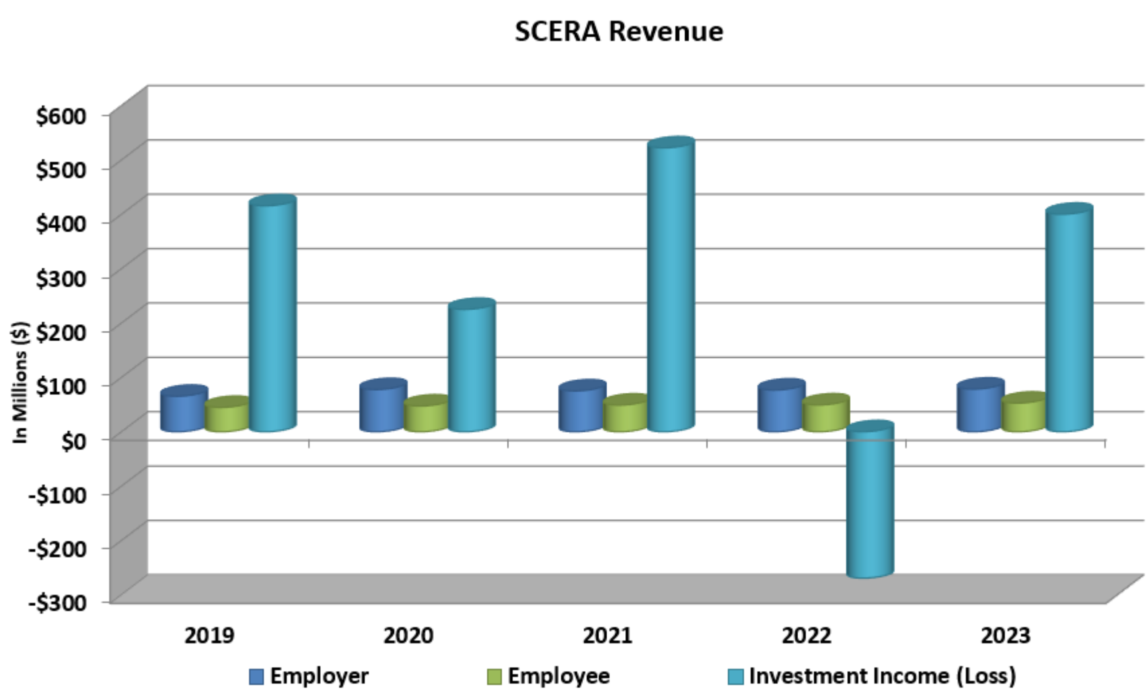
For the Year Ended December 31,

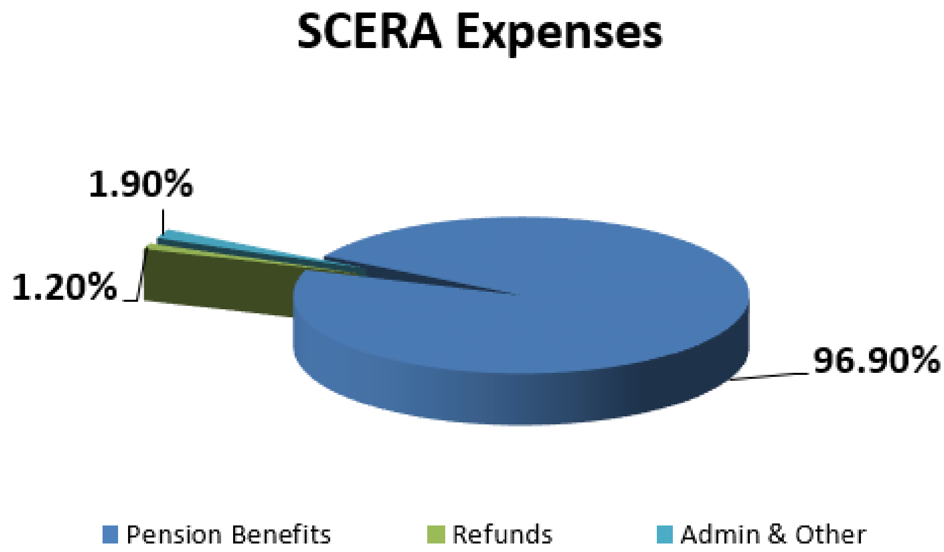
| (Dollars in Thousands) | 2023 | 2022 | Increase (Decrease) Amount | % Change |
|---|---|---|---|---|
| **Additions** | | | | |
| Employer Contributions | $ 78,412 | $ 76,562 | $ 1,850 | 2% |
| Member Contributions | 52,595 | 49,224 | 3,371 | 7% |
| Net Investment Income (Loss) | 399,895 | (269,425) | 669,320 | 248% |
| Net Securities Lending Income | 198 | 106 | 92 | 87% |
| **Total Additions** | 531,100 | (143,533) | 674,633 | 470% |
| **Deductions** | | | | |
| Pension Benefits | 212,793 | 201,711 | 11,082 | 5% |
| Refunds of Contributions | 2,623 | 2,964 | (341) | (12)% |
| Administrative and Other Expenses | 4,170 | 3,521 | 649 | 18% |
| **Total Deductions** | 219,586 | 208,196 | 11,390 | 5% |
| **Change in Fiduciary Net Position** | 311,514 | (351,729) | 663,243 | 189% |
| **Fiduciary Net Position, Beginning of Year** | 3,169,632 | 3,521,361 | (351,729 | (10)% |
| **Fiduciary Net Position, End of Year** | $ 3,481,146 | $ 3,169,632 | $ 311,514 | 10% |

### Revenues (Additions to Net Position)

The assets to finance the benefits SCERA provides to its members are accumulated through income on investments and through the collection of employee and employer contributions. These income sources for the fiscal year ended December 31, 2023, totaled $531 million. Revenues in 2023 can be attributed primarily to positive investment earnings as well as both employer and employee contributions.

The increase in the fair value of investments in 2023 was the result of favorable investment gains. The 2023 return on investments was 13.63%, which followed the unfavorable returns of minus 6.87% in 2022. The total balance of investment assets (less collateral held for securities on loan) increased from approximately $3,141 million in 2022 to $3,503 million in 2023.






**Expenses (Deductions in Net Position)**

The exclusive uses of SCERA assets are the payment of benefits to retirees and their beneficiaries, refunds of contributions to terminated employees, and the cost of administering the System. These expenses for the fiscal year ended December 31, 2023, were $220 million, an increase of $11 million, or 5%, compared to expenses of $208 million for the year ended December 31, 2022. Pension benefits and refunds increased 5% due to an increasing number of retirees and withdrawals in 2023. Administrative and other expenses increased by 18% in 2023, made up in large part of an increase in salary, actuarial, and medical exam expenses.

**Fiduciary Responsibility**

SCERA's Board of Retirement and management staff are fiduciaries of the pension trust fund. Under the California Constitution and California state law, the assets can only be used for the exclusive benefit of plan participants and their beneficiaries, and to defray the administrative and investment expenses of administering the System.

**Requests for Information**

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investment managers and creditors with a general overview of SCERA finances and account for the money it receives. Questions concerning any of the information in this report or requests for additional financial information should be addressed to:

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

Respectfully submitted,

*Cheryl A. Enold*, CPA

Finance and Retiree Services Manager

SCERA

## Statement of Fiduciary Net Position

As of December 31, 2023 (with Comparative Totals)

| (Dollars in Thousands) | 2023 | 2022 |
|---|---|---|
| **Assets** | | |
| Cash and Short-Term Investments (Note D) | $ 92,342 | $ 137,302 |
| Receivables | | |
| Employer Contributions | 3,377 | 2,781 |
| Interest and Dividends | 8,142 | 5,205 |
| Securities Sold | 84,306 | 62,779 |
| Total Receivables | 95,825 | 70,765 |
| Investments at Fair Value (Note E) | | |
| Fixed Income | 550,855 | 535,545 |
| Equities | 2,027,716 | 1,777,548 |
| Real Assets | 899,250 | 801,126 |
| Opportunistic | 25,070 | 27,185 |
| Collateral Held for Securities Lent (Note F) | 93,200 | 87,575 |
| Total Investments | 3,596,091 | 3,228,979 |
| Prepaid Expense | 98 | 71 |
| Capital Assets Net of Depreciation/Amortization (Note I) | 1,733 | 1,806 |
| **Total Assets** | 3,786,089 | 3,438,923 |
| **Liabilities** | | |
| Accounts Payable (Note J) | 3,176 | 3,223 |
| Security Purchases Payable | 173,273 | 138,384 |
| Collateral Held for Securities Lent (Note F) | 93,200 | 87,575 |
| Unearned Revenue (Note K) | 35,294 | 40,109 |
| **Total Liabilities** | 304,943 | 269,291 |
| **Fiduciary Net Position Restricted for Pension Benefits** | $ 3,481,146 | $ 3,169,632 |

The notes to the financial statements are an integral part of this statement.

## Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2023 (with Comparative Totals)

| (Dollars in Thousands) | 2023 | 2022 |
|---|---|---|
| **Additions** | | |
| Contributions (Note M) | | |
| Employer | $ 78,412 | 76,562 |
| Member | 52,595 | 49,224 |
| Total Contributions | 131,007 | 125,786 |
| Investment Income/(Loss) | | |
| *From Investing Activities* | | |
| Net Appreciation/(Depreciation) in Fair Value of Investments | 348,793 | (292,657) |
| Investment Income | 70,604 | 48,588 |
| | 419,397 | (244,069) |
| Less Expenses from Investing Activities | 16,700 | 21,944 |
| Less Allowance for Earnings on Unearned Revenue (Note K) | 2,802 | 3,412 |
| Net Investing Activity Income/(Loss) | 399,895 | (269,425) |
| *From Securities Lending Activities* | | |
| Gross Securities Lending Income | 1,137 | 479 |
| Plus: Borrower Rebates | (892) | (360) |
| Less: Agent Fees | 47 | 13 |
| Net Securities Lending Income | 198 | 106 |
| Total Net Investment Income/(Loss) | 400,093 | (269,319) |
| **Total Additions** | **531,100** | **(143,533)** |
| **Deductions** | | |
| Pension Benefits | 212,793 | 201,711 |
| Refunds of Contributions | 2,623 | 2,964 |
| Actuarial Study Fees | 302 | 106 |
| Attorney Fees | 78 | 49 |
| Administrative Expenses | 3,790 | 3,366 |
| **Total Deductions** | **219,586** | **208,196** |
| Change in Fiduciary Net Position | 311,514 | (351,729) |
| **Fiduciary Net Position, Beginning of Year** | 3,169,632 | 3,521,361 |
| **Fiduciary Net Position, End of Year** | **$ 3,481,146** | **$ 3,169,632** |

The notes to the financial statements are an integral part of this statement.

# NOTES TO THE FINANCIAL STATEMENTS

(Dollars in Thousands except where indicated)

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sonoma County Employees' Retirement Association (the System, the Plan, or SCERA) was organized under the provisions of the County Employees Retirement Law of 1937 on January 1, 1946. The Sonoma County (the County) Board of Supervisors may adopt resolutions, as permitted by the County Employees Retirement Law of 1937, which may affect benefits of SCERA members. On September 12, 2012, the California Public Employees' Pension Reform Act (PEPRA) was signed into law. In order to comply with this law, a new tier, Plan B, was established for both General and Safety members who enter the System on or after January 1, 2013. SCERA administers a cost-sharing, multiple-employer Defined Benefit Pension Plan (DBPP) and serves as a distribution agent for Post-Employment Healthcare Plans (PHP) for both the County of Sonoma and the Superior Court.

### Reporting Entity

SCERA, with its own governing board, is an independent governmental entity separate and distinct from the County of Sonoma. SCERA's annual financial statements are included in the County of Sonoma's Annual Comprehensive Financial Report as a fiduciary pension trust fund.

### Basis of Accounting

SCERA follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). The financial statements are prepared using the accrual basis of accounting in accordance with the generally accepted accounting principles (GAAP) in the United States of America, under which revenues are recognized when earned and deductions are recorded when the liability is incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment income is recognized as revenue when earned, and expenses are recognized when incurred.

The net appreciation (or depreciation) in the fair value of investments is recorded as an increase (or decrease) to investment income, which includes both realized and unrealized gains and losses on investments, based upon investment valuations.

### Valuation of Investments

Investments in securities are reported at fair value based upon closing sales prices reported on recognized securities exchanges on the last business day of the period, or for listed securities having no sales reported and for unlisted securities, based upon last reported bid prices. Purchases and sales of securities are accounted for on a trade date basis, and dividends declared but not received are accrued on the ex-dividend date. Realized gains and losses are determined on the basis of average costs.

Unsettled investment trades as of year-end are reported in the financial statements on an accrual basis of accounting. The corresponding funds receivable from a sale and funds payable for a purchase are reported in receivables-securities sold and liabilities-security purchases payable, respectively.

### Investment Concentrations

The Board of Retirement (the Board) Trustees' policies and guidelines enable the portfolio to develop into numerous asset classes and to take advantage of professional investment managers with diverse management styles. The result is a well-diversified portfolio. The investment portfolio contained no concentration of investments in any one entity that represented 5% or more of the total investment portfolio or the fiduciary net position.

### Use of Estimates in the Preparation of Financial Statements

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

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Capital Assets

Capital assets are carried at cost less accumulated depreciation/amortization. Depreciation/amortization is calculated using the straight-line method with a 5-year life for computer hardware and software, 5-year life for equipment and furniture, 10-year life for building improvements, 10-year life for integrated pension systems and 30-year life for buildings. Leasehold improvements are depreciated over the life of the lease.

### Administrative Expenses

The Board annually adopts the operating budget for the administration of SCERA. The administrative expenses are charged against SCERA's earnings and are limited to twenty-one hundredths of one percent of the accrued actuarial liability of the retirement system, as set forth under Government Code Section 31580.2.

## B. PENSION PLAN DESCRIPTION

### General Information

Members include employees in a permanent position of at least half time in the Sonoma County, Superior Court of California – County of Sonoma (Superior Court), and Sonoma Valley Fire District. Plan members are classified as either General or Safety. Membership becomes effective on the first day of entrance into eligible service. The System provides member benefits as defined by law upon retirement, death, or disability.

Management of the System is vested in the Board, with the Chief Executive Officer serving at the discretion of the Board. The Board of Retirement consists of nine voting trustees and one alternate trustee. Four trustees are appointed by the County of Sonoma's Board of Supervisors, five trustees (including the one alternate) are elected by the members of SCERA. General members elect two trustees, Safety members elect one trustee, and retired members elect one trustee and one alternate trustee. The County of Sonoma Treasurer is an ex-officio trustee which means they serve on the Board as part of their duties as Treasurer. Board trustees serve three year terms, with the exception of the County Treasurer, who serves during their tenure in office.

At December 31, 2023, the total annual employees' payroll covered by the Plan was $419 million.

At December 31, 2023, Plan membership consisted of the following:

| Membership Type | 2023 |
|---|---|
| Retired Members and Beneficiaries | |
| *General Members* | 4,608 |
| *Safety Members* | 1,152 |
| **Subtotal** | **5,760** |
| Current Members | |
| *General Members* | 3,580 |
| *Safety Members* | 662 |
| **Subtotal** | **4,242** |
| Deferred Members | |
| *General Members* | 1,492 |
| *Safety Members* | 273 |
| **Subtotal** | **1,765** |
| *Total General Membership* | 9,680 |
| *Total Safety Membership* | 2,087 |
| **Total Membership** | **11,767** |

### Benefit Provisions

*Vesting and Retirement Eligibility.* Upon completing five years of creditable service, employees have non-revocable rights to receive benefits attributable to employer contributions, provided employee contributions have not been withdrawn. Plan A members are eligible to retire at age 50 with ten years of service or thirty years of service (safety members-twenty years) regardless of age. Plan B General members are eligible to retire at age 52 with five years of service; Plan B Safety members are eligible to retire at age 50 with five years of service. Members in all plans are eligible to retire at age 70, regardless of years of service.

## B. PENSION PLAN DESCRIPTION (continued)

### Benefit Provisions (continued)

*Basis of Benefit Payments.* Benefits are based upon a combination of age, years of service, highest average compensation and the benefit payment option selected by the member. For Plan A members, highest average compensation is defined as the highest 12 consecutive months of compensation earnable, which has rules about the types of compensation included in the calculation. The maximum benefit payable to a member or beneficiary is 100% of the highest average compensation. For Plan B members, highest average compensation is based on the highest 36 consecutive months of pensionable compensation, which also has rules about the types of compensation included in the calculation. Additionally, Plan B members are limited in the amount of compensation used to calculate a benefit to 100% of the Social Security taxable wage base limit in 2013, adjusted for inflation (or 120% for non-Social Security integrated positions).

*Cost of Living Benefits.* SCERA has recommended to the Sonoma County Board of Supervisors many different types of COLA benefits over the years, funded in numerous ways like contributions from the County of Sonoma, amortization of unfunded liabilities created by the COLA benefit being considered, or use of SCERA reserves as allowed under the CERL. Since they early 2000's the COLA has been on an ad hoc basis, consisting of several one-time, post-retirement cost of living adjustments (COLAs), the last of which was adopted in 2008. These COLAs have been fully funded by transfers from the Interest Fluctuation Reserve into the Cost of Living Reserve account. Since 2008, the Board has been unable to recommend a COLA due to the Negative Contingency Reserve balances and is currently undergoing COLA policy discussions with the County.

*Disability Benefits.* Members with 5 years of service, regardless of age, who become permanently incapacitated from their regular job duties are eligible to apply for a non-service connected disability. The benefit for Plan A General members, Plan A Safety members, and Plan B Safety members is 1.8% of highest average compensation for each year of service; the benefit for Plan B General members is 1.5% of highest average compensation for each year of service. The maximum benefit for both Plans is 1/3 of highest average compensation.

All employees, regardless of years of service, are eligible for service connected disability if they prove that they are permanently incapacitated from their regular job duties, and it arose out of their employment. A service connected disability benefit is the greater of 50% of highest average compensation or a service retirement benefit.

*Death Benefit - Prior to 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 salary earned during the last twelve months preceding the member's death), but not to exceed 6 months of salary.

If a member dies while eligible for service retirement or non-service connected disability, the member's spouse/registered domestic partner receives 60% of the allowance that the member would have received for retirement on the day of the member's death.

If a member dies in the performance of duty, the spouse/registered domestic partner will receive a lifetime benefit equal to 50% of the member's highest average compensation or a service retirement benefit, whichever is higher.

*Death Benefit - After Retirement.* As part of the retirement process, members are required to select among several options for benefits continuation upon the member's death. For married / registered domestic partner retirees, the most common retirement option is the unmodified option, which pays the retiree's eligible spouse or registered domestic partner a lifetime benefit equal to 60% of the benefit the retiree was receiving.

*Return of Contributions.* If a member should resign or die before becoming eligible for retirement, the member's contributions plus interest may be refunded. In lieu of receiving a return of contributions, a resigning member may elect to leave the member's contributions on deposit.

## C. POST-EMPLOYMENT HEALTHCARE PLAN DESCRIPTION

### General Information

The County of Sonoma and the Superior Court provide other post-employment benefits to retirees. Both of these employers currently reimburse partial Medicare premiums to each retired employee who is covered under Medicare Parts A and B, except for County employees covered by certain labor union contracts.

SCERA does not determine eligibility, nor negotiate for the healthcare benefits, but acts solely as a conduit which deducts premiums from benefit payments and forwards these deductions to the employers. The County of Sonoma and Superior Court pay an annual fee to SCERA for the processing of retiree health insurance deductions. Benefit eligibility, coverage and premium cost negotiations are the responsibility of the employers. As such, GASB Statement No. 74 does not apply.

## D. CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments consist of short-term investments with fiscal agents as well as deposits held in a pooled account with the County of Sonoma. All participants in the pool share earnings and losses. Short-term investments consist of cash held in money market accounts and securities readily convertible to cash. All cash, deposits and short-term investments are carried at cost, which approximates fair value. The Sonoma County Treasury Oversight Committee has regulatory oversight for all monies deposited into the Sonoma County Treasury Pool. Such amounts are invested in accordance with investment policy guidelines established by the County Treasurer and reviewed by the County Board of Supervisors. The objectives of the policy are, in order of priority, safety of principal, liquidity and yield. Similarly, the short-term investment fund held by State Street Bank (which is a liquidity fund investing in short-term investment securities) is carried at cost, which approximates fair value.

The following chart is a summary of cash and short-term investments, as of December 31, 2023.

| Cash and Short-Term Investment Funds (held by) (Dollars in Thousands) | 2023 |
|---|---|
| County Treasury | $ 3,919 |
| Custodian Bank | 88,423 |
| Total | $ 92,342 |

The vast majority of the above cash is overlaid with stock and bond futures contracts so there is little to no economic exposure to cash.

## E. DEPOSITS AND INVESTMENTS

State Street Bank serves as custodian of SCERA's investments. SCERA's asset classes include US Equity, Non-US Equity, Global Equity, Fixed Income, Real Assets, and Opportunistic. Any class may be held in direct form, pooled form, or both. SCERA ended 2023 with 17 investment managers, managing 21 individual portfolios.

Investments on December 31, 2023, consist of the following (excluding collateral held for securities lending as described in Note F):

| Investments at Fair Value (Dollars in Thousands) | 2023 |
|---|---|
| Fixed Income | $ 550,855 |
| Equities | 2,027,716 |
| Real Assets | 899,250 |
| Opportunistic | 25,070 |
| **Total Investments** | $ 3,502,891 |

**E. DEPOSITS AND INVESTMENTS (continued)**

The Board has established a policy for investing, specifying the following target asset strategy allocations with a minimum and maximum range for each of these asset classes. Asset targets are applied at the investment manager level, not individual Plan holdings reported in Note H.

| Asset Class | Min | Target | Max |
|---|---|---|---|
| Core Plus Fixed Income | 10.0% | 12.0% | 14.0% |
| Alternative Fixed Income | 2.0% | 3.0% | 4.0% |
| Real Assets | 21.0% | 26.0% | 31.0% |
| Domestic Equities | 19.5% | 21.5% | 23.5% |
| Non-US Equities | 19.5% | 21.5% | 23.5% |
| Global Equities | 14.0% | 16.0% | 18.0% |
| Opportunistic | 0.0% | 0.0% | 6.0% |
| **Total** | | 100% | |

The asset strategy allocation is incorporated into SCERA's Investment Policy Statement, which helps guide the manner in which SCERA invests. The Board has adopted a long-term investment horizon such that the likelihood and durations of investment losses are carefully weighed against the long-term potential for appreciation of assets. The assets of SCERA will be invested in a manner that provides the safeguards and diversity to which a prudent investor would adhere. No more than 5%, or the benchmark weight plus 2.5%, whichever is higher, of any one manager's portfolio shall be invested in the securities of any one issuing corporation at cost. Investments in any corporation should not exceed 10% of the outstanding shares of the corporation. Actual asset strategy allocation results are reported in the Investment Section (page 61).

The Board's investment policies and guidelines permit investment in numerous specified asset classes to take advantage of the non-correlated economic behavior of diverse asset classes. The risk to be assumed must be considered appropriate for the return anticipated and consistent with the total diversification of the System. The result is a well-diversified portfolio.

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. SCERA investment securities are not exposed to custodial credit risk since all securities are registered in the System's name and held by the System's custodial bank.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover its deposits or collateral securities that are in the possession of an outside party. Any cash associated with the System's investment portfolios not invested at the end of a day are temporarily swept overnight to State Street Bank's short-term investment fund.

That portion of the System's cash held by the County of Sonoma as part of the County's treasury pool totaled $3.9 million as of December 31, 2023. SCERA's investments in the treasury pool are held in the name of the County and are not specifically identifiable.

Disclosure of the legal and contractual provisions of the County's Investment Policy and carrying amounts by type of investments may be found in the notes to the County's separate Annual Comprehensive Financial Report for the fiscal year ended June 30, 2023.

**E. DEPOSITS AND INVESTMENTS (continued)**

**Credit and Interest Rate Risk**

Credit risk associated with SCERA's fixed income securities is identified by their ratings in the table following. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. SCERA has no general policy on credit and interest rate risk. SCERA monitors the interest rate risk inherent in its portfolio by measuring the duration of its portfolio. A rating of N/R represents pooled funds and other securities that have not been rated by Standard and Poor's (S&P) and N/A represents pooled securities that do not have a set duration.

The average duration and S&P credit rating of SCERA's fixed income portfolio as of December 31, 2023 was:

| Investment Type | | Fair Value (Dollars in Thousands) | S&P Rating | Duration (Years) |
|---|---|---|---|---|
| Government Issues | $ | 95,249 | AA+ | 15.11 |
| Agency Backed Mortgages | | 132,545 | AA+ | 7.50 |
| Bank Loans | | 99,079 | B- | 3.85 |
| Corporates | | 59,176 | BBB+ | 9.12 |
| Non-Agency Backed Mortgages | | 66,896 | AA+ | 8.44 |
| Other Asset Backed | | 51,395 | AAA | 3.21 |
| Other | | 44,786 | N/R | N/A |
| Municipals | | 1,728 | AA- | 18.25 |
| **Total** | $ | 550,855 | | |

Per SCERA's Investment Policy Statement, fixed income portfolios must have an overall, fair value weighted average quality of at least AA-. At least 80% of the fair value of the portfolio must be rated at least Baa/BBB or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO). In cases when the yield spread adequately compensates for additional risk, up to 20% of the value of each fixed income portfolio may be invested in below investment grade securities provided that they are easily tradable and overall fixed income quality is maintained. Up to a maximum of 2% of the portfolio may be invested in bonds rated CCC/Caa or lower. Fixed income securities of any one issuer shall not exceed 10% of the total bond portfolio at the time of purchase. This does not apply to issues of the US Treasury or securities guaranteed by the US Government. Mortgage or asset backed securities that are credit independent of the issuer shall be limited to 25% of the value of the total issue or pool.

Firms that manage fixed income portfolios continually monitor the risk associated with their fixed income investments. They are expected to provide, as a component of their reports, a risk/reward analysis of the management decisions relative to their benchmarks.

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. SCERA's Investment Policy Statement expects investment managers will use forward currency exchange contracts and currency and stock index futures contracts and related options and transactions for defensive currency hedging. It is preferred that currency exposures be un-hedged, but may periodically be up to 100% hedged for a specific country or up to 30% of the total portfolio at the manager's discretion. Such transactions should not be speculative in nature and should not exceed the value of underlying securities holdings.

## E. DEPOSITS AND INVESTMENTS (continued)

### Foreign Currency Risk (continued)

The following positions represent SCERA's exposure to foreign currency risk as of December 31, 2023:

| **Securities**<br>**Base Currency** | **Fair Value in USD**<br>(Dollars in Thousands) | |
|---|---|---|
| Canada – CAD | $ | 471 |
| Euro – EUR | | 80 |
| Australia – AUD | | 40 |
| Brazil – BRL | | 11 |
| Denmark – DKK | | 10 |
| South Africa – ZAR | | 7 |
| Singapore – SGD | | 1 |
| **Total Non-USD Securities** | $ | 620 |

### Derivatives

The Board authorized certain investment managers to invest in or otherwise enter into transactions involving derivative financial instruments when, in the judgment of management, such transactions are consistent with the investment objectives established for a specific investment manager's assignment. However, such instruments shall not be used to create leverage or for speculative purposes.

The acceptable investment purposes for the use of derivatives include:

1. For defensive currency strategies of non-dollar portfolio holdings.
2. For controlling the duration of fixed income portfolios.
3. For managing yield curve strategies of fixed income portfolios.
4. For control of equity or fixed income exposure during portfolio transitions to overlay cash positions.
5. For effecting transitions to new investment managers.
6. For rebalancing the System's asset allocation toward Investment Policy Statement targets.

Risks arise from the possible inability of counterparties to meet the terms of their contract. The risks of accounting loss from these off-balance sheet transactions include credit risk and the possibility that future changes in market prices may make such financial instruments less valuable (market risk).

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses from derivatives are included in net investment income. For financial reporting purposes all SCERA derivatives are classified as investment derivatives. The following are types of derivatives: futures contracts, forward contracts, option contracts and swap agreements.

### Futures Contracts

A futures contract represents an agreement to buy (long position) or sell (short position) an underlying asset at a specified future date for a specified price. Payment for the transaction is delayed until a future date, which is referred to as the settlement or expiration date. Futures contracts are standardized contracts traded on organized exchanges. Futures contracts are priced "mark to markets" and daily settlements are recorded as investment gains or losses.

### Forward Contracts

A forward contract represents an agreement to buy or sell an underlying asset at a specified date in the future at a specified price. Payment for the transaction is delayed until the settlement or expiration date. A forward contract is a non-standardized contract that is tailored to each specific transaction. Forward contracts are privately negotiated and are intended to be held until the settlement date. Currency forward contracts are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions.

**E. DEPOSITS AND INVESTMENTS (continued)**

**Option Contracts**

An option contract is a type of derivative security in which a buyer (purchaser) has the right, but not the obligation, to buy or sell a specified amount of an underlying security at a fixed price by exercising the option before its expiration date.

The seller (writer) has an obligation to buy or sell the underlying security if the buyer decides to exercise the option. At expiration, sale, or exercise, realized gains and losses are recognized.

**Swap Agreements**

A swap is an agreement between two or more parties to exchange a sequence of cash flows, or payments, over a period of time in the future. No principal is exchanged at the beginning of the swap. The cash flows the counterparties exchange are tied to an agreed upon notional amount that is used to calculate the payments. A swap agreement specifies the time period over which the periodic payments will be exchanged. The fair value represents the gains or losses as of the prior marking-to-market.

The following positions represent SCERA's exposure to derivatives as of December 31, 2023:

**Investment Derivatives Summary**
(Dollars in Thousands)

| Derivative Type | Change in Fair Value | Fair Value | Notional |
|---|---|---|---|
| Futures | $ 4,007 | $ - | $ 34,961 |
| Forwards | 970 | (43) | 22,369 |
| Swaps – Credit Default | 665 | 505 | 8,853 |
| Swaps – Interest Rate | (156) | 437 | 23,656 |
| **Total** | $ 5,486 | $ 899 | $ 89,839 |

**Investment Derivative Credit Risk**

The credit risk of using derivative instruments may include the risk that counterparties to contracts will not perform and/or the public exchange will not meet its obligation to assume this counterparty risk. SCERA is exposed to credit risk on investment derivatives that are traded over the counter and are reported in asset positions.

The following represents SCERA's exposure to derivative credit risk as of December 31, 2023:

**Derivative Credit Risk Ratings Summary**
(Dollars in Thousands)

| S&P Credit Rating | Fair Value |
|---|---|
| A+ | $ 457 |
| A- | 628 |
| BBB+ | 403 |
| Total subject to credit risk | $ 1,488 |

## E. DEPOSITS AND INVESTMENTS (continued)

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments subject to interest rate risk as of December 31, 2023 are:

| **Interest Rate Risk Analysis** (Dollars in Thousands) | |
|---|---|
| **Derivative Type** | Interest Rate Derivatives |
| **Fair Value** | $942 |
| **Notional** | $65,750 |
| **Reference Rate** | SOFR - 3 months |

## F. SECURITIES LENDING

Securities Lending involves the owner of equites or bonds (SCERA) transferring them temporarily to a Borrower who has need of the securities for a short-term trade or financing arrangement. In return for the receipt of the securities, the Borrower transfers either other securities, bonds, or cash back to SCERA's account as collateral. State Street, as the Agent Lender on behalf of SCERA, negotiates the cost of each loan with the Borrower, who then pays the negotiated borrowing fee, typically payable after the current month's end. Revenue is then distributed to SCERA with State Street retaining a small portion for its fee.

Borrowers were required to deliver collateral for each loan equal to (i) in the case of loaned securities denominated in United States dollars or sovereign debt issued by foreign governments, 102% of the fair value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the fair value of the loaned securities.

State statutes do not prohibit SCERA from participating in securities lending transactions and SCERA has, via a Securities Lending Authorization Agreement with the Plan's custodian bank State Street Bank and Trust Company (collectively "State Street"), authorized State Street to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

During 2023, State Street lent, on behalf of SCERA, certain securities held by State Street as custodian and received cash (United States and foreign currency), securities issued or guaranteed by the United States government and irrevocable letters of credit as collateral. State Street did not have the ability to pledge or sell collateral securities absent a borrower default.

SCERA did not impose any restrictions during 2023 on the amount of the loans that State Street made on its behalf and State Street had indemnified SCERA by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. There were no failures by any borrowers to return loaned securities or pay distributions thereon during 2023. There were no losses during 2023 resulting from a default of the borrowers.

During 2023, SCERA 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. As of December 31, 2023, such investment pool had an average duration of 24.6 days and an average weighted final maturity of 108.9 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On December 31, 2023, SCERA had no credit risk exposure to borrowers.

As of December 31, 2023, the fair value of the securities on loan was $133.6 million. The fair value of associated collateral was $137.4 million ($93.2 million of cash collateral and $44.2 million of non-cash collateral). Non-cash collateral, which SCERA does not have the ability to sell unless the borrower defaults, is not reported in the Statement of Fiduciary Net Position.

Due to the nature of the securities lending program and State Street's collateralization of loans at 102% (or 105% for non-dollar securities), SCERA believes that there is no credit risk as defined by GASB Statement No. 28 and GASB Statement No. 40.

## G. SUMMARY OF INVESTMENT POLICIES

The County Employees Retirement Law of 1937 (Law) and the California Constitution vest the Board of Retirement with exclusive control over the investment of SCERA's investment portfolio. The Law allows for the Board to invest, or delegate the authority to invest, the assets of the Plan through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board.

Additionally, the Law requires that the Board and its officers and employees shall discharge their duties with respect to SCERA and the investment portfolio as follows:

- Solely in the interest of, and for the exclusive purposes of, providing benefits to participants and their beneficiaries, and defraying reasonable expenses of administering SCERA.
- With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
- Shall diversify the investment portfolio to minimize the risk of loss and maximize the rate-of-return, unless under the circumstances it is clearly prudent not to do so.

## H. FAIR VALUE MEASUREMENTS

In 2016, SCERA adopted GASB Statement No. 72, *Fair Value Measurement and Application.* GASB Statement No. 72 establishes a fair value hierarchy based on three levels of input to develop the fair value measurements for investments. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Fixed income and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Fixed income and equity securities classified in Level 2 are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for those securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Investments classified in Level 3 are determined in good faith by the investment managers who utilize independent third party appraisals and operating results.

The categorization of SCERA's investments within the fair value hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk. Details are provided in the table on page 34.

## H. FAIR VALUE MEASUREMENTS (continued)

### Investments and Derivatives Measured at Fair Value

For the Year Ended December 31, 2023

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **INVESTMENT TYPE** (Dollars in Thousands) | **Total** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| **Investments by Fair Value Level** | | | | |
| **Fixed Income Securities** | | | | |
| US Government Securities | $ 95,249 | $ - | $ 95,249 | $ - |
| Agency Backed Mortgages | 132,545 | - | 132,545 | - |
| Bank Loans | 99,079 | - | 98,086 | 993 |
| Corporate | 59,176 | - | 59,176 | - |
| Non-Agency Backed Mortgages | 66,896 | - | 66,896 | - |
| Other | 44,786 | 36,570 | 8,179 | 37 |
| Other Asset Backed | 51,396 | - | 51,396 | - |
| Municipals | 1,728 | - | 1,728 | - |
| **Total Fixed Income Securities** | 550,855 | 36,570 | 513,255 | 1,030 |
| **Equity Securities** | | | | |
| Domestic Equity | 1,235,064 | 1,234,881 | 183 | - |
| Non-US Equity | 792,652 | 792,645 | 7 | - |
| **Total Equity Securities** | 2,027,716 | 2,027,526 | 190 | - |
| **Real Assets** | | | | |
| Real Estate | 279,632 | - | - | 279,632 |
| Infrastructure | 356,892 | - | - | 256,892 |
| Farmland | 262,726 | - | - | 262,726 |
| **Total Real Assets** | 899,250 | - | - | 899,250 |
| **Collateral from Securities Lending** | 93,200 | - | 93,200 | - |
| **Limited Partnership (Opportunistic)** | 25,070 | - | - | 25,070 |
| **Total Investments** | $ 3,596,091 | $ 2,064,096 | $ 606,645 | $ 925,350 |
| **Derivatives** | | | | |
| Swaps | $ 942 | $ - | $ 942 | $ - |
| Forwards | (43) | (43) | - | - |
| **Total Derivatives** | $ 899 | $ (43) | $ 942 | $ - |

## I. CAPITAL ASSETS

Depreciation and amortization expense for the year ending December 31, 2023, totaled $73,000. Capital asset activity for the year ended December 31, 2023 is as follows:

| (Dollars in Thousands) | Balance 12/31/2022 | Additions | Retirements | Balance 12/31/2023 |
|---|---|---|---|---|
| Capital Assets, not being depreciated/amortized | | | | |
| Land | $ 1,025 | $ - | $ - | $ 1,025 |
| Total Capital Assets, not being depreciated/amortized | 1,025 | - | - | 1,025 |
| Capital Assets, being depreciated/amortized | | | | |
| Building | 1,869 | - | - | 1,869 |
| Building Remodel | 1,087 | - | - | 1,087 |
| Furniture & Equipment | 107 | - | - | 107 |
| Computer Software/Hardware | 2,897 | - | - | 2,897 |
| **Total Capital Assets, being depreciated/amortized** | 5,960 | - | - | 5,960 |
| Less accumulated depreciation/amortization for: | | | | |
| Building | (1,097) | (64) | - | (1,161) |
| Building Remodel | (1,087) | - | - | (1,087) |
| Furniture & Equipment | (105) | (2) | - | (107) |
| Computer Software/Hardware | (2,890) | (7) | - | (2,897) |
| Total Accumulated Depreciation/Amortization | (5,179) | (73) | - | (5,252) |
| **Total Capital Assets being depreciated/amortized, net** | 781 | (73) | - | 708 |
| **Total Capital Assets, net** | $ 1,806 | $ (73) | $ - | $ 1,733 |

## J. ACCOUNTS PAYABLE

Accounts payable as of December 31 consist of:

| (Dollars in Thousands) | 2023 |
|---|---|
| Administrative Expenses | $ 377 |
| Accrued Sick & Vacation Leave | 373 |
| Consulting & Management Fees | 2,426 |
| Total | $ 3,176 |

## K. UNEARNED REVENUE

The County of Sonoma may prepay the current year and up to one additional year of employer "normal costs" and Unfunded Actuarial Accrued Liability (UAAL) contributions. These prepaid contributions are accounted for as unearned revenue. On each regular County payday, the actual earned contributions are recognized as revenue. The unearned revenue balance was $35.3 million as of December 31, 2023.

For the year ended December 31, 2023, and going forward, these prepaid contributions held on account have received, and will continue to receive, a discount for early payment. The discount for the year ended December 31, 2023, was calculated at the annual actuarial investment earnings assumption rate of 6.75%. Contribution revenues have been increased and investment income decreased to reflect this discount. For the year ended December 31, 2023, the discount earned was $2.7 million.

## L. APPORTIONMENT OF EARNINGS

Interest is apportioned semi-annually at June 30th and December 31st (at one-half the annual actuarial investment earnings assumption rate) to the DBPP reserve accounts for all contributions on deposit for a full six months, with the exception of the Member Reserve accounts, which are credited at one-half of the yield on the 10-year Treasury Note at June 30th and December 31st.

**L. APPORTIONMENT OF EARNINGS (continued)**

The Interest Crediting and Reserve Policy was amended in early 2024 to change the DBPP reserve account interest crediting rate to the actuarial value investment rate of return as of December 31st of the year in which the interest is credited to be apportioned as if it were credited semi-annually at June 30th and December 31st of that year. There is no change to the Member Interest Crediting Rate.

The Employer Reserves are also credited with the dollar difference between the Member Reserve interest crediting rate and the annual actuarial investment earning assumption rate so that, in total, reserves are credited at the annual actuarial investment earnings assumption rate. Interest apportioned at the annual actuarial assumed investment earnings rate of 6.75%, for year ended December 31, 2023 was $260.4 million.

In March of 2023, in light of existing reserve balances, Chief Executive Officer (CEO) Julie Wyne provided the status of reserves, annual changes in Consumer Price Index (CPI), and estimated cost of a Cost of Living Adjustment (COLA) for 2023 and noted that the reserves were insufficient to fully fund a Purchasing Power COLA so one could not be recommended. This information was communicated to the Sonoma County Board of Supervisors and Sonoma County Association of Retired Employees (SCARE) representatives pursuant to the COLA policy.

## M. CONTRIBUTIONS

### Contribution Rates

Contribution rates for the employer and covered employees are established, adopted, and may be amended by the Board (and then shall be implemented by the governing bodies of participating employers). The contribution rates are determined based on the benefit structure established by the employer. Plan A members are required to contribute between approximately 7% and 15% of their annual covered salary, and the member's particular rate is based upon age at entry into the System. Plan B members are required to contribute a flat rate as calculated by the actuary.

SCERA maintains an actuarial funding policy that is used to calculate an actuarially determined employer contribution rate that is required to accumulate sufficient assets to pay benefits when due. The employer contribution rate is comprised of two components: a payment of the Normal Cost and a payment towards the Unfunded Actuarial Accrued Liability. As defined in the actuarial funding policy, SCERA uses the Entry Age Actuarial Cost Method to determine both the Normal Cost and the Actuarial Accrued Liability, the latter of which is then used to calculate the Unfunded Actuarial Accrued Liability.

The Entry Age Actuarial Cost Method takes the expected cost of each member's projected benefits and allocates it across the member's years of service, both past and future, as a level percentage of pay. The portion of this expected cost allocated to each year is called the Normal Cost for that year, and the portion allocated to past years is called the Actuarial Accrued Liability. For inactive and retired members there is no Normal Cost and the Actuarial Accrued Liability is the entire expected cost of the member's benefit.

In order to allow the County to more accurately budget for pension contributions (in accordance with the Board's funding policy), the contribution rates determined in each valuation will be assumed to take effect at the beginning of the fiscal year starting at least twelve months after the end of the Valuation Year, except when significant benefit or actuarial assumption changes occur.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**
For the three years ending December 31, 2023
(Dollars in Thousands)

| Year Ended | Actuarially Determined Contribution (ADC) | Contributions as a % of ADC |
|---|---|---|
| 12/31/21 | $ 73,142 | 102.5% |
| 12/31/22 | $ 70,966 | 107.9% |
| 12/31/23 | $ 73,994 | 106.0% |

### Funding Status and Method

The actuarial funding ratio as of December 31, 2023, was 93.8%. SCERA's actuary uses five-year smoothing of market gains and losses to derive the actuarial value of assets. The actuarial value of assets as of December 31, 2023, was $3.5 billion.

## M. CONTRIBUTIONS (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, inflation, and investment returns. Amounts determined regarding the funded status of the System and the actuarially determined contributions of the employer are subject to continual revisions as actual results are compared with past expectations annually and new estimates are made about the future.

SCERA's employer contribution rates pay for both the normal cost and a contribution to amortize any unfunded or over-funded actuarial accrued liabilities. The funding policy adopted by the Board is used to amortize the outstanding balance of the December 31, 2007, UAAL as well as any new UAAL established on each subsequent actuarial valuation after the December 31, 2007 valuation over separate 20-year declining periods.

## N. NET PENSION LIABILITY

GASB Statement No. 67 requires public pension plans to provide a net pension liability. The net pension liability is measured as the total pension liability less the amount of the pension plan's fiduciary net position. The net pension liability is an accounting measurement for financial statement report purposes. The components of net pension liability of participating employers as of December 31, 2023, are as follows:

| (Dollars in Thousands) | | 2023 |
|---|---|---|
| Total Pension Liability | $ | 3,730,227 |
| Less: Fiduciary Net Position | | 3,481,146 |
| **Net Pension Liability** | $ | 249,081 |
| **Fiduciary Net Position as a Percentage of Total Pension Liability** | | 93.32% |

The net pension liability of participating employers was measured as of December 31, 2023, and determined based upon the total pension liability from actuarial valuations as of December 31, 2023.

### Actuarial Assumptions

In preparing an actuarial valuation, the actuary employs generally accepted actuarial methods and assumptions to evaluate the System's assets, liabilities, and future contribution requirements. The actuary utilizes member data and financial information provided by the System along with economic and demographic assumptions made about the future to estimate the System's financial status as of a specified point in time. Examples of estimates include assumptions about future employment, mortality, future investment returns, future salary increases, expected retirements and other relevant factors. Actuarially determined amounts are subject to continual review or modification. The Board reviews the economic and demographic assumptions of the System every three years.

The actuarial assumptions used to determine the total pension liability as of December 31, 2023 were based on the results of the most recent Actuarial Experience Study which covered the period from January 1, 2018 through December 31, 2020. These same assumptions were used in the December 31, 2023, actuarial valuation to project future liabilities and were used to measure the Plan's actual performance against what was expected. Key methods and assumptions used in the latest actuarial valuation and the total pension liability to project future liabilities are presented below.

**N. NET PENSION LIABILITY (continued)**

**Sensitivity Analysis**

In accordance with GASB Statement No. 67, changes to the total pension liability and net pension liability must be reported as of December 31, 2023. The net pension liability changes when there are changes in the discount rate. The following presents the net pension liability, calculated using the discount rate of 6.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75) or 1 percentage point higher (7.75) than the current 6.75 percent.

**SCHEDULE OF SENSITIVITY ANALYSIS**
**As of December 31, 2023**
(Dollars in Thousands)

| | 1% Decrease (5.75%) | Discount Rate (6.75%) | 1% Increase (7.75%) |
|---|---|---|---|
| Net Pension Liability/(Asset) | $684,296 | $249,081 | $(112,146) |

**Key Assumptions Used in Annual Actuarial Valuation and Total Pension Liability**

| | |
|---|---|
| Valuation Date | December 31, 2023 |
| Actuarial Experience Study | 3 Year Period Ending December 31, 2020 |
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Discount Rate | 6.75% |
| Inflation Rate | 2.50% |
| Across the Board Salary Increase | 0.50% |
| Projected Salary Increases | General Members 3.55% - 8.00% and Safety Members 4.00% - 10.50%, varying by service, including inflation |
| Cost of Living Adjustments | 0.00% of retirement income |
| Mortality Rates | General Healthy Members: Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table, increased by 5% for females. Safety Healthy Members: Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table. General Disabled Members: Pub-2010 Non-Safety Disabled Retiree Table decreased 5% for males and 10% for females. Safety Disabled Members: Pub-2010 Safety Disabled Retiree Table decreased 5% for females. All beneficiaries: Pub-2010 Contingent Survivor Table increased 5% for males and females. All mortality tables are projected generationally with the 2-dimensional mortality improvement scale MP-2020 |
| Other Assumptions | Same as those used in the December 31, 2023 funding actuarial valuation. |

**Long-Term Expected Real Rate of Return**

The long-term expected real rate-of-return on assets was determined using a building block method in which the expected future real rates-of-return (expected returns, net of inflation) are developed for each major asset class. These returns 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, 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 investment expenses, used in the derivation of the long-term expected investment rate-of-return assumption for each major asset class from the 2020 experience study are summarized in the table on the following page:

**N. NET PENSION LIABILITY/(ASSET) (continued)**

| Asset Class | Target | Expected Real Rate of Return (without inflation) | Expected Nominal* Rate of Return (with assumed inflation) |
|---|---|---|---|
| Large Cap Equity | 16.50% | 5.35% | 7.85% |
| Small Cap Equity | 5.00% | 6.55% | 9.05% |
| Developed International Equity | 14.88% | 6.31% | 8.81% |
| Emerging Market Equity | 6.62% | 8.47% | 10.97% |
| Core Fixed Income | 16.00% | 0.70% | 3.20% |
| Global Equity | 18.00% | 6.28% | 8.78% |
| Real Estate | 10.00% | 4.89% | 7.39% |
| Farmland | 5.00% | 5.90% | 8.40% |
| Bank Loans | 3.00% | 2.43% | 4.93% |
| Infrastructure | 5.00% | 6.05% | 8.55% |
| **Total** | 100% | | |

*Nominal rate-of-return does not include the effect of compounding.

### Money-Weighted Rate of Return

For the year ended December 31, 2023, the annual money-weighted rate-of-return on pension plan investments, net of pension plan investment expense, was 16.26%. The money-weighted rate-of-return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Discount Rate

The investment rate-of-return assumption used for projecting future liabilities was 6.75% for the year ended December 31, 2023.

GASB Statement No. 67 requires determination that the System's fiduciary net position is projected to be sufficient to make projected benefit payments. The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate-of-return on System investments was applied to all periods of projected benefit payments to determine the total pension liability.

## O. RESERVES

The reserves represent components of SCERA's assets and they are required to be maintained by the CERL. Reserves are established from member and employer contributions and the accumulation of investment income after satisfying investment and administrative expenses. The reserves do not represent the present value of assets needed (as determined by actuarial valuation) to satisfy retirements and other benefits as they become due. SCERA has the following major classes of reserves:

- **Member Reserves** represent member contributions and earnings allocations less amounts transferred to Annuitant Reserves for service and disability retirements or refunds.
- **Employer Reserves** represent employer contributions and earnings allocations less amounts transferred to Annuitant Reserves for service and disability retirements or paid out as death benefits.
- **Annuitant Reserves** represent transfers of accumulated contributions of members who have retired, employer contributions needed to fund retired member benefits as determined by the actuary and earnings allocations less amounts paid out as annuitant (retiree) benefits.
- **COLA Reserves - Current** represent amounts set aside to fund the cost of COLAs that have already been granted to retirees as determined by the actuary, recommended by the SCERA Board of Retirement, and authorized by the Sonoma County Board of Supervisors.
- **Unreserved (Undistributed Investment Earnings)** is credited with all investment earnings. Reduction of this account is through payment of administrative expenses and consultant and management expenses. The remaining undistributed earnings, in excess of 3% of the Plan's market value of assets, can only be used for payment of pension benefits as described in Section 31592.2 of the Government Code.
- **Market Stabilization Reserve** is the difference between the current fair value of assets and the smoothed actuarial value of assets (AVA) that is used in developing the Unfunded Actuarial Accrued Liability (UAAL). The value in this reserve will be recognized in developing the AVA over the next 4 years.
- **Interest Fluctuation Reserve** is a reserve set by statute at 1% of the fair value of assets to provide funds to offset future deficiencies in interest earnings, losses on investment or other contingencies. The Board policy is to increase the threshold of this reserve to 3% before earnings in this reserve can be used for payment of pension benefits described in Section 31592.2 of the Government Code.
- **Negative Contingency Reserve** is used to track interest crediting shortfalls as a result of investment returns below the assumed investment rate of return.

A breakdown of the reserve accounts, which comprise the total fiduciary net position restricted for pension benefits at December 31, 2023, 2022, and 2021 are as follows:

**SCHEDULE OF RESERVES**

| (Dollars in Thousands) | 2023 | 2022 | 2021 |
|---|---|---|---|
| Member Reserves | $ 629,503 | $ 610,594 | $ 600,996 |
| Employer Reserves | 1,136,849 | 1,057,966 | 997,870 |
| Annuitant Reserves | 2,295,149 | 2,215,297 | 2,116,287 |
| Cost of Living Reserves-Current | 23,312 | 25,354 | 27,917 |
| Interest Fluctuation Reserve | - | - | - |
| Market Stabilization Reserve | (19,541) | (141,542) | 305,856 |
| Negative Contingency Reserve | (584,126) | (598,037) | (527,565) |
| Total Reserved for Pension Benefits | 3,481,146 | 3,169,632 | 3,521,361 |
| **Total Fiduciary Net Position Restricted for Pension Benefits** | $ 3,481,146 | $ 3,169,632 | $ 3,521,361 |

## P. RISK MANAGEMENT

SCERA is covered by the County of Sonoma's self-insurance program for general liability and workers' compensation coverage. The below policies and coverages are as of December 31, 2023.

SCERA is covered by the County of Sonoma for general liability coverage, where the County maintains a self-insured retention of $1million per occurrence, with excess coverage up to $35 million per occurrence provided through Public Risk Innovation, Solutions, and Management (PRISM) – formerly California State Association of Counties, Excess Insurance Authority (CSAC-EIA), Excess Liability Program. For workers' compensation coverage, the County maintains a self-insured retention of $300 thousand per occurrence with excess coverage to statutory limits provided through participation in the PRISM Excess Workers' Compensation program. For each of the above self-insurance coverages, the County maintains a separate Internal Service Fund. Funding for each fund is actuarially evaluated annually.

SCERA employees are covered under the County of Sonoma public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by American International Group (AIG), administered through PRISM. Coverages include forgery and alteration, theft, disappearance and destruction, robbery and safe burglary, and computer fraud, with limits to $20 million and a $25 thousand deductible.

SCERA participates in a joint-purchase property insurance program through PRISM. Coverage is "All Risk" for physical loss and damage including flood and earthquake. Shared limits of property coverage are $300 million in aggregate per occurrence for all risk, $200 million in aggregate per occurrence for flood, and $100 million in aggregate per occurrence for earthquake. There is a $25 thousand deductible per "All Risk" occurrence and other exceptions to basic deductibles are covered in the Memorandum of Property Coverage.

SCERA is covered for cyber liability under a PRISM Cyber Liability Program through Lloyd's of London-Beazley Syndicate and several excess carriers in the amount of $90 million aggregate limit for all program members and $18 million per member aggregate (with various sub-limits), with a $50 thousand self-insured retention. Coverage includes cyber-crime liability, information security and privacy liability, privacy notification, regulatory defense, website media content liability, and data protection.

SCERA purchases separate Fiduciary Liability coverage for actual or alleged breach of fiduciary duties through Hudson Insurance Company. Limits of coverage are $10 million annual aggregate with a $50 thousand deductible. The Trustees pay a waiver of recourse premium of $100 dollars total. Coverage includes breach of fiduciary duty, Directors and Officers coverage, employee dishonesty coverage, and employment practices coverage.

## Q. COMMITMENTS AND CONTINGENCIES

As of December 31, 2023, SCERA has invested in two different Davidson Kempner private credit strategies that are a part of SCERA's Opportunistic investments. The funds have ended their investment periods, but remain open and could technically call additional funds for "follow-on" investments. Given that the two open funds are well past their formal investment period, they are very unlikely to call from the remaining $67.6 million commitment (a combination of never called and recallable commitments).

## R. DATE OF MANAGEMENT'S REVIEW

The date to which events occurring after December 31, 2023, have been evaluated for possible adjustments to the financial statements or disclosures is June 3, 2024, which is the date that the financial statements were available to be issued. SCERA Management did not identify any subsequent financial events.

# REQUIRED SUPPLEMENTARY INFORMATION

**(UNAUDITED)**

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY/(ASSET) AND RELATED RATIOS

For the years ended December 31, 2023, 2022, 2021, 2020, and 2019

| (Dollars in Thousands) | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | |
| Service cost | $ 86,210 | $ 83,637 | $ 79,490 | $ 76,153 | $ 77,185 |
| Interest | 240,386 | 232,291 | 227,230 | 218,710 | 214,052 |
| Change of benefit terms | - | - | - | - | - |
| Difference between expected and actual experience | 36,281 | 11,462 | (12,334) | 16,309 | (37,245) |
| Change of assumptions | - | - | 96,768 | - | - |
| Benefit payments, including refunds of employee contributions | (215,416) | (204,675) | (195,506) | (190,092) | (182,746) |
| **Net Change in Total Pension Liability** | 147,461 | 122,715 | 195,648 | 121,080 | 71,246 |
| **Total Pension Liability – Beginning** | 3,582,766 | 3,460,051 | 3,264,403 | 3,143,323 | 3,072,077 |
| **Total Pension Liability – Ending (a)** | $ 3,730,227 | $ 3,582,766 | $ 3,460,051 | $ 3,264,403 | $ 3,143,323 |
| **Plan Fiduciary Net Position** | | | | | |
| Contributions – employer | $ 78,412 | $ 76,562 | $ 74,953 | $ 77,506 | $ 65,155 |
| Contributions – employee | 52,595 | 49,224 | 49,056 | 47,364 | 44,659 |
| Net investment income/(loss) | 400,093 | (269,319) | 522,238 | 225,040 | 415,559 |
| Benefit payments, including refunds of employee contributions | (215,416) | (204,675) | (195,506) | (190,092) | (182,746) |
| Administrative and other expense | (4,170) | (3,521) | (3,055) | (3,033) | (3,546) |
| **Net Change in Plan Fiduciary Net Position** | 311,514 | (351,729) | 447,686 | 156,785 | 339,081 |
| **Plan Fiduciary Net Position – Beginning** | 3,169,632 | 3,521,361 | 3,073,675 | 2,916,890 | 2,577,809 |
| **Plan Fiduciary Net Position – Ending (b)** | 3,481,146 | 3,169,632 | 3,521,361 | 3,073,675 | 2,916,890 |
| **Net Pension Liability/(Asset) – Ending (a) – (b)** | $ 249,081 | $ 413,134 | $ (61,310) | $ 190,728 | $ 226,433 |
| **Plan Fiduciary net position as a percentage of the total pension liability** | 93.32% | 88.47% | 101.77% | 94.16% | 92.80% |
| **Covered payroll** | $ 419,411 | $ 393,355 | $ 383,134 | $ 373,107 | $ 350,995 |
| **Net Pension Liability/(Asset) as a percentage of covered payroll** | 59.39% | 105.03% | (16.00)% | 51.12% | 64.51% |

The schedule of changes in net pension liability/(asset) displays the components of the total pension liability and plan fiduciary net position for the System, calculated in conformity with the requirements of GASB Statements No. 67 and No. 82. Covered payroll represents the collective total of the System eligible wages upon which contributions are based of all System Employers.

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY/(ASSET) AND RELATED RATIOS (continued)

For the years ended December 31, 2018, 2017, 2016, 2015, and 2014

| (Dollars in Thousands) | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | |
| Service cost | $ 73,316 | $ 71,798 | $ 69,834 | $ 67,839 | $ 70,200 |
| Interest | 210,532 | 202,726 | 194,741 | 187,756 | 184,919 |
| Change of benefit terms | - | - | - | - | - |
| Difference between expected and actual experience | 12,137 | 883 | 5,296 | (15,191) | (69,415) |
| Change of assumptions | 31,798 | - | - | 93,686 | - |
| Benefit payments, including refunds of employee contributions | (172,562) | (165,949) | (157,452) | (149,364) | (141,675) |
| **Net Change in Total Pension Liability** | 155,221 | 109,458 | 112,419 | 184,726 | 44,029 |
| **Total Pension Liability – Beginning** | 2,916,856 | 2,807,398 | 2,694,979 | 2,510,253 | 2,466,224 |
| **Total Pension Liability – Ending (a)** | $ 3,072,077 | $ 2,916,856 | $ 2,807,398 | $ 2,694,979 | $ 2,510,253 |
| **Plan Fiduciary Net Position** | | | | | |
| Contributions – employer | $ 67,425 | $ 63,822 | $ 63,639 | $ 68,240 | $ 61,179 |
| Contributions – employee | 45,567 | 44,161 | 40,783 | 38,714 | 37,126 |
| Net investment income/(loss) | (107,078) | 394,909 | 189,949 | 34,589 | 117,663 |
| Benefit payments, including refunds of employee contributions | (172,562) | (165,948) | (157,452) | (149,364) | (141,676) |
| Administrative and other expense | (3,583) | (3,732) | (4,219) | (3,526) | (3,590) |
| **Net Change in Plan Fiduciary Net Position** | (170,231) | 333,212 | 132,700 | (11,347) | 70,702 |
| **Plan Fiduciary Net Position – Beginning** | 2,748,040 | 2,414,828 | 2,282,128 | 2,293,475 | 2,222,773 |
| **Plan Fiduciary Net Position – Ending (b)** | 2,577,809 | 2,748,040 | 2,414,828 | 2,282,128 | 2,293,475 |
| **Net Pension Liability/(Asset) – Ending (a) – (b)** | $ 494,268 | $ 168,816 | $ 392,570 | $ 412,851 | $ 216,778 |
| **Plan fiduciary net position as a percentage of the total pension liability** | 83.91% | 94.21% | 86.02% | 84.68% | 91.36% |
| **Covered payroll** | $ 355,558 | $ 345,631 | $ 329,078 | $ 311,404 | $ 299,875 |
| **Net Pension Liability/(Asset) as a percentage of covered payroll** | 139.01% | 48.84% | 119.29% | 132.58% | 72.29% |

The schedule of changes in net pension liability/(asset) displays the components of the total pension liability and plan fiduciary net position for the System, calculated in conformity with the requirements of GASB Statements No. 67 and No. 82. Covered payroll represents the collective total of the System eligible wages upon which contributions are based of all System Employers.

## SCHEDULE OF INVESTMENT RETURNS

For years 2014 through 2023

| Year Ended December 31 | Annual Money-Weighted Rate of Return, Net of Investment Expense |
|---|---|
| 2014 | 5.54% |
| 2015 | 1.50% |
| 2016 | 8.55% |
| 2017 | 16.11% |
| 2018 | -3.39% |
| 2019 | 16.35% |
| 2020 | 9.05% |
| 2021 | 16.91% |
| 2022 | -3.99% |
| 2023 | 16.26% |

## SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollars in Thousands)

| Year Ended December 31 | Actuarially Determined Employer Contributions | Actual Contributions in Relation to the Actuarially Determined Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a % of Covered Payroll |
|---|---|---|---|---|---|
| 2014 | $ 61,179 | $ 61,179 | $ - | $ 299,875* | 20.40% |
| 2015 | 64,687 | 68,240 | (3,553) | 311,404 | 21.91% |
| 2016 | 63,640 | 63,640 | - | 329,078 | 19.34% |
| 2017 | 63,822 | 63,822 | - | 345,631 | 18.47% |
| 2018 | 67,425 | 67,425 | - | 355,558 | 18.96% |
| 2019 | 65,155 | 65,155 | - | 350,995 | 18.56% |
| 2020 | 70,784 | 77,506 | (6,722) | 373,107 | 20.77% |
| 2021 | 73,142 | 74,953 | (1,811) | 383,134 | 19.56% |
| 2022 | 70,966 | 76,562 | (5,596) | 393,355 | 19.46% |
| 2023 | 73,994 | 78,412 | (4,418) | 419,411 | 18.70% |

* Covered Payroll amounts changed due to payroll system corrections.

## NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

### Note A – Schedule of Changes in Net Pension Liability/(Asset) and Related Ratios

The total pension liability contained in this schedule was obtained from the System's actuary, Segal.

### Note B – Schedule of Investment Returns

Investment returns over longer periods of time are created by linking the returns for each sub-period included, which are often monthly or quarterly periods. Time-weighted returns give equal weight to the returns of each sub-period. Dollar-weighted returns, by contrast, weight the return of each sub-period by the relative size of assets invested at the time.

### Note C – Actuarial Assumptions Used in Determining the Actuarially Determined Contributions

The employer statutory contribution rates for the first six months of 2023 are calculated based on the December 31, 2020 actuarial valuation; the rates for the last six months of 2023 are calculated based on the December 31, 2021 valuation. Details of the actuarial methods and assumptions used for these valuations are as follows:

| | | |
|---|---|---|
| Valuation Date | December 31, 2021 | December 31, 2020 |
| Actuarial cost method | Entry Age Normal Cost Method | Entry Age Normal Cost Method |
| Amortization method | Level percent, open | Level percent, open |
| Remaining amortization period | 20 years layered, declining | 20 years layered, declining |
| Asset valuation | 5-year, smoothed, market | 5-year, smoothed, market |
| Investment rate of return | 6.75% | 7.00% |
| Includes inflation at | 2.50% | 2.75% |
| Across the Board salary increase | 0.50% | 0.50% |
| Projected salary increases | 2.50%, plus service-based rates | 2.75%, plus service-based rates |
| Cost of living adjustments | None | None |
| Mortality rates | Various rates based on Pub-2010 Amount-Weighted Above Median Healthy or Disabled Mortality Tables, Projected generationally with 2-dimensional mortality improvement scale MP-2020, adjusted based on Respective Population. | Various rates based on RP-2014 Headcount-Weighted Healthy or Disabled Annuitant Tables projected with 2-dimensional mortality improvement scale MP-2017. |

## Change of Assumptions

Triennially, the System requests that the actuary perform an analysis of all economic and non-economic assumptions in the form of an Experience Study. The most recent triennial analysis was performed as of December 31, 2020 for the period of January 1, 2018 through December 31, 2020. Based on the results of this study, the Board adopted new economic and non-economic assumptions effective with the December 31, 2021 valuation for calculating future projected liability and contribution rates. The significant changes included the following:

**Changes in Actuarial Assumptions**

| | 2020 Experience Study | 2017 Experience Study | Change |
|---|---|---|---|
| Investment Return | 6.75% | 7.00% | (0.25)% |
| Assumed Inflation | 2.50% | 2.75% | (0.25)% |
| Payroll Growth | 3.00% | 3.25% | (0.25)% |
| Mortality Rates | Various rates based on Pub-2010 Amount-Weighted Above Median Healthy or Disabled Mortality Tables, Projected generationally with 2-dimensional mortality improvement scale MP-2020, adjusted based on Respective Population. | Various rates based on RP-2014 Headcount-Weighted Healthy or Disabled Annuitant Tables, Projected with 2-dimensional mortality improvement scale MP-2017. | |

These new assumptions will be used to determine the Actuarially Determined Contributions effective in fiscal year 2025-2026.

## ADMINISTRATIVE EXPENSES
For the years ended December 31,

| (Dollars in Thousands) | 2023 | 2022 |
|---|---|---|
| **Personnel Services** | | |
| Salaries, Wages, and Benefits | $ 2,335 | $ 2,256 |
| **Office Expenses** | | |
| Equipment & Software Maintenance | 155 | 104 |
| Postage | 64 | 38 |
| Office Supplies | 56 | 51 |
| Printing and Stationary | 45 | 25 |
| Telephone Charges | 17 | 14 |
| Total Office Expenses | 337 | 232 |
| **Other Services and Charges** | | |
| Disability Medical Fees | 533 | 375 |
| Fiduciary Insurance | 96 | 98 |
| Data Processing Charges | 89 | 89 |
| Professional Services | 83 | 25 |
| Transportation, Travel and Training | 82 | 65 |
| Audit Fees | 63 | 61 |
| County Services | 22 | 22 |
| Memberships | 18 | 27 |
| Actuarial Retainer Fees | 12 | 12 |
| Disability Hearing Officer Fees | 6 | 28 |
| Total Other Services and Charges | 1,004 | 802 |
| **Building Expenses** | | |
| Depreciation | 38 | 31 |
| All Other Building Expenses | 72 | 37 |
| Utilities | 20 | 11 |
| Total Building Expenses | 130 | 79 |
| Depreciation/Amortization – Capital Assets | 9 | 22 |
| Less: Retiree Medical Billing Revenues | (25) | (25) |
| Total Administrative Expenses | $ 3,790 | $ 3,366 |

## FEES AND OTHER INVESTMENT EXPENSES

For the years ended December 31,

| (Dollars in Thousands) | 2023 | 2022 |
|---|---|---|
| Investment Manager Fees | | |
| Equity Managers | $ 6,897 | $ 11,587 |
| Real Assets Managers | 6,123 | 5,786 |
| Fixed Income Managers | 1,540 | 1,581 |
| Opportunistic Managers | 56 | 146 |
| Total Investment Manager Fees | 14,616 | 19,100 |
| Other Investment Expense | | |
| Investment Custodian | 934 | 1,420 |
| Investment Travel & Staff Salary | 652 | 621 |
| Cash Overlay Manager | 122 | 355 |
| Investment Consultant | 355 | 355 |
| Investment Legal Counsel | 6 | 56 |
| Other Investment Services | 15 | 37 |
| Total Other Investment Expense | 2,084 | 2,844 |
| **Total Fees and Other Investment Expenses[(A)]** | **$ 16,700** | **$ 21,944** |

(A) This schedule depicts direct expenses relating to the generation of investment income. Not reported on this schedule is the allowance for earnings on unearned revenue totaling $2.7 million and $3.4 million for the years ending December 31, 2023 and 2022, respectively (Please see Note K to the financial statements).

## SCHEDULE OF PAYMENTS TO CONSULTANTS

For the years ended December 31,

| (Dollars in Thousands) | 2023 | 2022 |
|---|---|---|
| Audit | | |
| Brown Armstrong Accountancy Corporation | $ 63 | $ 61 |
| Total | 63 | 61 |
| Legal Counsel (External) | | |
| Mayer Brown, LLP | - | 56 |
| County of Sonoma, County Counsel | 61 | 46 |
| Nossaman, LLP | 1 | - |
| Ice Miller, LLP | 9 | 3 |
| Reed Smith, LLP | 7 | - |
| Total | 78 | 105 |
| Actuarial | | |
| Segal Consulting | 302 | 106 |
| Total | 302 | 106 |
| **Total Payments to Consultants** | **$ 443** | **$ 272** |

# *Investment Section*

April 1, 2024

Board of Retirement
Sonoma County Employees' Retirement Association
433 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403

Dear Members of the Board:

As your investment consultant, Aon Investments USA Inc. (Aon Investments) is pleased to provide you with our report on the Sonoma County Employees' Retirement Association (SCERA) for the year ending December 31, 2023.

The SCERA Retirement Fund (Fund) is managed in accordance with a written Investment Policy Statement. The Investment Policy Statement is periodically reviewed and revised by the Retirement Board depending on actuarial assumptions, accrued liabilities, information provided through asset and liability studies and/or other relevant analyses.

*Investment Policy*

The Fund's Investment Policy started the year with a target allocation of 60% to Equities, 17% to Fixed Income, and 23% to Real Assets. However, the following action altered the allocation throughout the year:

- Completed funding an additional farmland manager (decision was made in 2022), which increased the policy allocation to Real Assets from 23% to 26% with a commensurate policy allocation reduction from Global Equities (17% to 16%) and Core Fixed Income (from 14% to 12%)

The current and prior asset allocation policies are represented in the table below. The intent of these asset allocation changes, in totality, is to improve the expected return/risk profile of the Fund.

| | Asset Allocation Policy Targets | |
|---|---|---|
| **Asset Class:** | **12/31/2022** | **12/31/2023** |
| *U.S. Equities* | *21.5%* | *21.5%* |
| *Non-U.S. Equities* | *21.5* | *21.5* |
| *Global Equities* | *17.0* | *16.0* |
| **Equities** | **60.0%** | **59.0%** |
| *Core Fixed Income* | *14.0%* | *12.0%* |
| *Alternative Fixed Income* | *3.0* | *3.0* |
| **Fixed Income** | **17.0%** | **15.0%** |
| **Real Assets** | **23.0%** | **26.0%** |
| **Opportunistic Allocation** | **n/a** | **n/a** |
| ***Total Fund*** | ***100.0%*** | ***100.0%*** |

*Investment Managers*

The SCERA Fund's roster of investment management accounts underwent the following changes during 2023:

**Aon**
200 E. Randolph Street, Suite 700 | Chicago, IL 60601
t +1.312.381.1200 | aon.com
Investment advice and consulting services provided by Aon Investments USA, Inc.

Ms. Julie Wyne
Sonoma County Employees' Retirement Association
April 1, 2024
Page 2

- Completed the funding of the KKR Diversified Core Infrastructure Fund, which was approved in 2021. The manager called SCERA's capital commitment throughout 2022 and 2023.
- Completed the funding of the Fiera Comox Global Agriculture Fund, which was approved in 2022. The manager called SCERA's capital commitment throughout 2022 and 2023.
- Terminated the UBS Trumbull Property Fund within the Real Assets asset class, with assets expected to be distributed over the next several quarters.
- Converted the Arrowstreet International Equity 130/30 mandate to the manager's International Equity 130/30/20 mandate.

*Capital Markets*

The major global capital markets enjoyed a strong 2023 calendar year. The U.S. stock market, as measured by the Russell 3000 Index, returned +26.0% in 2023. The non-U.S. stock market, as measured by the MSCI All Country World IMI ex-U.S. returned +15.6% over the same period. In the US stock market, growth stocks outperformed value stocks within both the large cap and small cap sub-universe. Across the capitalization spectrum, large-cap stocks outperformed small-cap stocks. The fixed income market, as measured by the Bloomberg U.S. Aggregate Bond Index, returned +5.5% in 2023. Meanwhile, the real estate market returned -12.7%[1], as measured by the NCREIF ODCE Index.

*Fund Performance*

Based on fair market value, the SCERA Fund (net-of-fees[2]) finished 2023 with a +12.0% return for the year, underperforming the policy portfolio return of +12.9%. The Fund's annualized returns over the past three- and five-year periods were +7.0% and +9.0%, respectively. The Fund produced an annualized return of +7.3% over the ten-year period ending December 2023. For the 30-year period, the Fund returned +7.5%, annualized. The Plan and benchmark returns are time-weighted and reflect that the market values for Real Asset and Opportunistic investments are booked with a lag[1]. We continue to believe the Fund is positioned to generate strong investment results over the long-term.

Sincerely,

| | |
|---|---|
| Chris Behrns | Tim Pflugradt |
| Associate Partner | Senior Consultant |

*[1] Performance information for the managers within Real Assets is not available until one to three months after quarter-end time periods; therefore, due to the lagged reporting of the Real Assets managers, this return may not reconcile with other SCERA Fund performance shown in the ACFR.*

*[2] In reporting investment performance, Aon Investments calculates geometrically linked time-weighted rates of return for SCERA monthly using statements provided by State Street Bank. Aon Investments reconciles these rates of return with those provided by the investment managers. We monitor any discrepancies (due to computational differences, securities pricing services, etc.) between Aon Investments and the investment managers but find that they generally do not tend to persist over time. All rates of return contained in this report are net of investment management fees. All rates of return presented in this report for time periods greater than one year are annualized.*

## SUMMARY OF INVESTMENT OBJECTIVES

The Board of Retirement (the Board) has adopted an Investment Policy Statement, which reflects the Board's policy for the management of Sonoma County Employees' Retirement Association (SCERA or the Plan) investments. The Board is responsible for overseeing the investment activities for SCERA (the Plan). This includes, but is not limited to, selecting acceptable asset classes; defining allowable ranges of holdings by asset class and by individual investment managers as a percent of assets; defining acceptable securities within each class; and establishing investment performance expectations. The Board will make revisions to this Investment Policy Statement as necessary.

The Board has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The assets of the Plan will be invested in a manner that provides the safeguards and diversity to which a prudent investor would adhere. All transactions undertaken on behalf of the Plan will be in the sole interest of the participants and beneficiaries.

SCERA's primary investment objective is to minimize risk and maximize return, diversifying as prudent, for the purpose of providing Plan benefits to members and beneficiaries.

An integral part of the overall Investment Policy Statement is the strategic asset allocation policy. This allocation mix is designed to provide an optimal mix of asset categories with return expectations that reflect expected risk. This emphasizes a maximum diversification of the portfolio that protects the fund from declines that a particular asset class may experience in a given period.

## SUMMARY OF PROXY VOTING GUIDELINES

Voting of proxy ballots shall be in accordance with SCERA's Proxy Voting Policy. The investment managers shall review each proxy ballot and vote them in a manner that preserves and enhances shareholder value. Each investment manager shall keep accurate written records of all proxy votes and, at least annually, provide a detailed report to the Investment Committee, documenting all votes.

## INVESTMENT OPERATIONS

### Program Developments

2023 was the first full year, following the COVID-19 pandemic, in which all the Retirement Board's monthly investment meetings were conducted in-person, though they were also streamed via video conference so the public could participate remotely. The investment team was also fully back to conducting its due diligence meetings in person. SCERA meets at least once every three years with each of its investment managers, on-site in their offices. The investment staff conducted six due diligence meetings with Plan managers in the past year and two with our investment consultant.

Every three years the Plan's investment consultant performs an Asset-Liability (A-L) study for SCERA to reassess the policy asset allocation and recommend potential adjustments. The 2023 A-L study concluded that the Plan's asset allocation is robust and appropriate, but we have the capacity to take-on additional investments in illiquid if the Board believes they would receive favorable returns. This is consistent with the conclusion from prior A-L studies which resulted in the buildout of our illiquid Real Assets portfolio over the last twenty years. For SCERA, Real Assets includes privately owned Real Estate, Farmland, and Infrastructure. The allocation to Real Assets has been funded with reductions in Public Equities and Fixed Income. The result of these investments has been a similar-to-improved expected Plan return with better diversification and, consequently, less volatility or risk. The Board began considering Timberland investing during 2023 as a possible means to further expand the Real Assets exposure. As of the end of 2023, no decision had been made regarding investing in Timberland.

**Program Developments (continued)**

In 2023, SCERA completed the buildout of Real Assets that was adopted after the 2020 A-L study which included increased allocations from 5% to 8% for both Infrastructure and Farmland. To implement the Infrastructure increase we committed $135 million to the KKR Diversified Core Infrastructure Fund and to implement the Farmland increase SCERA committed $125 million to the Fiera Comox Global Agriculture Open-End Fund. We view this Farmland fund as complementary to our first and only other Farmland fund, the UBS AgriVest Farmland Fund. The Fiera Comox fund invests globally and participates in farmland operations, whereas the UBS fund invests only in the US and leases out all of its farmland to operating farmers. The Fiera Comox fund also has a more substantial allocation to permanent cropland, such as that used for trees and vines, which is generally higher returning, but also less risk averse. SCERA completed funding these new commitments to Infrastructure and Farmland in 2023, and the Plan's policy weight for Real Assets now totals 26%.

In 2023, SCERA moved from Arrowstreet's 130/30 fund to their 130/30/20 fund. Arrowstreet has been a strong performing non-US equity manager for the Plan since 2011. The 130/30 strategy allows the manager to borrow up to 30% of the value of the account to hold 130% in long positions while shorting up to 30%. These weights net to 100% market exposure while enabling the manager to express a negative view on "overvalued" stocks with a small weight in the benchmark. SCERA moved, along with other clients, to their newer 130/30/20 fund which SCERA and its investment consultant believe reflects the firm's current best ideas. The extra "20" in the fund description indicates that the firm can manage to a maximum net dollar exposure of 120%. Arrowstreet does this because their quantitative stock selection process tends to favor stocks with lower market-risk and the extra 20% allows them to bring the portfolio's overall market-risk back up to 100%.

SCERA's Opportunistic Allocation is primarily intended for outsized opportunities resulting from momentous market dislocations. It could also be used as an incubator to allow us to become more familiar with a new strategy before its promotion to a long-term strategic allocation. The policy range for the Opportunistic Allocation is 0% to 6%. There were no new Opportunistic investments identified in 2023, but we did continue to hold two such investments, the Davidson Kempner (DK) Special Opportunity Funds (SOF) III and IV. Both DK Funds are nearing the end of their lives and have begun their harvesting period, returning capital to investors.

SCERA had no managers on "Watch" during 2023, though the Board did elect to submit a full redemption from the UBS Trumbull Property Fund, a private core Real Estate fund. That redemption request was submitted in January 2024 after the expiration of the four-year loyalty lock-up/management fee discount period. The Board determined that another manager(s) could serve the Plan better. The return of capital is expected to be prolonged, given the size of the Fund's redemption queue and current dearth of commercial real estate transactions. We plan to reconsider the structure of the Plan's Real Estate portfolio in 2024 before the Board decides where to reinvest any redemption proceeds.

State Street Global Markets (SSGM) has managed an "interim management strategy" for SCERA since the termination of a global equity manager in June 2021. At the inception of the interim period, SSGM received discretion over the assets from the terminated account and traded a small portion of the holdings to limit tracking error versus the account's Global Equity benchmark. The purpose was to capture Global Equity market performance, similar to an index fund, for the interim period while minimizing transaction costs by limiting trading. As intended, this account was closed in late 2023 after some of the capital was used to fund the remaining commitment to the Fiera Comox Global Agriculture Open-End Fund, and the remaining capital was transitioned to the Plan's global equity index fund managed by State Street Global Advisors, the MSCI All Country World Investible Market Index Rule-of-Law (ROL) strategy.

As is typical, the Board received several educational presentations in 2023, including a review of the performance of the Plan's active and passive managers, our consultant's expectations for future market returns, a survey by our consultant of Board member risk tolerance, an assessment of developments in the banking industry, and the attributes of investing in Private Credit. The Board elected not to include Private Credit in the Plan's strategic asset allocation at this time. Specific strategies could be considered for inclusion in the Plan's Opportunistic Allocation, as are the distressed

**Program Developments (continued)**

credit funds currently held in the Opportunistic Allocation. The structural review of the Plan's Real Estate portfolio was begun during the year and will be continued in 2024.

SCERA also examined its Securities Lending (SL) program this past year. Revenues from the program have been declining over recent years due to dynamics in the SL industry, as well as SCERA's shrinking separate account portfolios from which to lend. Aon's Custody & Lending Advisory Services Group was engaged to review, and potentially recommend changes, for the Board to consider. Approved changes to the SL program included a change to the fund in which cash collateral is invested, participation in State Street's Direct Access program to facilitate the lending of securities directly to large institutional borrowers and removing the "minimum spread" guideline which is no longer needed to avoid loans that could generate a loss. These program changes were implemented through the summer and fall and by the fourth quarter, program revenues were beginning to rise.

Every three years the staff and consultant perform a full review of the guiding document for the Plan's investment program, the Investment Policy Statement (IPS). Changes approved by the Board included a widening of the range for Real Assets from +/-3% to +/-5%, changes to the Securities Lending program as described above, the assimilation of the Plan's Proxy Voting Policy Statement into the IPS, and various minor corrections and clean-up alterations.

In early 2021 the Board adopted a Rule of Law (ROL) investment guideline which prohibits, where possible, investments in countries with poor ROL scores as provided by the World Justice Project (WJP). The Board considers this guideline a long-term risk mitigation effort as they believe it's prudent to avoid investing in countries where our claim on assets is tenuous, and where the legal system may not provide adequate protection for stakeholders. The WJP updated their ROL country scores in late 2023, and SCERA's impacted managers were given an updated list of excluded countries. Practically speaking, the ROL guideline has resulted in the elimination of more than half, but not all, of our exposure to poor ROL countries. SCERA's investments in commingled vehicles will continue to possess these exposures where present, as, understandably, we have no control over how capital is invested in commingled funds. This ROL guideline has significantly reduced our exposure to China and Russia since it's imposition and has been a material contributor to benchmark-relative outperformance.

Last, the Plan's contract with Aon Investments expired at the end of 2023. In the fall, the Investment staff presented the results of their survey of other California public retirement plans and their use of investment consultants. Based on this survey and the Board's assessment of the service provided by Aon, the Board elected to establish a new contract, effective at the beginning of 2024. The new contract is a three-year contract with two one-year extensions at SCERA's election.

**Investment Results**

For calendar year 2023, the Plan's investment portfolio returned 13.6% gross-of-fees. With annual investment management fees of approximately 0.5%, this equates to a return of 13.1% net-of-fees, a return considerably above the current Actuarial Assumed Rate-of-Return (ROR) of 6.75%.

A strong rebound in public markets after a broad-based decline in 2022 also lifted the trailing 3- and 5-year Plan returns from the previous year. Those returns were 7.4% and 9.5% gross-of-fees, both exceeding the assumed average ROR at the time of 6.75% and 6.85%, respectively. Since individual calendar year returns can be volatile as witnessed over these past few years, interim progress is often monitored by using "smoothed" five-year returns. SCERA's performance over twenty years is 7.5% gross-of-fees, which after-fees modestly trails the annual average assumed ROR for the period of 7.5%. Given the perpetual nature of the Plan's liabilities, this long-term return is arguably the most relevant when evaluating the Plan's financial performance.

**Market Commentary**

In 2023, global financial markets experienced a tumultuous, yet ultimately resilient year marked by several significant developments. The year commenced with cautious optimism as economies continued to recover from the impacts of the COVID-19 pandemic. This optimism was soon challenged by regional bank stress, geopolitical tensions, inflationary pressures, and uncertainty surrounding central bank policies. This, commensurately, impacted asset prices and market stability.

One of the defining features of 2023 was the delicate balance for central banks, including our own Federal Reserve, of curbing inflationary pressures without stifling economic recovery. This led to a series of interest rate hikes and policy adjustments. By mid-year, the Federal Reserve telegraphed a "pause" after a period of the most aggressive rate hikes in decades and raised rates for the final time in July. By year-end, the Fed signaled the elusive policy "pivot" to future rate cuts.

Despite the elevated level of investor uncertainty throughout 2023 and forecasts of an imminent US recession, equities finished the year near all-time highs. US equities rose 26% as measured by the Russell 3000 Index and developed market non-US equities were up 18% as measured by the MSCI EAFE. Stock indices were supported by encouraging corporate earnings, economic growth, and expectations that the interest rate cycle was peaking. Information Technology (IT) companies associated with artificial intelligence development and infrastructure also provided a tailwind to NASDAQ momentum delivering a 44.6% return. The worst equity market performers were Chinese and Hong Kong stocks that lost over 10% of their value, though the rate of decline slowed from the prior two years.

The Plan's US Equity managers, in aggregate, returned 25.9%, keeping pace with the Russell 3000 benchmark return of 26%. Jacobs Levy continued its streak of delivering steady positive alpha with 300 basis points of outperformance. Given that both the Plan's active US equity managers tilt toward "Value" stocks, the relative performance is even more noteworthy since a substantial portion of US equity returns in 2023 derived from a handful of "Growth" Technology stocks.

The Plan's Non-US Equity managers delivered an aggregate return of 19.7% for the year exceeding the benchmark return of 15.6%. The 130/30 (partial short extension) strategy managed by Arrowstreet again delivered strong benchmark relative outperformance of over 500 basis points. Additionally, the Plan's Rule-Of-Law (ROL) guideline, which minimizes the exposure to countries with a poor ROL record, resulted in the passive Non-US Equity Index strategy significantly outperforming its benchmark. Over 300 basis points of outperformance was gained for 2023 in part due to this positive ROL impact.

The Plan's Global Equity portfolio managers invest in both US and non-US stocks and the asset class benchmark delivered a return of 21.9%, in a complete reversal from 2022's -18.2% return, which in turn whipsawed from 2021's 18.5% return. SCERA's Global Equity managers in aggregate produced a return of 20.5%, coming in just below the benchmark return. Similar to the passive Non-US Equity portion of the portfolio, the Global Equity ROL Index strategy outperformed its benchmark by over 500 basis points, due to the reduced exposure to the worst performing countries. The main contributor to the relative underperformance of the Global Equity portfolio was the performance of Dodge & Cox whose "Value" stock selection tilt detracted from overall results in a year dominated by the IT sector, which was underweighted as valuations rose, and the overweight positioning in the Financial sector, which came under pressure from the banking crises.

In Fixed Income, the Plan's managers produced a return of 7.5% for 2023 compared to the Bloomberg US Aggregate benchmark return of 5.5%. The majority of assets within the Fixed Income portfolio are dedicated to three "Core Plus" mandates managed by Reams, DoubleLine, and PIMCO. Reams delivered the greatest relative outperformance at over 150 basis points, while performance from DoubleLine was more in-line and PIMCO's return modestly trailed the benchmark. Supplementing the Core Plus Fixed Income assets is the bank loan mandate managed by Guggenheim. This manager's performance kept in the range of its Credit Suisse Leveraged Loan benchmark, returning 13.25% versus 13.04%, respectively. Bank loans benefited from their floating rate structure in a rising interest rate environment.

**Market Commentary (continued)**

The Plan's Real Assets portfolio is composed of Real Estate, Farmland, and Infrastructure. Combined, the Real Assets portfolio delivered a 0.6% return for the year. SCERA's two core real estate investment funds, the JPMorgan Strategic Property Fund (SPF) and the UBS Trumbull Property Fund (TPF) are both large privately managed real estate equity funds that invest in commercial properties across the US. Each fund underperformed the core real estate benchmark in 2023, posting -14.3% and -15.0% returns, respectively, resulting in the Real Estate asset class returning -14.6% and trailing the NCREIF ODCE benchmark return of -12.0%. Performance was negatively impacted throughout the year by the lagged effect of private real estate valuations, most notably in Office properties which has seen a valuation decline of over 30% since the sector peaked in 2022. As mentioned under Investment Program Developments, the Board voted to fully redeem from TPF, and a search for a replacement manager(s) will begin in 2024.

Farmland was included in the Real Assets portfolio to provide an uncorrelated source of stable returns with a strong income component. In late 2022, we began funding the Plan's second Farmland investment, the Fiera Comox Global Agriculture Open-End Fund, and became fully invested by October 2023. The return for the full year was 4.6% for Fiera Comox and 7.8% for the UBS AgriVest Farmland Fund (AFF), SCERA's first Farmland investment, compared to the NCREIF Farmland Index that rose 4.96% for the calendar year. The performance gap between AFF and the NCREIF Farmland Index can often be attributed to the higher weighting of permanent crops in the NCREIF benchmark, whereas AFF manages their portfolio against a Core Farmland Index (CFI) with 80% in annual cropland and only 20% in permanent cropland.

The Plan targets an 8% policy weight to Infrastructure through its investment in the IFM Global Infrastructure Fund, the Axium North America II Fund, and the recently incepted KKR Diversified Core Infrastructure Fund which was fully funded as of March 2023. All funds delivered a positive return in 2023, demonstrating the durability of this asset class through inflationary and economic volatile environments. IFM, Axium and KKR posted returns of 8.5%, 25.6%, and 7.3%, respectively, while the benchmark (Consumer Price Index plus 5% per year) returned 7.8%.

The Plan's Opportunistic Allocation currently includes two distressed credit funds managed by Davidson Kempner. Both funds have completed their investment period and are now in the "harvesting" stage, where fund investments are realized, and capital is returned to investors. Market prices are not readily available, but appraisals provide valuation estimates which currently indicate a combined 5 year annualized Internal ROR (which adjusts for the timing of cash flows) estimated at 9.3%. This is substantially in excess of the Plan's current actuarial assumed ROR and the Plan's Target Policy return, its official benchmark.

The Plan's solid performance, despite 2023's mixed signals and downward pressure from Real Estate, highlights the efficacy of the portfolio diversification SCERA has constructed. As a result, the long-term returns have remained at or near the expected rates of return over 10- and 20-year time horizons. Looking forward, we are confident in SCERA's investment policies, focusing on the funding requirements of the Plan, mitigating risk, and maintaining a long-term perspective.

## INVESTMENT RESULTS BASED ON FAIR VALUE

For the year ended December 31, 2023*

| Account | Current Year | 3 Year | 5 Year |
|---|---|---|---|
| **Fixed Income** | | | |
| DoubleLine – Core Plus | 5.79% | -2.39% | 0.77% |
| Guggenheim Bank Loan Fund | 13.25% | 6.22% | 5.88% |
| PIMCO – Core Plus | 5.36% | -2.98% | 1.33% |
| Reams Asset Management – Core Plus | 7.11% | -2.39% | 3.65% |
| ***Benchmark: BB US Aggregate Bond Index*** | 5.53% | -3.31% | 1.10% |
| **Total Fixed Income** | 7.45% | -1.08% | 2.45% |
| **Real Assets** | | | |
| JP Morgan Strategic Property Fund | -14.33% | 2.74% | 2.81% |
| UBS Trumbull Property Fund | -15.00% | 1.53% | -0.34% |
| ***Benchmark: NCREIF ODCE*** | -12.02% | 4.92% | 4.25% |
| UBS AgriVest | 7.82% | 8.07% | 6.54% |
| Fiera Comox Global Agricultural Fund | 4.57 | N/A | N/A |
| ***Benchmark: Core Farmland Index 1 Mo. Lag (custom)*** | 8.91% | 10.62% | 8.14% |
| AXINFRA NA LP | 25.60% | 37.44% | N/A |
| IFM Global Infrastructure Fund | 8.46% | 11.35% | 10.23% |
| KKR Diversified Core Infrastructure | 7.28% | N/A | N/A |
| ***Benchmark: CPI + 5% Year*** | 7.82% | 10.53% | 9.07% |
| **Total Real Assets** | 0.61% | 9.50% | 7.07% |
| **Domestic Equity** | | | |
| Jacobs Levy: Broad Mandate Equity | 28.96% | 23.26% | 23.05% |
| ***Benchmark: Russell 3000*** | 25.96% | 8.54% | 15.16% |
| SSGA: Russell 1000 Index Fund | 26.59% | 8.97% | 15.52% |
| ***Benchmark: Russell 1000*** | 26.53% | 8.97%% | 15.52% |
| Systematic Financial Mgmt: Small Cap Value | 17.11% | 12.03% | 13.16% |
| ***Benchmark: Russell 2000 Blended*** | 16.93% | 2.22% | 9.97% |
| **Total Domestic Equity** | 25.86% | 15.41% | 17.30% |
| **Non-US Equity** | | | |
| Arrowstreet Capital | 20.69% | 12.12% | 14.68% |
| SSGA: MSCI ACWI Ex US IMI Index Fund | 18.96% | 4.46% | 9.13% |
| ***Benchmark: MSCI ACWI Ex US IMI (net)*** | 15.62% | 1.53% | 7.19% |
| **Total Non-US Equity** | 19.69% | 7.47% | 10.18% |
| **Global Equity** | | | |
| SSGA ACWI IMI ROL Index Fund | 27.24% | 8.19% | N/A |
| ***Benchmark: MSCI ACWI IMI (net) w/USA Gross*** | 21.94% | 5.74% | N/A |
| Dodge & Cox | 17.64% | 10.15% | 11.63% |
| ***Benchmark: MSCI Global Equity Blended II*** | 21.94% | 5.74% | 11.81% |
| **Total Global Equity** | 20.47% | 8.32% | 10.35% |
| **Opportunistic** | | | |
| Davidson Kempner Funds | 2.74% | 11.16% | 9.34% |
| ***Benchmark: Custom*** | 13.01% | 4.44% | 8.84% |
| **Total Fund** | **13.63%** | **7.38%** | **9.48%** |

* Using time weighted rate-of-return based on the market rate-of-return; returns and benchmarks are shown gross of fees.

## SCHEDULE OF MANAGEMENT FEES

For the years ended December 31,

| (Dollars in Thousands) | 2023 | 2022 |
|---|---|---|
| **Fixed Income** | | |
| PIMCO | $ 403 | $ 436 |
| Guggenheim | 485 | 451 |
| DoubleLine | 391 | 431 |
| Reams Asset Management | 261 | 263 |
| **Total Fixed Income** | **1,540** | **1,581** |
| **Real Assets** | | |
| UBS AgriVest | 1,320 | 1,541 |
| JP Morgan | 1,458 | 1,825 |
| IFM Global | 914 | 835 |
| UBS Realty | 681 | 775 |
| Axium | 608 | 579 |
| KKR | 609 | 216 |
| Fiera Comox | 533 | 15 |
| **Total Real Assets** | **6,123** | **5,786** |
| **Domestic Equity** | | |
| Jacobs Levy | 2,063 | 1,954 |
| Systematic Financial Management | 691 | 706 |
| State Street Global Advisors (Russell 1000) | 54 | 66 |
| **Total Domestic Equity** | **2,808** | **2,726** |
| **Non-U.S. Equity** | | |
| Arrowstreet Capital | 2,523 | 7,297 |
| State Street Global Advisors (SSGA Ex-US ROL) | 229 | 223 |
| **Total Non-U.S. Equity** | **2,752** | **7,520** |
| **Global Equity** | | |
| Dodge & Cox | 1,113 | 1,105 |
| State Street Global Advisors (SSGA ROL & Interim) | 224 | 236 |
| **Total Global Equity** | **1,337** | **1,341** |
| **Opportunistic** | | |
| Davidson Kempner | 56 | 146 |
| **Total Opportunistic** | **56** | **146** |
| **Total Investment Manager Fees** | **14,616** | **19,100** |
| **Other Investment Expenses** | | |
| Investment Custodians | 934 | 1,420 |
| Investment Travel and Staff Salary | 652 | 621 |
| Cash Overlay Manager | 122 | 355 |
| Investment Consultant | 355 | 355 |
| Investment Legal Counsel | 6 | 56 |
| Other Investment Services | 15 | 37 |
| **Total Other Investment Expenses** | **2,084** | **2,844** |
| **Total Fees/Other Investment Expenses** | **$ 16,700** | **$ 21,944** |

# SCHEDULE OF BROKER COMMISSIONS

For the year ended December 31, 2023
(dollars not in Thousands)

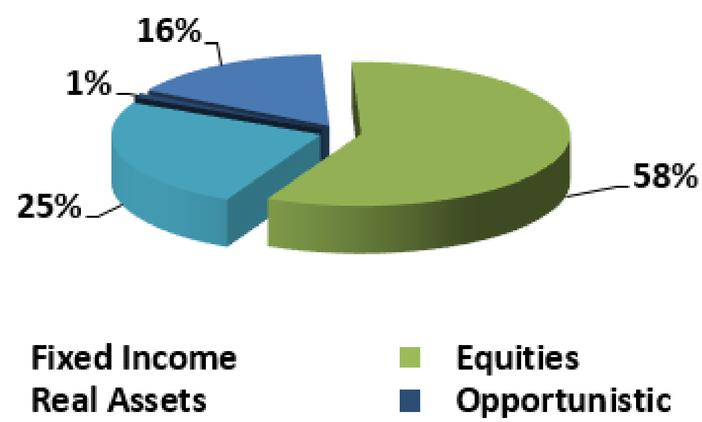
| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|---|---|---|---|
| B. Riley & Co., LLC | 8,000 | $ 27,829 | 3.4786 |
| Daiwa Capital Markets America Inc. | 6,100 | 26,070 | 4.2738 |
| State Street Bank and Trust Co. | 200,885 | 24,019 | 0.1196 |
| Piper Jaffray & Co. | 71,688 | 7,932 | 0.1106 |
| Companhiabrasileira De Liquidacao E Cus | 549,904 | 4,296 | 0.0078 |
| Liquidnet Inc | 680,745 | 4,276 | 0.0063 |
| Citibank International Plc | 169,670 | 4,146 | 0.0244 |
| CLSA Limited | 656,100 | 3,355 | 0.0051 |
| Evercore Isi | 36,611 | 3,239 | 0.0885 |
| Cowen And Company, LLC | 100,305 | 3,233 | 0.0322 |
| Cantor Fitzgerald + Co. | 182,879 | 2,790 | 0.0153 |
| Barclays Capital Le | 146,833 | 2,602 | 0.0177 |
| J.P. Morgan Securities LLC | 481,151 | 2,531 | 0.0053 |
| Citigroup Global Markets Inc. | 47,141 | 2,278 | 0.0483 |
| B of A Securities, Inc. | 401,057 | 2,275 | 0.0057 |
| William Blair & Company LLC | 5,250 | 2,086 | 0.3974 |
| Raymond James And Associates Inc. | 44,905 | 2,050 | 0.0457 |
| Suntrust Capital Markets, Inc. | 40,995 | 1,875 | 0.0457 |
| Wells Fargo Securities, LLC | 3,400 | 1,485 | 0.4368 |
| Stifel Nicolaus + Co Inc. | 25,495 | 1,317 | 0.0517 |
| Jones Trading Institutional Services LLC | 33,100 | 1,245 | 0.0376 |
| Cl King | 7,200 | 1,230 | 0.1708 |
| State Street Bank And Trust Company | 2,607,048 | 1,100 | 0.0004 |
| Jefferies LLC | 74,678 | 1,098 | 0.0147 |
| Goldman Sachs + Co LLC | 424,938 | 831 | 0.0020 |
| Citibank Ag | 143,336 | 790 | 0.0055 |
| Robert W. Baird Co. Incorporated | 43,137 | 742 | 0.0172 |
| Merrill Lynch Professional Clearing Corp | 8,600 | 711 | 0.0827 |
| Williams Capital Group LP (The) | 8,225 | 656 | 0.0797 |
| Credit Suisse Securities (USA) LLC | 40,891 | 655 | 0.0160 |
| All Others | 20,605,685 | 4,131 | 0.0002 |
| **TOTAL** | 27,855,952 | $ 142,873 | 0.0051 |

## INVESTMENTS AT FAIR VALUE

For the year ended December 31, 2023

| Investments at Fair Value (Dollars in Thousands) | | | |
|---|---|---|---|
| | | **Amount** | **Percentage** |
| Fixed Income | $ | 550,855 | 16% |
| Equities | | 2,027,716 | 58% |
| Real Assets | | 899,250 | 25% |
| Opportunistic | | 25,070 | 1% |
| **Total Investments** | $ | 3,502,891 | 100% |

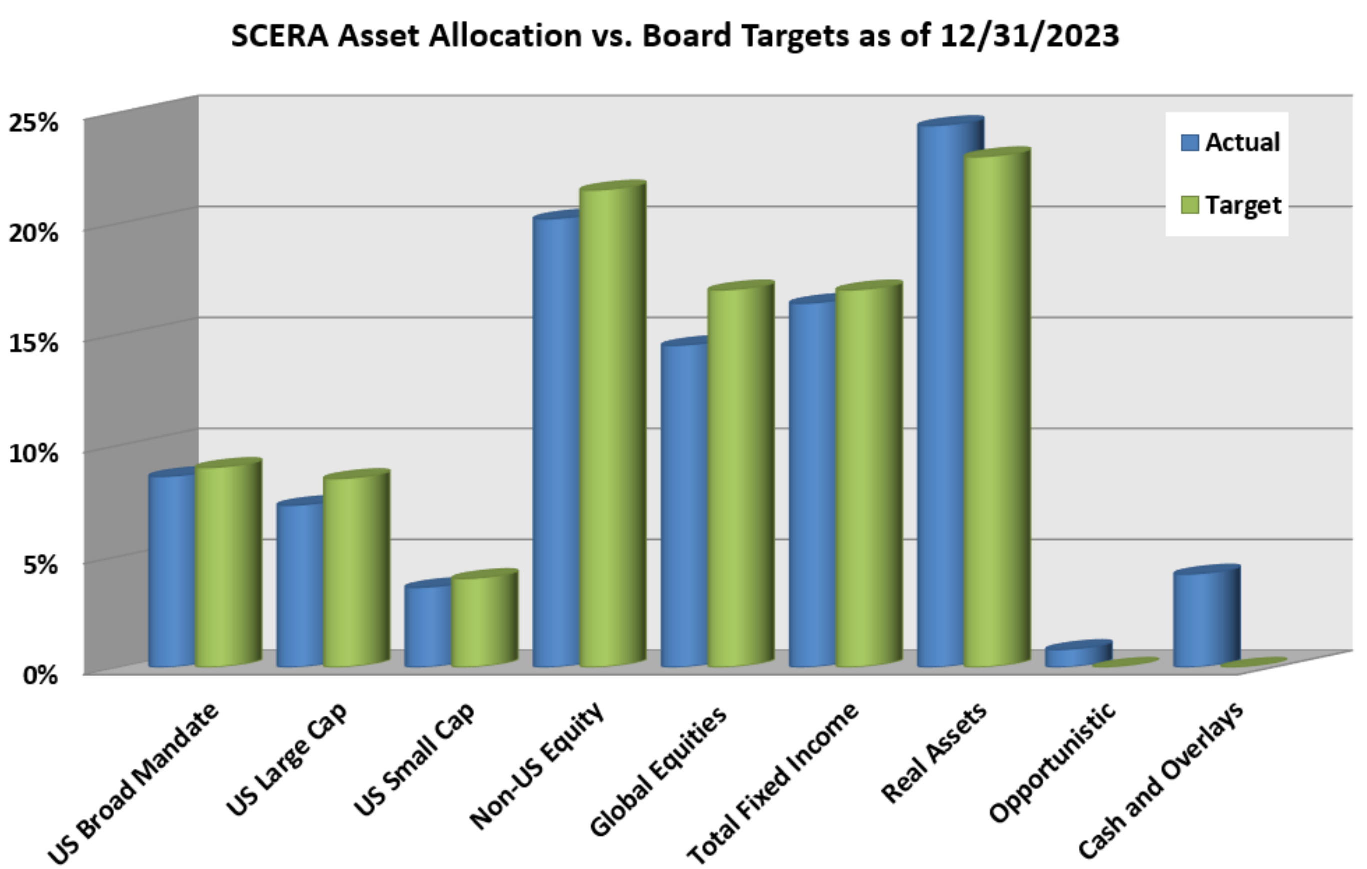
## SCERA Investment Securities: Allocation at Fair Value as of 12/31/2023



## ASSET STRATEGY ALLOCATION

For the year ended December 31, 2023

| Asset Class | % of Actual | Target % |
|---|---|---|
| US Broad Mandate | 8.80% | 9.00% |
| US Large Cap | 8.20% | 8.50% |
| US Small Cap | 3.80% | 4.00% |
| Non-US Equity | 20.60% | 21.50% |
| Global Equities | 15.00% | 16.00% |
| Total Fixed Income | 15.30% | 15.00% |
| Real Assets | 25.00% | 26.00% |
| Opportunistic | 0.70% | 0-6.00% |
| Cash and Overlays | 2.60% | 0.00% |
| **Total Asset Allocation** | 100% | 100% |



## LARGEST EQUITY HOLDINGS

At December 31, 2023
(Dollars in Thousands)

| | Shares | Stock | | Fair Value |
|---|---|---|---|---|
| 1) | 123,828 | Apple Inc. | $ | 23,841 |
| 2) | 46,615 | Microsoft | | 17,529 |
| 3) | 2,451 | Booking Holdings Inc. | | 8,694 |
| 4) | 61,393 | Alphabet Inc. | | 8,652 |
| 5) | 17,120 | NVIDIA Corp. | | 8,478 |
| 6) | 16,634 | Mastercard Inc. | | 7,095 |
| 7) | 140,500 | Wells Fargo Co. | | 6,915 |
| 8) | 98,300 | Schwab Corp. | | 6,763 |
| 9) | 133,078 | Intel Corp. | | 6,687 |
| 10) | 105,017 | Fidelity National Info Serv | | 6,308 |
| | | **Total Largest Equity Holdings** | $ | 100,962 |

## LARGEST FIXED INCOME HOLDINGS

At December 31, 2023
(Dollars in Thousands)

| | Par | Bonds | | Fair Value |
|---|---|---|---|---|
| 1) | 2,515,433 | PIMCO FDS Short Term FLTG Nav Mutual Fund | $ | 25,190 |
| 2) | 18,355,000 | FNMA TBA 30 year 5.50% Single Family Mortgage | | 18,451 |
| 3) | 989,624 | PIMCO FDS PAC Invt Mgmt SER Asset Bkd Secs | | 11,381 |
| 4) | 11,191,042 | U.S. Treasury TIPS 1.25% due 4/15/2028 | | 10,912 |
| 5) | 10,280,000 | FNMA TBA 30 year 5.00% Single Family Mortgage | | 10,181 |
| 6) | 8,000,000 | U.S. Treasury 4.75% due 11/15/2043 | | 8,611 |
| 7) | 7,300,000 | U.S. Treasury 4.75% due 11/15/2053 | | 8,225 |
| 8) | 9,400,000 | FNMA TBA 30 year 2.50% Single Family Mortgage | | 8,014 |
| 9) | 7,695,000 | FNMA TBA 30 year 6.00% Single Family Mortgage | | 7,819 |
| 10) | 7,800,000 | FNMA TBA 30 year 4.00% Single Family Mortgage | | 7,393 |
| | | **Total Largest Fixed Income Holdings** | $ | 116,177 |

A complete list of portfolio holdings is available upon request.

# *Actuarial Section*

Segal

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

May 1, 2024

Board of Retirement
Sonoma County Employees' Retirement Association
433 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403

**Re: Actuarial Valuation for the Sonoma County Employees' Retirement Association**

Dear Members of the Board:

Segal prepared the December 31, 2023 actuarial valuation of the Sonoma County Employees' Retirement Association (SCERA). We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices and SCERA's funding policy that was last reviewed and updated by the Board in 2023. 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).

As part of the December 31, 2023 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. However, the scope of this examination does not qualify as an audit. 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 Association'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 market value by recognizing the differences between the total return at market value and the expected investment return on valuation value over a five-year period. The full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

One of the general goals of an actuarial valuation is to establish 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 outstanding balance of the December 31, 2007 restart UAAL is amortized over a 21-year declining period. The impact of the Cash Allowance and new UAAL established on each subsequent actuarial valuation is amortized over separate 20-year declining periods. All of the annual amortization payments are calculated on a level percentage of payroll basis.

Note N to the Basic Financial Statements and the Required Supplementary Information (RSI) included in the Financial Section were prepared by the Association based on the results of the Governmental Accounting Standards Board Statement No. 67 (GASB 67) actuarial valuation as

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Board of Retirement
Sonoma County Employees' Retirement Association
May 1, 2024
Page 2

of December 31, 2023 prepared by Segal. For the Financial Section of the Annual Comprehensive Financial Report, Segal provided the Schedule of the 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 Association's Annual Comprehensive Financial Report is provided below. These schedules were prepared based on the results of the actuarial valuation as of December 31, 2023 for funding purposes.

1. Schedule of Retired Members (Including Beneficiaries) by Type of Benefit;
2. Schedule of Benefit Expenses by Type;
3. Schedule of Average Benefit Payment Amounts; and
4. Schedule of Retirees and Beneficiaries Added to and Removed from Retiree Payroll.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board in conjunction with the December 31, 2023 actuarial valuation. It is our opinion that the assumptions used in the December 31, 2023 valuation produce results, which, in the aggregate, reflect 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 December 31, 2023 and the assumptions approved in that analysis will be applied in the December 31, 2024 valuation.

In the December 31, 2023 valuation, the ratio of the valuation value of assets to actuarial accrued liabilities increased from 92.4% to 93.8%. The increase in the funded status was primarily the result of investment return (after "smoothing") greater than the 6.75% return assumption used in the December 31, 2022 valuation. The calculated employer's rate, resulting from this valuation, along with the calculated employee's rate at the average entry age are as follows, expressed as a percent of payroll:

| Plan and Employer | Employer Rate | Employee Rate |
|---|---|---|
| **General** | | |
| General Plan A-County Without Member UAAL Rate Sunset | 18.04% | 12.63% |
| General Plan A-County With Member UAAL Rate Sunset | 21.06% | 9.60% |
| General Plan A-Court | 36.44% | 10.28% |
| General Plan A-Sonoma Valley Fire District | 18.53% | 11.57% |
| General Plan B-County | 15.68% | 7.70% |
| General Plan B-Court | 29.90% | 7.70% |
| General Plan B-Sonoma Valley Fire District | 11.87% | 7.70% |
| **Safety** | | |
| Safety Plan A-County | 32.92% | 13.37% |
| Safety Plan A-Sonoma Valley Fire District | 37.42% | 11.70% |
| Safety Plan B-County | 27.01% | 13.58% |
| Safety Plan B-Sonoma Valley Fire District | 20.51% | 13.22% |
| **All Categories Combined** | **20.16%** | **9.87%** |

**Note**: Aome members have agreed to pay additional employee normal cost contributions and those amounts have not been reflected in the above values.

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As a result of using the actuarial value of assets in the actuarial valuation, there were $20 million in net deferred investment losses as of December 31, 2023, which represented 0.6% of the market value of assets. If these net deferred investment losses were recognized immediately in the actuarial value of assets, the funded percentage would decrease from 93.85% to 93.32% and the aggregate employer contribution rate, expressed as a percent of payroll, would increase from 20.16% to 20.46%.

This document has been prepared for the exclusive use and benefit of the Board of Retirement of the Sonoma County Employees' Retirement Association, based upon information provided by SCERA or otherwise made available to Segal at the time this document was created. Segal makes no representation or warranty as to the accuracy of any forward-looking statements and does not guarantee any particular outcome or result. Except as may be required by law, this document should not be shared, copied or quoted, in whole or in part, without the consent of Segal. This document does not constitute legal, tax or investment advice or create or imply a fiduciary relationship. You are encouraged to discuss any issues raised with your legal, tax and other advisors before taking, or refraining from taking, any action.

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

Sincerely,

Paul Angelo, FSA
Senior Vice President and Actuary

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

Todd Tauzer, FSA, MAAA, FCA, CERA
Senior Vice President and Actuary

OH/elf
Attachments

## SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

The Entry Age Normal Cost Method was used in conjunction with the following actuarial assumptions. The funding policy adopted by the Board of Retirement (the Board) is used to amortize the outstanding balance of the December 31, 2007, unfunded actuarial accrued liability (UAAL) as well as any new UAAL established on each subsequent actuarial valuation after the December 31, 2007, valuation over separate 20-year declining periods. This approach is often referred to as a "layered amortization method." The Board as of December 31, 2023, has adopted the following interest rate, inflation, and salary increase assumptions:

### ASSUMPTIONS

| | |
|---|---|
| Valuation Interest Rate | 6.75% |
| Inflation Assumption | 2.50% |
| Across the Board Salary Increase | 0.50% |
| Interest Credited to Reserve Accounts | 6.75% |
| Cost of Living Adjustments | Provided on an ad hoc basis, subject to availability of excess earnings, none assumed in the valuation |
| Asset Valuation | 5-Year Smoothed Actuarial Value |

The following demographic assumptions were used with the actuarial valuation as of December 31, 2023. These assumptions were updated based on Sonoma County Employees' Retirement Association (the System or SCERA), actual experience through December 31, 2020. The assumptions were recommended by the actuary and approved by the Board.

**Post-Retirement Mortality**

*(a) Service*

| | |
|---|---|
| General and Safety Members and Beneficiaries | Pub-2010 General and Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) increased by 5% for General females, projected generationally with the two-dimensional mortality improvement scale MP-2020. Pub-2010 Contingent Survivor Table increased by 5% for males and females, projected generationally with the two-dimensional mortality improvement scale MP-2020. |

*(b) Disability*

| | |
|---|---|
| General and Safety Members | Non-Safety Pub-2010 Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females) for General decreased 5% for males and decreased 10% for females, for Safety Pub-2010 Safety Disabled Retiree Amount-Weighted Mortality Table (separate tables for males and females) decreased 5% for females, projected generationally with the two-dimensional mortality improvement scale MP-2020. |

*(c) For Employee Contribution Rate Purposes*

| | |
|---|---|
| General Members | Pub-2010 General Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females) increased 5% for females, projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2020, weighted 33.33% male and 66.67% female. |
| Safety Members | Pub-2010 Safety Healthy Retiree Amount-Weighted Above-Median Mortality Table (separate tables for males and females), projected 30 years (from 2010) with the two-dimensional mortality improvement scale MP-2020, weighted 75% male and 25% female. |

**Pre-Retirement Mortality**

| | |
|---|---|
| *General and Safety Members* | Pub-2010 General and Safety Employee Amount-Weighted Above-Median Mortality Table (separate tables for males and females), decreased 5% for males, projected generationally with the two-dimensional mortality improvement scale MP-2020. |

| | |
|---|---|
| **Withdrawal Rates** | Based upon the Experience Analysis as of 12/31/20 (Table on Page 68) |
| **Disability Rates** | Based upon the Experience Analysis as of 12/31/20 (Table on Page 68) |
| **Service Retirement Rates** | Based upon the Experience Analysis as of 12/31/20 (Table on Page 68) |
| **Reciprocity Assumption** | 25% of General members and 35% of Safety members who terminate are assumed to enter a reciprocal system |
| **Salary Scales** | As shown in Table on Page 69 |
| **Leave Conversion Compensation Increase** | 3.25% for General Plan A Superior Court; 2.00% for General Plan A Sonoma Valley Fire General members, 2.50% for Safety Plan A Sonoma Valley Fire members |
| **Spouses and Dependents** | 70% of male employees and 55% of female employees assumed to be married at retirement. Female spouses are assumed to be 3 years younger than their male member spouses. Male spouses are assumed to be 2 years older than their female member spouses. |
| **Deferral Vested Retirement Age** | Without reciprocity - 58 for General members; 52 for Safety members<br>With reciprocity - 60 for General members; 55 for Safety members |

## PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE

**General Members**

| Age Nearest | Withdrawal[5] | Mortality Male[1] | Mortality Female[1] | Disability[2] | Service[4] | Terminated Vested[5] |
|---|---|---|---|---|---|---|
| 20 | .0125 | .0003 | .0001 | .0005 | .0000 | .0400 |
| 30 | .0110 | .0003 | .0001 | .0005 | .0000 | .0400 |
| 40 | .0044 | .0005 | .0003 | .0014 | .0000 | .0300 |
| 50 | .0032 | .0012 | .0008 | .0023 | .0500 | .0225 |
| 60 | .0004 | .0026 | .0017 | .0030 | .2100 | .0225 |

**Safety Members**

| Age Nearest | Withdrawal[5] | Mortality Male[1] | Mortality Female[1] | Disability[3] | Service[4] | Terminated Vested[5] |
|---|---|---|---|---|---|---|
| 20 | .0100 | .0004 | .0001 | .0010 | .0000 | .0375 |
| 30 | .0085 | .0003 | .0002 | .0068 | .0000 | .0300 |
| 40 | .0025 | .0005 | .0004 | .0150 | .0000 | .0140 |
| 50 | .0002 | .0010 | .0008 | .0250 | .1800 | .0030 |
| 60 | .0000 | .0022 | .0014 | .0300 | .5000 | .0000 |

(1) All pre-retirement deaths are assumed to be non-service connected deaths and are shown before generational projection from 2010.
(2) 55% of General disabilities are assumed to be service connected disabilities. The other 45% are assumed to be non-service disabilities.
(3) 100% of Safety disabilities are assumed to be service connected disabilities.
(4) Retirement rates shown above are for non-PEPRA members with less than 30 years of service.
(5) Withdrawal and vested termination rates shown above are for members with at least five years of service.

The probabilities shown for each cause of termination represent the likelihood that a given member will terminate at a particular age for the indicated reason. For example, if the probability of withdrawal of a General member at age 30 is 0.0110, then we are assuming that 1.10% of the active General members at age 30 will terminate without vested rights during the next year.

## ACTUARIAL ASSUMPTIONS FOR MERIT AND LONGEVITY SALARY INCREASE RATES

As of December 31, 2023

Consists of the sum of two parts: A uniform inflation component of 2.50% plus "Across the Board" salary increases of 0.50% per year, plus, a service-related component for merit and promotion increases:

| Years of Service | General Members | Safety Members |
|---|---|---|
| Less than 1 | 5.00% | 7.50% |
| 1-2 | 5.50% | 7.50% |
| 2-3 | 4.50% | 5.00% |
| 3-4 | 3.50% | 4.50% |
| 4-5 | 2.50% | 3.50% |
| 5-6 | 2.00% | 1.75% |
| 6-7 | 1.50% | 1.50% |
| 7-8 | 1.25% | 1.25% |
| 8-9 | 1.25% | 1.25% |
| 9-10 | 1.25% | 1.25% |
| 10-11 | 1.00% | 1.25% |
| 11-12 | 1.00% | 1.25% |
| 12-13 | 0.75% | 1.25% |
| 13-14 | 0.75% | 1.00% |
| 14-15 | 0.75% | 1.00% |
| 15 & Over | 0.55% | 1.00% |

## SCHEDULE OF FUNDING PROGRESS

(Dollars in Thousands)

| Actuarial Valuation Date | Valuation Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Projected Covered Payroll (c) | UAAL as a % of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 12/31/14 | $ 2,167,210 | $ 2,510,253 | $ 343,043 | 86.3% | 324,418 | 105.7% |
| 12/31/15 | 2,289,057 | 2,694,979 | 405,922 | 84.9% | 339,516 | 119.6% |
| 12/31/16 | 2,399,171 | 2,807,398 | 408,227 | 85.5% | 356,130 | 114.6% |
| 12/31/17 | 2,557,299 | 2,916,856 | 359,557 | 87.7% | 369,751 | 97.2% |
| 12/31/18 | 2,667,345 | 3,072,077 | 404,732 | 86.8% | 378,160 | 107.0% |
| 12/31/19 | 2,811,292 | 3,143,323 | 332,031 | 89.4% | 378,159 | 87.8% |
| 12/31/20 | 2,981,688 | 3,264,403 | 282,715 | 91.3% | 400,562 | 70.6% |
| 12/31/21 | 3,215,505 | 3,460,051 | 244,546 | 92.9% | 408,279 | 59.9% |
| 12/31/22 | 3,311,174 | 3,582,766 | 271,592 | 92.4% | 423,272 | 64.2% |
| 12/31/23 | 3,500,687 | 3,730,227 | 229,540 | 93.8% | 457,288 | 50.2% |

## ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

Items Impacting Unfunded Actuarial Accrued Liability (UAAL)

(Dollars in Thousands)

| Plan Years | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| Beginning of the Year UAAL Liability | $ 271,592 | $ 244,546 | $ 282,715 | $ 332,031 | $ 404,732 |
| *Source of Actuarial (Gain) Loss:* | | | | | |
| Compensation Increase/(Decrease) | 24,788 | 12,509 | (5,243) | 17,286 | (34,651) |
| Expected Contributions | 5,206 | 4,298 | (1,976) | (255) | 12,332 |
| Investment Experience Recognized | (53,266) | 39,826 | (99,099) | (41,110) | (32,718) |
| Other Experience | 11,300 | (1,211) | (7,266) | (983) | (2,786) |
| Subtotal: Actuarial (Gain) Loss | $ (11,972) | $ 55,422 | $ (113,584) | $ (25,062) | $ (57,823) |
| *Other Items Impacting UAAL:* | | | | | |
| Assumption Change (Triennial Experience Study) | - | - | 96,768 | - | - |
| Interest Accrual on UAAL Balance | 17,038 | 15,353 | 18,586 | 22,003 | 27,009 |
| Additional UAAL Contributions from County | (4,450) | (5,795) | (1,873) | (7,128) | - |
| Expected employer/employee contributions less normal cost | (42,606) | (37,934) | (38,066) | (39,129) | (41,887) |
| SVFD Over-Collected Contributions | (62) | - | - | - | - |
| End of the Year UAAL Liability (Surplus) | $ 229,540 | $ 271,592 | $ 244,546 | $ 282,715 | $ 332,031 |

## SCHEDULE OF PROJECTED ACTIVE MEMBER VALUATION DATA

(Dollars in Thousands)

| Actuarial Valuation Date | Plan Type | Number of Active Members | Projected Covered Payroll $ | Annual Average Pay $ (not in thousands) | Percentage of Increase (Decrease) in Average Pay* |
|---|---|---|---|---|---|
| 12/31/14 | | | | | |
| | General | 3,211 | 255,577 | 79,594 | -3.6% |
| | Safety | 711 | 68,841 | 96,824 | -4.5% |
| | **Total** | 3,922 | 324,418 | 82,718 | -3.9% |
| 12/31/15 | | | | | |
| | General | 3,366 | 270,904 | 80,483 | 1.1% |
| | Safety | 705 | 68,612 | 97,323 | 0.5% |
| | **Total** | 4,071 | 339,516 | 83,399 | 0.8% |
| 12/31/16 | | | | | |
| | General | 3,411 | 285,234 | 83,622 | 3.9% |
| | Safety | 701 | 70,896 | 101,135 | 3.9% |
| | **Total** | 4,112 | 356,130 | 86,607 | 3.9% |
| 12/31/17 | | | | | |
| | General | 3,385 | 294,379 | 86,966 | 4.0% |
| | Safety | 725 | 75,372 | 103,961 | 2.8% |
| | **Total** | 4,110 | 369,751 | 89,964 | 3.9% |
| 12/31/18 | | | | | |
| | General | 3,309 | 300,960 | 90,952 | 4.6% |
| | Safety | 712 | 77,200 | 108,427 | 4.3% |
| | **Total** | 4,021 | 378,160 | 94,046 | 4.5% |
| 12/31/19 | | | | | |
| | General | 3,334 | 302,388 | 90,698 | -0.3% |
| | Safety | 706 | 75,771 | 107,324 | -1.0% |
| | **Total** | 4,040 | 378,159 | 93,604 | -0.5% |
| 12/31/20 | | | | | |
| | General | 3,368 | 318,143 | 94,461 | 4.2% |
| | Safety | 722 | 82,419 | 114,154 | 6.4% |
| | **Total** | 4,090 | 400,562 | 97,937 | 4.6% |
| 12/31/21 | | | | | |
| | General | 3,385 | 326,981 | 96,597 | 2.3% |
| | Safety | 681 | 81,298 | 119,380 | 4.6% |
| | **Total** | 4,066 | 408,279 | 100,413 | 2.5% |
| 12/31/22 | | | | | |
| | General | 3,433 | 340,502 | 99,185 | 2.7% |
| | Safety | 670 | 82,770 | 123,537 | 3.5% |
| | **Total** | 4,103 | 423,272 | 103,161 | 2.7% |
| 12/31/23 | | | | | |
| | General | 3,580 | 372,179 | 103,961 | 4.8% |
| | Safety | 662 | 85,109 | 128,563 | 4.1% |
| | **Total** | 4,242 | 457,288 | 107,799 | 4.5% |

* 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 individual salary increases received by members who worked the full year.

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

| Plan Year | Added to Rolls No. | Added to Rolls Annual Allowances | Removed from Rolls No. | Removed from Rolls Annual Allowances | Rolls- End of Year No. | Rolls- End of Year Annual Allowances | Increase in Annual Allowances | Average Annual Allowances |
|---|---|---|---|---|---|---|---|---|
| 2014 | 221 | $ 8,161,011 | 109 | $ 2,283,279 | 4,506 | $ 143,015,196 | 4.3% | 31,739 |
| 2015 | 250 | 9,770,420 | 103 | 2,557,112 | 4,653 | 150,228,504 | 5.0% | 32,286 |
| 2016 | 275 | 10,781,541 | 116 | 2,399,349 | 4,812 | 158,610,696 | 5.6% | 32,961 |
| 2017 | 247 | 10,357,620 | 123 | 3,161,640 | 4,936 | 165,806,676 | 4.5% | 33,591 |
| 2018 | 282 | 11,112,780 | 122 | 2,346,684 | 5,096 | 174,572,772 | 5.3% | 34,257 |
| 2019 | 271 | 10,852,601 | 117 | 2,825,537 | 5,250 | 182,599,836 | 4.6% | 34,781 |
| 2020 | 221 | 9,145,755 | 124 | 2,928,699 | 5,347 | 188,816,892 | 3.4% | 35,313 |
| 2021 | 252 | 10,627,821 | 121 | 2,826,693 | 5,478 | 196,618,020 | 4.1% | 35,892 |
| 2022 | 270 | 12,737,960 | 121 | 2,973,128 | 5,627 | 206,382,852 | 5.0% | 36,677 |
| 2023 | 267 | 11,490,658 | 134 | 3,193,042 | 5,760 | 214,680,468 | 4.0% | 37,271 |

## SCHEDULE OF FUNDED LIABILITIES BY TYPE

(Dollars in Thousands)

| | Aggregate Accrued Liabilities for | | | | | Portion of Accrued Liabilities Covered by Valuation Assets % | | |
|---|---|---|---|---|---|---|---|---|
| Valuation Date | (1) Active Member Contributions | (2) Retired/ Vested Members | (3) Active Members (Employer Financed Portion) | Total | Valuation Value of Assets | (1) | (2) | (3) |
| 12/31/14 | $484,181 | $1,498,062 | $528,010 | $2,510,253 | $2,167,210 | 100 | 100 | 35 |
| 12/31/15 | 513,444 | 1,633,647 | 547,888 | 2,694,979 | 2,289,057 | 100 | 100 | 26 |
| 12/31/16 | 534,785 | 1,717,405 | 555,208 | 2,807,398 | 2,399,171 | 100 | 100 | 26 |
| 12/31/17 | 569,375 | 1,785,450 | 562,031 | 2,916,856 | 2,557,299 | 100 | 100 | 36 |
| 12/31/18 | 600,487 | 1,882,466 | 589,124 | 3,072,077 | 2,667,345 | 100 | 100 | 31 |
| 12/31/19 | 593,655 | 1,963,064 | 586,604 | 3,143,323 | 2,811,292 | 100 | 100 | 43 |
| 12/31/20 | 603,510 | 2,016,270 | 644,623 | 3,264,403 | 2,981,688 | 100 | 100 | 56 |
| 12/31/21 | 600,996 | 2,144,203 | 714,852 | 3,460,051 | 3,215,505 | 100 | 100 | 66 |
| 12/31/22 | 610,594 | 2,240,651 | 731,521 | 3,582,766 | 3,311,174 | 100 | 100 | 63 |
| 12/31/23 | 629,503 | 2,318,461 | 782,263 | 3,730,227 | 3,500,687 | 100 | 100 | 71 |

This exhibit includes actuarially funded liabilities and assets.

## SUMMARY OF PLAN PROVISIONS

Briefly summarized below are the major provisions of the County Employees Retirement Law of 1937, and the California Public Employees' Pension Reform Act of 2013, as amended through December 31, 2023.

**Membership**
Membership becomes effective on the first day of entrance into eligible service.

**Highest Average Compensation**
Highest average compensation is defined as the highest 12 consecutive months of compensation earnable for Plan A members, subject to a cap of 100% of salary. For Plan B members it is defined as the highest 36 consecutive months of pensionable compensation, subject to the Social Security taxable wage base limit adjusted for inflation.

**Return of Contributions**
If a member should resign or die before becoming eligible for retirement, the member's contributions plus interest will be refunded upon request. In lieu of receiving a return of contributions, a member may elect to leave his or her contributions on deposit.

**Service Retirement Benefit**
Plan A members are eligible to retire at age 50 with 10 years of service or 30 years of service (Safety members 20 years) regardless of age. Plan B members are eligible to retire at age 52 (age 50 for Safety) with 5 years of service. All members may retire at age 70 regardless of years of service.

**Basis of Benefit Payments**
Benefits are based upon a combination of age, years of service, highest average compensation, and the benefit payment option selected by the member, up to the Internal Revenue Code Section 415 limit.

**Contributions**
Contribution rates for the participating employers and their covered employees are established, approved, and may be amended by the SCERA Board of Retirement, and then implemented by all participating employers. The contribution rates are based on the benefit structure established by the employer. Plan A members are required to contribute between 7% and 15% of their annual covered salary and their particular rate is based upon age at entry into the Plan. Plan B members contribute one half of the normal cost of their benefit. The employer is required to contribute the remaining amounts necessary to finance the Plan coverage of their employees through periodic contributions at actuarially determined rates.

**Cost of Living Benefit**
SCERA has approved, on an ad hoc basis, multiple one-time post-retirement cost of living increases. These cost of living increases have been funded in a number of ways, including Undistributed Investment Earnings, Interest Fluctuation Reserve above statutory limits or employer contributions paid by lump sum tracked in the Cost of Living Reserve account or amortized over a twenty year period an added to the Plan's unfunded actuarial accrued liability.

**Disability Benefit**
Members with 5 years of service who become permanently incapacitated from their regular job duties, regardless of age, are eligible to apply for a non-service connected disability retirement. Service connected disability retirement benefits may be granted to members who become permanently incapacitated from their regular job duties and such incapacity arose out of their employment, regardless of length of service.

**Death Benefit - Prior to 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, but not to exceed 6 months of salary. The death benefit is based on the salary earned during the last twelve months preceding the member's death.

If a member dies while eligible for service retirement or non-service connected disability, his or her spouse or domestic partner receives 60% of the allowance that the member would have received for retirement on the day of his or her death.

If a member dies in the performance of duty, the spouse or registered domestic partner will receive a lifetime benefit equal to 50% of the member's highest one-year average compensation or a service retirement benefit whichever is higher.

**Death Benefit - After Retirement**
As part of the retirement process, members are required to select among several options for benefits continuation upon the member's death. For married retirees, the most common retirement option is the unmodified option, which pays the retiree's eligible spouse or registered domestic partner a lifetime benefit equal to 60% of the benefit the retiree was receiving.

SCERA

# *Statistical Section*

## STATISTICAL SECTION OVERVIEW

This section provides additional detailed information in order to promote a more comprehensive understanding of this year's financial statements, note disclosures, and supplemental information. In addition, this section provides multi-year trends of the financial and operational information in order to facilitate the understanding of how the organization's financial position and performance have changed over time. This section provides contextual data for Sonoma County Employees' Retirement Association (the System or SCERA) changes in Fiduciary Net Position, benefit expenses, retirement types, benefit payments and membership data.

### CHANGES IN FIDUCIARY NET POSITION

Last Ten Years

| (Dollars in Thousands) | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Employer Contributions | $ 78,412 | $ 76,562 | $ 74,953 | $ 77,506 | $ 65,155 |
| Member Contributions | 52,595 | 49,224 | 49,056 | 47,364 | 44,659 |
| Net Investment Income/(Loss) | 400,093 | (269,319) | 522,238 | 225,040 | 415,559 |
| **Total Additions** | 531,100 | (143,533) | 646,247 | 349,910 | 525,373 |
| **Deductions** | | | | | |
| Retirement Benefits | 212,793 | 201,711 | 193,130 | 185,982 | 179,424 |
| Refunds | 2,623 | 2,964 | 2,376 | 4,111 | 3,322 |
| Administrative Expenses | 3,790 | 3,366 | 2,827 | 2,846 | 3,152 |
| Other Expenses | 380 | 155 | 228 | 186 | 394 |
| **Total Deductions** | 219,586 | 208,196 | 198,561 | 193,125 | 186,292 |
| **Change in Fiduciary Net Position** | $ 311,514 | $ (351,729) | $ 447,686 | $ 156,785 | $ 339,081 |

| (Dollars in Thousands) | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Additions** | | | | | |
| Employer Contributions | $ 67,425 | $ 63,822 | $ 63,639 | $ 68,240 | $ 61,179 |
| Member Contributions | 45,567 | 44,161 | 40,783 | 38,714 | 37,126 |
| Net Investment Income/(Loss) | (107,078) | 394,909 | 189,949 | 34,589 | 117,663 |
| **Total Additions** | 5,914 | 502,892 | 294,371 | 141,543 | 215,968 |
| **Deductions** | | | | | |
| Retirement Benefits | 170,370 | 162,973 | 155,220 | 147,277 | 140,430 |
| Refunds | 2,192 | 2,975 | 2,232 | 2,087 | 1,246 |
| Administrative Expenses | 3,072 | 3,156 | 3,665 | 3,268 | 3,107 |
| Other Expenses | 511 | 576 | 554 | 258 | 483 |
| **Total Deductions** | 176,145 | 169,680 | 161,671 | 152,890 | 145,266 |
| **Change in Fiduciary Net Position** | $ (170,231) | $ 333,212 | $ 132,700 | $ (11,347) | $ 70,702 |

## REVENUES BY SOURCE
(Dollars in Thousands)

| Fiscal Year Ended 12/31 | Member Contributions | Employer Contributions | Investment Net Income/(Loss) | Total |
|---|---|---|---|---|
| 2014 | $ 37,126 | $ 61,179 | $ 117,663 | $ 215,968 |
| 2015 | 38,714 | 68,240 | 34,589 | 141,543 |
| 2016 | 40,783 | 63,639 | 189,949 | 294,371 |
| 2017 | 44,161 | 63,822 | 394,909 | 502,892 |
| 2018 | 45,567 | 67,425 | (107,078) | 5,914 |
| 2019 | 44,659 | 65,155 | 415,559 | 525,373 |
| 2020 | 47,364 | 77,506 | 225,040 | 349,910 |
| 2021 | 49,056 | 74,953 | 522,238 | 646,247 |
| 2022 | 49,224 | 76,562 | (269,319) | (143,533) |
| 2023 | 52,595 | 78,412 | 400,093 | 531,100 |

## EXPENSES BY TYPE
(Dollars in Thousands)

| Fiscal Year Ended 12/31 | Pension Benefits | Administrative & Other Expenses | Contribution Refunds | Total |
|---|---|---|---|---|
| 2014 | $ 140,430 | $ 3,590 | $ 1,246 | $ 145,266 |
| 2015 | 147,277 | 3,526 | 2,087 | 152,890 |
| 2016 | 155,220 | 4,219 | 2,232 | 161,671 |
| 2017 | 162,973 | 3,732 | 2,975 | 169,680 |
| 2018 | 170,370 | 3,583 | 2,192 | 176,145 |
| 2019 | 179,424 | 3,546 | 3,322 | 186,292 |
| 2020 | 185,982 | 3,032 | 4,111 | 193,125 |
| 2021 | 193,130 | 3,055 | 2,376 | 198,561 |
| 2022 | 201,711 | 3,521 | 2,964 | 208,196 |
| 2023 | 212,793 | 4,170 | 2,623 | 219,586 |

## SCHEDULE OF BENEFIT EXPENSES BY TYPE

(Estimated Based upon Annualized Benefit Amounts as of December 31 of each year)
(Dollars in Thousands)

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| **Service Retirement Payroll:** | | | | | |
| General | $ 141,379 | $ 136,920 | $ 129,892 | $ 125,424 | $ 121,503 |
| Safety | 36,112 | 35,103 | 33,782 | 31,511 | 30,507 |
| **Total** | $ 177,491 | $ 172,023 | $ 163,674 | $ 156,935 | $ 152,010 |
| **Disability Retiree Payroll:** | | | | | |
| General | 7,215 | 7,192 | 7,336 | 7,240 | 7,321 |
| Safety | 17,177 | 14,752 | 13,709 | 13,187 | 12,836 |
| **Total** | $ 24,392 | $ 21,944 | $ 21,045 | $ 20,427 | $ 20,157 |
| **Beneficiary Payroll:** | | | | | |
| General | 9,245 | 9,013 | 8,633 | 8,411 | 7,756 |
| Safety | 3,551 | 3,402 | 3,265 | 3,044 | 2,677 |
| **Total** | $ 12,796 | $ 12,415 | $ 11,898 | $ 11,455 | $ 10,433 |
| **Total Benefit Expense:** | | | | | |
| General | 157,839 | 153,125 | 145,861 | 141,075 | 136,580 |
| Safety | 56,840 | 53,257 | 50,756 | 47,742 | 46,020 |
| **Total** | $ 214,679 | $ 206,382 | $ 196,617 | $ 188,817 | $ 182,600 |

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Service Retirement Payroll:** | | | | | |
| General | $ 117,058 | $ 111,380 | $ 107,281 | $ 101,918 | $ 97,528 |
| Safety | 28,353 | 26,318 | 24,488 | 23,137 | 21,767 |
| **Total** | $ 145,411 | $ 137,698 | $ 131,769 | $ 125,055 | $ 119,295 |
| **Disability Retiree Payroll:** | | | | | |
| General | 7,391 | 7,450 | 7,298 | 7,141 | 7,312 |
| Safety | 11,856 | 11,232 | 10,818 | 9,732 | 9,073 |
| **Total** | $ 19,247 | $ 18,682 | $ 18,116 | $ 16,873 | $ 16,385 |
| **Beneficiary Payroll:** | | | | | |
| General | 7,393 | 7,083 | 6,534 | 6,252 | 5,502 |
| Safety | 2,521 | 2,345 | 2,190 | 2,048 | 1,834 |
| **Total** | $ 9,914 | $ 9,428 | $ 8,724 | $ 8,300 | $ 7,336 |
| **Total Benefit Expense:** | | | | | |
| General | 131,842 | 125,913 | 121,113 | 115,311 | 110,342 |
| Safety | 42,730 | 39,895 | 37,496 | 34,917 | 32,674 |
| **Total** | $ 174,572 | $ 165,808 | $ 158,609 | $ 150,228 | $ 143,016 |

Source of data: December 31, 2023 Actuarial Valuation Report Supporting Schedules
SCERA systems do not provide the level of detail necessary to fully populate this table. Therefore, SCERA actuaries provide an estimate using December 31 data which is then annualized.

# SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

Summary of Monthly Allowances Being Paid – As of December 31, 2023

(Dollars in Thousands)

| | General Members | | Safety Members | | Total | |
|---|---|---|---|---|---|---|
| | Number | Monthly Allowance | Number | Monthly Allowance | Number | Monthly Allowance |
| **Retired Members** | | | | | | |
| Service Retirement | 3,762 | $ 11,782 | 622 | $ 3,009 | 4,384 | $ 14,791 |
| Ordinary Disability | 86 | 119 | 12 | 19 | 98 | 138 |
| Duty Disability | 222 | 482 | 369 | 1,412 | 591 | 1,894 |
| Beneficiaries | 538 | 770 | 149 | 296 | 687 | 1,066 |
| **Total Retired Members** | 4,608 | $ 13,153 | 1,152 | $ 4,736 | 5,760 | $ 17,889 |

Source of data: December 31, 2023 Actuarial Valuation Report Supporting Schedules

## SCHEDULE OF AVERAGE BENEFIT PAYMENT AMOUNTS

(Estimated Based upon Annualized Benefit Amounts as of December 31 of each year)

| | Number of Years of Service | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 & Over | Unknown |
| *Valuation date 12/31/14* | | | | | | | | |
| Final Average Retiree Salary (1) | $4,437 | $4,946 | $5,469 | $5,867 | $6,439 | $6,716 | $7,396 | (2) |
| Average Monthly Benefit of Retirees | $864 | $1,314 | $1,798 | $2,570 | $3,632 | $4,719 | $6,246 | $1,535 |
| Number Retirees | 291 | 503 | 987 | 669 | 580 | 424 | 410 | 151 |
| Average Monthly Benefit of Beneficiaries | $759 | $763 | $936 | $1,138 | $1,627 | $1,979 | $2,308 | $1,102 |
| Number Beneficiaries | 29 | 68 | 96 | 66 | 53 | 41 | 44 | 94 |
| *Valuation date 12/31/15* | | | | | | | | |
| Final Average Retiree Salary (1) | $4,414 | $5,007 | $5,567 | $6,005 | $6,563 | $6,923 | $7,583 | (2) |
| Average Monthly Benefit of Retirees | $849 | $1,329 | $1,833 | $2,625 | $3,703 | $4,827 | $6,316 | $1,527 |
| Number Retirees | 296 | 519 | 1,017 | 687 | 595 | 445 | 419 | 145 |
| Average Monthly Benefit of Beneficiaries | $742 | $791 | $960 | $1,322 | $1,617 | $1,991 | $2,317 | $1,097 |
| Number Beneficiaries | 29 | 69 | 103 | 75 | 56 | 56 | 49 | 93 |
| *Valuation date 12/31/16* | | | | | | | | |
| Final Average Retiree Salary (1) | $5,487 | $5,225 | $5,587 | $5,931 | $6,533 | $6,712 | $7,242 | $3,259 |
| Average Monthly Benefit of Retirees | $857 | $1,367 | $1,884 | $2,711 | $3,826 | $4,893 | $6,368 | $1,508 |
| Number Retirees | 310 | 532 | 1,045 | 734 | 615 | 455 | 433 | 134 |
| Average Monthly Benefit of Beneficiaries | $661 | $791 | $975 | $1,317 | $1,617 | $1,998 | $2,301 | $1,106 |
| Number Beneficiaries | 31 | 69 | 109 | 76 | 60 | 58 | 55 | 96 |
| *Valuation date 12/31/17* | | | | | | | | |
| Final Average Retiree Salary (1) | $5,699 | $5,381 | $5,715 | $6,027 | $6,594 | $6,872 | $7,411 | $3,298 |
| Average Monthly Benefit of Retirees | $883 | $1,380 | $1,928 | $2,768 | $3,858 | $5,004 | $6,527 | $1,535 |
| Number Retirees | 323 | 550 | 1,067 | 767 | 631 | 464 | 438 | 125 |
| Average Monthly Benefit of Beneficiaries | $744 | $805 | $961 | $1,280 | $1,930 | $2,000 | $2,487 | $1,138 |
| Number Beneficiaries | 32 | 73 | 110 | 77 | 67 | 58 | 58 | 96 |
| *Valuation date 12/31/18* | | | | | | | | |
| Final Average Retiree Salary (1) | $6,003 | $5,576 | $5,857 | $6,159 | $6,743 | $7,026 | $7,475 | $3,343 |
| Average Monthly Benefit of Retirees | $884 | $1,405 | $1,973 | $2,844 | $3,963 | $5,130 | $6,604 | $1,592 |
| Number Retirees | 333 | 566 | 1,097 | 793 | 662 | 482 | 444 | 116 |
| Average Monthly Benefit of Beneficiaries | $784 | $791 | $1,002 | $1,348 | $1,907 | $1,994 | $2,470 | $1,047 |
| Number Beneficiaries | 35 | 77 | 115 | 80 | 68 | 63 | 61 | 104 |

(1) Final Average Salary information is not reported by SCERA in every record, therefore we have only included those members with a Final Average Salary while calculating these figures.
(2) Less than one-half of the members in this category were reported with a final average salary.

## SCHEDULE OF AVERAGE BENEFIT PAYMENT AMOUNTS (continued)

(Estimated Based upon Annualized Benefit Amounts as of December 31 of each year)

| | Number of Years of Service | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | **0-4** | **5-9** | **10-14** | **15-19** | **20-24** | **25-29** | **30 & Over** | **Unknown** |
| *Valuation date 12/31/19* | | | | | | | | |
| Final Average Retiree Salary (1) | $6,328 | $5,742 | $5,997 | $6,271 | $6,830 | $7,053 | $7,630 | $3,414 |
| Average Monthly Benefit of Retirees | $861 | $1,415 | $2,019 | $2,903 | $4,010 | $5,180 | $6,743 | $1,566 |
| Number Retirees | 351 | 590 | 1,126 | 816 | 690 | 495 | 456 | 103 |
| Average Monthly Benefit of Beneficiaries | $779 | $805 | $1,054 | $1,337 | $1,929 | $1,990 | $2,465 | $1,056 |
| Number Beneficiaries | 36 | 81 | 115 | 83 | 74 | 64 | 67 | 103 |
| *Valuation date 12/31/20* | | | | | | | | |
| Final Average Retiree Salary (1) | $6,482 | $5,843 | $6,079 | $6,320 | $6,940 | $7,147 | $7,720 | $3,445 |
| Average Monthly Benefit of Retirees | $853 | $1,435 | $2,054 | $2,926 | $4,085 | $5,241 | $6,837 | $1,528 |
| Number Retirees | 361 | 600 | 1,135 | 832 | 716 | 500 | 462 | 93 |
| Average Monthly Benefit of Beneficiaries | $800 | $907 | $1,147 | $1,393 | $2,022 | $2,051 | $2,561 | $1,084 |
| Number Beneficiaries | 43 | 82 | 121 | 86 | 77 | 70 | 71 | 98 |
| *Valuation date 12/31/21* | | | | | | | | |
| Final Average Retiree Salary (1) | $6,690 | $6,027 | $6,158 | $6,424 | $7,081 | $7,239 | $7,851 | $3,468 |
| Average Monthly Benefit of Retirees | $860 | $1,449 | $2,091 | $2,978 | $4,196 | $5,313 | $6,968 | $1,531 |
| Number Retirees | 372 | 643 | 1,145 | 866 | 741 | 500 | 470 | 84 |
| Average Monthly Benefit of Beneficiaries | $791 | $917 | $1,201 | $1,439 | $2,043 | $2,085 | $2,588 | $1,078 |
| Number Beneficiaries | 48 | 84 | 120 | 83 | 81 | 71 | 77 | 93 |
| *Valuation date 12/31/22* | | | | | | | | |
| Final Average Retiree Salary (1) | $6,894 | $6,266 | $6,292 | $6,569 | $7,169 | $7,433 | $7,851 | $3,528 |
| Average Monthly Benefit of Retirees | $876 | $1,479 | $2,132 | $3,058 | $4,251 | $5,481 | $7,057 | $1,556 |
| Number Retirees | 382 | 685 | 1,159 | 891 | 763 | 515 | 486 | 80 |
| Average Monthly Benefit of Beneficiaries | $781 | $900 | $1,207 | $1,447 | $2,133 | $2,165 | $2,673 | $1,104 |
| Number Beneficiaries | 49 | 84 | 123 | 87 | 88 | 74 | 77 | 84 |
| *Valuation date 12/31/23* | | | | | | | | |
| Final Average Retiree Salary (1) | $7,039 | $6,483 | $6,419 | $6,667 | $7,308 | $7,596 | $8,005 | $3,569 |
| Average Monthly Benefit of Retirees | $877 | $1,544 | $2,174 | $3,106 | $4,352 | $5,597 | $7,125 | $1,562 |
| Number Retirees | 394 | 721 | 1,175 | 911 | 778 | 523 | 499 | 72 |
| Average Monthly Benefit of Beneficiaries | $779 | $889 | $1,227 | $1,436 | $2,136 | $2,278 | $2,641 | $1,008 |
| Number Beneficiaries | 53 | 86 | 123 | 91 | 91 | 79 | 78 | 86 |

(1) Final Average Salary information is not reported by SCERA in every record, therefore we have only included those members with a Final Average Salary while calculating these figures.

Source of data: December 31, 2023 Actuarial Valuation Report Supporting Schedules

## PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

As of December 31,

| | Total-All Employers | County of Sonoma | Sonoma Valley Fire District | Superior Court |
|---|---|---|---|---|
| **2014** | | | | |
| Number of Covered Employees | 3,922 | 3,712 | 39 | 171 |
| Percentage to Total System | 100% | 94.64% | 1.00% | 4.36% |
| **2015** | | | | |
| Number of Covered Employees | 4,071 | 3,842 | 41 | 188 |
| Percentage to Total System | 100% | 94.38% | 1.00% | 4.62% |
| **2016** | | | | |
| Number of Covered Employees | 4,112 | 3,884 | 40 | 188 |
| Percentage to Total System | 100% | 94.46% | 0.97% | 4.57% |
| **2017** | | | | |
| Number of Covered Employees | 4,110 | 3,880 | 46 | 184 |
| Percentage to Total System | 100% | 94.40% | 1.12% | 4.48% |
| **2018** | | | | |
| Number of Covered Employees | 4,021 | 3,796 | 47 | 178 |
| Percentage to Total System | 100% | 94.40% | 1.17% | 4.43% |
| **2019** | | | | |
| Number of Covered Employees | 4,040 | 3,811 | 50 | 179 |
| Percentage to Total System | 100% | 94.33% | 1.24% | 4.43% |
| **2020** | | | | |
| Number of Covered Employees | 4,090 | 3,862 | 59 | 169 |
| Percentage to Total System | 100% | 94.43% | 1.44% | 4.13% |
| **2021** | | | | |
| Number of Covered Employees | 4,066 | 3,848 | 60 | 158 |
| Percentage to Total System | 100% | 94.64% | 1.48% | 3.89% |
| **2022** | | | | |
| Number of Covered Employees | 4,103 | 3,884 | 61 | 158 |
| Percentage to Total System | 100% | 94.66% | 1.49% | 3.85% |
| **2023** | | | | |
| Number of Covered Employees | 4,242 | 4,011 | 65 | 166 |
| Percentage to Total System | 100% | 94.55% | 1.53% | 3.91% |

Source of data: SCERA systems

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