

SCERA

Sonoma County Employees' Retirement Association 2022



**(A Pension Trust Fund for The County of Sonoma, Santa Rosa, California)
Popular Annual Financial Report For the Year Ended December 31, 2022**

MESSAGE FROM SCERA'S CHIEF EXECUTIVE OFFICER

I am pleased to present this summary of the Annual Comprehensive Financial Report for the year ending December 31, 2022. The Annual Comprehensive Financial Report (ACFR) provides a more complete overview of Sonoma County Employees' Retirement Association's (SCERA) financial position and operation results and is available at the SCERA office or on-line at www.scretire.org.

Actuarial Funding Status

The Board of Retirement (Board) is responsible for overseeing the actuarial objectives for SCERA (the Plan). The Plan's funding objective is to meet benefit promises by achieving long-term full funding of the cost of benefits, seeking reasonable and equitable allocation of those costs, minimizing volatility of contributions where possible and consistent with other policy goals, and obtaining optimum returns consistent with the assumption of prudent risk. Pursuant to provisions in the County Employees Retirement Law of 1937, SCERA engages an independent actuarial firm to perform actuarial valuations of the Plan annually. As of this latest actuarial valuation, the actuarial funding status (the ratio of Valuation Value of Assets to Actuarial Accrued Liabilities) is 92.4%.

Investments

2022 was a transition year as SCERA emerged from the COVID-19 pandemic restrictions. At the beginning of the year the Board and its committees were meeting virtually, via video conference, and by the end of the year they had moved substantially toward meeting in-person. Similarly, the investment team transitioned to more in-person meetings. Due diligence on the Plan's investment managers is performed by both our investment consultant, Aon, and SCERA's investment staff, typically on-site once every three years. During 2022, SCERA conducted eight due diligence meetings with all but the first being in-person and on-site.

As is typical, the Board received several educational presentations in 2022, including the use of leverage across the Plan's investment program, the risk of inflation and rising interest rates, and possible uses of the Opportunistic Allocation. In addition, the Board received an educational presentation on crypto currencies though the Plan is not an investor in such assets. The Board also reviews the structure of managers and strategies within asset classes periodically. In 2022, the Board reviewed the structure of the Real Estate portfolio and, after deliberation, elected to leave the structure unchanged at this time. Similarly, SCERA reviewed the structure of the Fixed Income portfolio given the intent to reduce its weight as we expand the allocations to Infrastructure and Farmland. After discussion, no changes were made to the three-manager Core Plus Fixed Income portfolio, nor the Alternative Fixed Income bank loan portfolio.

For calendar year 2022, the Plan's investment portfolio returned -6.9% gross-of-fees. With annual investment management fees of approximately 0.5%, this equates to a return of -7.4% net-of-fees, a return considerably below the current Actuarial Assumed Rate-of-Return (ROR) of 6.75%.

After the previous year in which financial markets were riding high on the theme of post-COVID-19 reopening economies, low interest rates and unprecedented monetary and fiscal stimulus, 2022 represented a reversal in this paradigm as inflation began to infiltrate multiple segments of the world economy. Partly fed by demand-driven forces due to strong consumer spending and easy credit, the spike in inflation became even more troubling with Russia's invasion of Ukraine. The resulting disruption in oil and natural gas supplies and crucial agricultural commodities sent long-lasting and far-reaching shockwaves that central banks and governments are still coping with today.

As a result of this price instability, the Federal Reserve accelerated its plans to raise interest rates starting in March 2022. This hawkish stance led to seven consecutive rate hikes that totaled 425 basis points for the year. Asset prices plunged in response with equities delivering their worst performance since the Great Financial Crisis of 2008-2009 and the Russell 3000 dropping 19% for the year. Both stocks and bonds fell into bear market territory amid challenging levels of volatility, leaving few places to hide across the investment landscape. Some aspects of 2022 drew comparisons to the pattern of high inflation, aggressive Fed policy, energy shocks and geopolitical risks of the late 1970's and early 1980's.

Investments (continued)

However, economic reports were a mixed bag pointing to slowing growth at times but strength in other areas. As the yield curve began to invert by mid-year, expectations seemed to focus on the timing and depth of a recession. But economic indicators maintained resilience despite the Fed's resolve to break inflation. Particularly, unemployment rates remained quite low while consumer spending registered healthy levels. As the end of year approached, the question was what kind of "landing" lies ahead.

The Plan was able to weather the 2022 turbulence in a manner that demonstrated the advantages of diversification in SCERA's investment holdings. As a result, the long-term returns have remained at or near the expected rates of return over 10- and 20-year time horizons.

Operations

This year brought several notable personnel changes. SCERA welcomed a new Assistant CEO/Chief Legal Counsel, a new Finance & Retiree Services Manager, a new Investment Officer, and expanded the Finance and Retiree Services Division by one Accountant position.

Towards the end of the year, the Board created an Ad Hoc Committee of four Trustees and the CEO to explore the retiree Purchasing Power Cost of Living Adjustment (COLA) program currently in place, as SCERA has not been able to recommend a COLA to the Sonoma County Board of Supervisors since 2008. The Purchasing Power COLA is funded by "excess earnings," which are determined by SCERA based upon state law and policies adopted by the SCERA Board. In order to determine whether there are excess earnings, SCERA must first credit interest to the reserve accounts for employee contributions, employer contributions, retiree and beneficiary benefits, COLA and a contingency reserve that is supposed to hold a certain percentage of the plan's assets. SCERA does not currently have a COLA reserve or a contingency reserve because those reserves were used in years where SCERA did not earn enough investment earnings to credit interest as required by state law and policy. Even after using the funds in the COLA and contingency reserve, SCERA still did not have enough earnings to credit interest, so we tracked the shortfall in a reserve we call the negative contingency reserve. This reserve has grown over the years whenever SCERA did not earn enough investment earnings to both credit interest and reduce the amount in the negative contingency reserve.

The goal of the Committee is to explore, with Sonoma County representatives, policy options and COLA program designs available under current law and potentially available with legislation. SCERA is not advocating for a different COLA program, as it is the County that establishes the COLA benefit, and it is the County that can change it. SCERA is looking to work with the County to help identify alternatives to the current COLA program, as the current program will not provide a retiree COLA until the large negative contingency reserve balance is brought to zero, a contingency reserve is funded with 3% of the plan's assets, and the Purchasing Power COLA can be fully funded with excess earnings.

Retirement Board

Safety Member Brian Williams was re-elected to his position and the Board of Supervisors appointed Supervisor Chris Coursey to replace appointed member Susan Gorin. 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.

Popular Annual Financial Reporting Award

SCERA received the GFOA's Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the fiscal year ended December 31, 2021. The PAFR is sent to all SCERA members and includes highlights of the annual activity. This was the eighteenth year the PAFR was submitted to the GFOA and we are very pleased that the PAFR again received the Certificate of Achievement.

Respectfully submitted,

Julie Wyne
Chief Executive Officer

MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2022

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

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

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

Robert Williamson, Vice Chair
Appointed by Board of Supervisors.
Present term expires
December 31, 2022

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

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

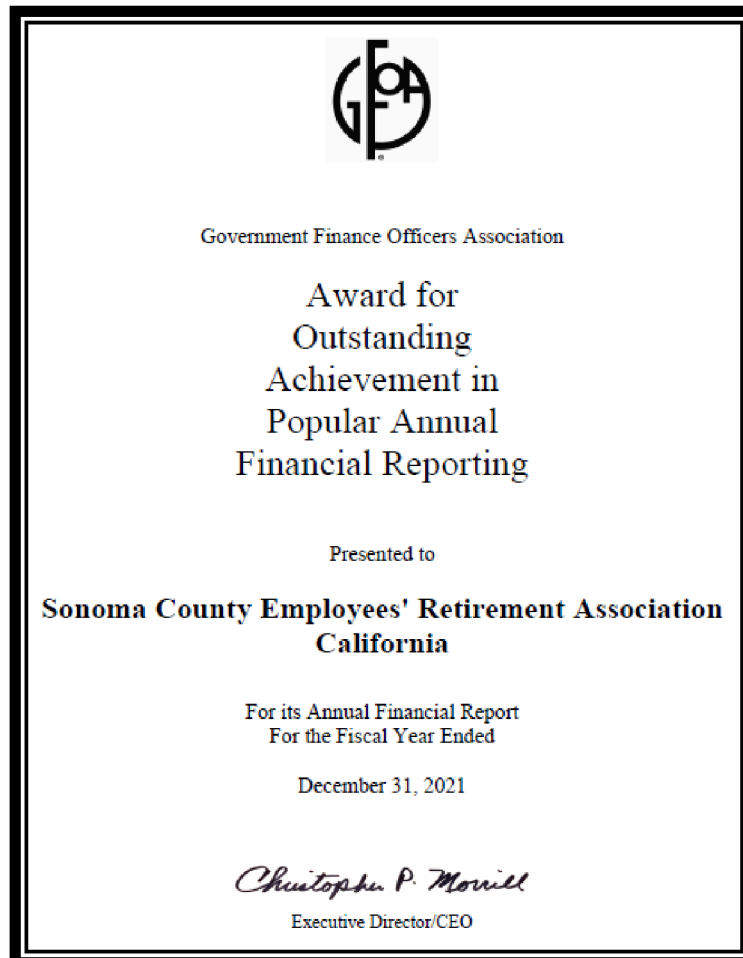
Neil Baker, Alternate
Elected by Retiree Members.
Present term expires
December 31, 2023

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

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

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

GFOA POPULAR ANNUAL FINANCIAL REPORTING AWARD



FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position report SCERA's net position restricted for benefits and is one way to measure the plan's financial position. Over time, increases and decreases in SCERA's net position are indicators of whether its financial position is improving or deteriorating. Other factors, such as market conditions, should be considered in measuring SCERA's overall financial position. SCERA's Net Position as of December 31, 2022, is \$3,170 million. This amount reflects a decrease of 10%, primarily as a result of a net investment loss of \$269 million over 2022.

Changes in Fiduciary Net Position For the Year Ended December 31,

(Dollars in Millions)	2022	2021	Increase (Decrease) Amount	% Change
Additions				
Contributions	\$ 126	\$ 124	\$ 2	2%
Net Investment Income/(Loss)	<u>(269)</u>	<u>522</u>	<u>(791)</u>	<u>(152)%</u>
Total Additions	<u>(143)</u>	<u>646</u>	<u>(789)</u>	<u>(122)%</u>
Deductions				
Pension Benefits and Refunds of Contributions	205	196	9	5%
Administrative and Other Expenses	<u>3</u>	<u>3</u>	<u>-</u>	<u>-%</u>
Total Deductions	<u>208</u>	<u>199</u>	<u>9</u>	<u>5%</u>
Change in Fiduciary Net Position	<u>(351)</u>	<u>447</u>	<u>(798)</u>	<u>(179)%</u>
Fiduciary Net Position, Beginning of Year	<u>3,521</u>	<u>3,074</u>	<u>447</u>	<u>15%</u>
Fiduciary Net Position, End of Year	<u>\$ 3,170</u>	<u>\$ 3,521</u>	<u>\$ (351)</u>	<u>(10)%</u>

Summary of Fiduciary Net Position As of December 31,

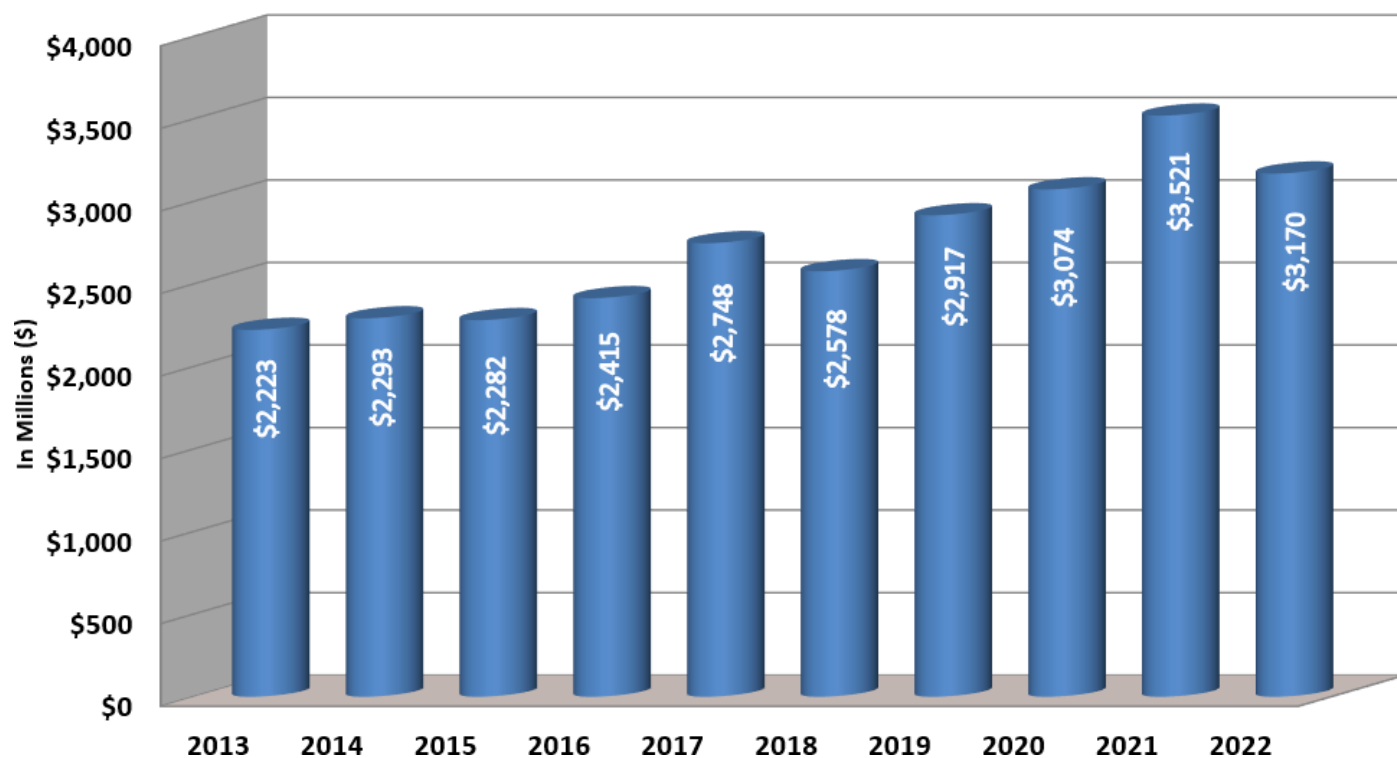
(Dollars in Millions)	2022	2021	Increase (Decrease) Amount	% Change
Current and Other Assets	\$ 296	\$ 338	\$ (42)	(13)%
Investments	3,141	3,427	(286)	(8)%
Capital Assets, net	<u>2</u>	<u>2</u>	<u>-</u>	<u>-%</u>
Total Assets	<u>3,439</u>	<u>3,767</u>	<u>(328)</u>	<u>(9)%</u>
Accounts Payable and Other Liabilities	<u>269</u>	<u>246</u>	<u>23</u>	<u>9%</u>
Total Liabilities	<u>269</u>	<u>246</u>	<u>23</u>	<u>9%</u>
Fiduciary Net Position Restricted for Pension Benefits	<u>\$ 3,170</u>	<u>\$ 3,521</u>	<u>\$ (351)</u>	<u>(10)%</u>

FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS (continued)

(All \$ in Millions)

Fiscal Year Ending 12/31	Total Fund Net Position	Increase (Decrease) in Net Position
2022	\$ 3,170	\$ (351)
2021	3,521	447
2020	3,074	157
2019	2,917	339
2018	2,578	(170)
2017	2,748	333
2016	2,415	133
2015	2,282	(11)
2014	2,293	70
2013	2,223	318

SCERA Fiduciary Net Position Restricted for Pension Benefits



NET PENSION LIABILITY/(ASSET)

The net pension liability/(asset) is measured as the total pension liability less the amount of the pension plan's fiduciary net position. The net pension liability/(asset) is an accounting measurement calculated under the guidance of Governmental Accounting Standards Board Number 67 for financial statement report purposes and reflects the fair value basis.

NET PENSION LIABILITY/(ASSET) (continued)

The components of net pension liability/(asset) of participating employers as of December 31, 2022 are as follows:

(Dollars in Millions)	2022	2021	2020	2019	2018
Total Pension Liability	\$ 3,583	\$ 3,460	\$ 3,264	\$ 3,143	\$ 3,072
Less: Fiduciary Net Position	<u>3,170</u>	<u>3,521</u>	<u>3,074</u>	<u>2,917</u>	<u>2,578</u>
Net Pension Liability/(Asset)	\$ <u>413</u>	\$ <u>(61)</u>	\$ <u>191</u>	\$ <u>226</u>	\$ <u>494</u>
Fiduciary Net Position as a Percentage of Total Pension Liability	88.5%	101.8%	94.2%	92.8%	83.9%

FUNDED RATIO

SCERA's funding objective is to meet benefit promises by achieving long-term funding of the cost of benefits, seeking reasonable and equitable allocation of those costs, minimizing volatility of contributions where possible, consistent with other policy goals, and obtaining optimum returns consistent with the assumption of prudent risk. As of the December 31, 2022, actuarial valuation, the funded status (funded ratio of Valuation Value Assets to Actuarial Accrued Liabilities) is 92.4%.

Actuarial Valuation Date	Funded Ratio
12/31/22	92.4%
12/31/21	92.9%
12/31/20	91.3%
12/31/19	89.4%
12/31/18	86.8%

INVESTMENT RETURNS

This chart represents the investment return (gross of investment fees) over 10 years on plan assets.



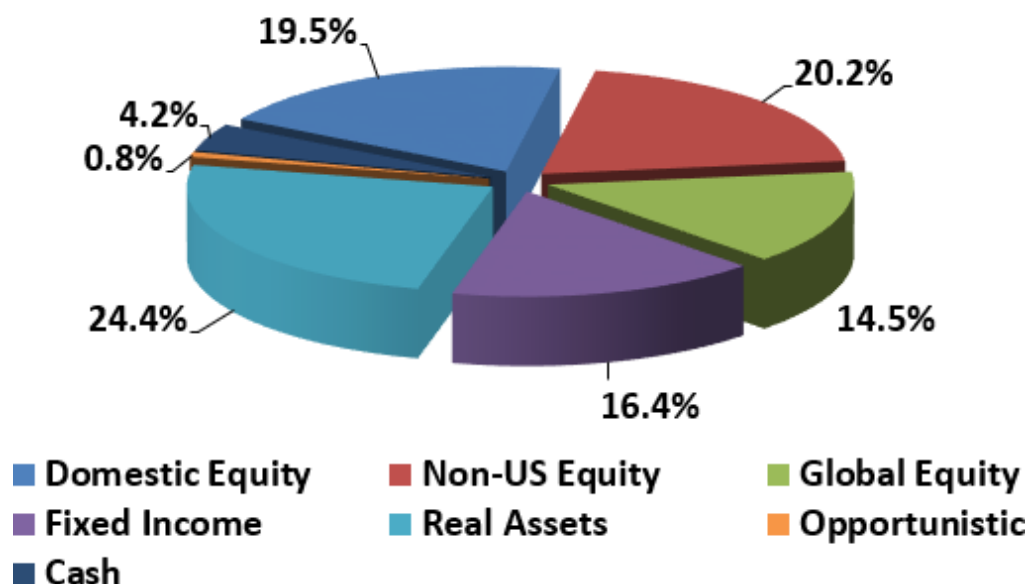
ASSET ALLOCATION STRATEGY

Fiscal Year Ended December 31, 2022

Investment (Dollars in Millions)	Fair Value	Asset Allocation %	2022 Return	3-Year Return	5-Year Return
Fixed Income	\$ 539.0	16.4%	(10.5)%	(0.6)%	1.2%
Benchmark: BB US Aggregate			(13.0)%	(2.7)%	0.0%
Real Assets	801.1	24.4%	8.4%	10.3%	7.7%
Benchmark: NCREIF ODCE Index			7.5%	9.9%	8.7%
Domestic Equity	638.1	19.5%	(9.2)%	10.6%	10.7%
Benchmark: Russell 3000			(19.2)%	7.1%	8.8%
Non-US Equity	660.6	20.2%	(12.1)%	4.3%	3.3%
Benchmark: MSCI AC World ex-US IMI			(16.6)%	0.2%	0.9%
Global Equity	475.4	14.5%	(11.2)%	3.6%	3.8%
Benchmark: MSCI Global Equity Blend			(18.2)%	4.2%	5.3%
Opportunistic	27.2	0.8%	6.3%	9.7%	9.7%
Cash & Overlays	137.3	4.2%	3.2%	1.2%	1.5%
Total SCERA Assets	\$ 3,278.7	100%	(6.9)%	6.3%	6.3%
Benchmark: SCERA Policy Index			(11.7)%	4.2%	5.2%

The above chart shows the fair value at December 31, 2022, the actual percent of each asset type as a percentage of the entire portfolio and the investment returns for 1-year, 3-year and 5-year periods. The returns are shown before investment fees and administrative expenses. Benchmarks are market return comparisons for investments similar to the SCERA investment portfolio. The SCERA Policy Index provides an overall market return measure for the SCERA fund and represents the weighted average market return for the asset classes in which SCERA invests.

Pension Benefit Asset Allocation at Fair Value as of 12/31/2022



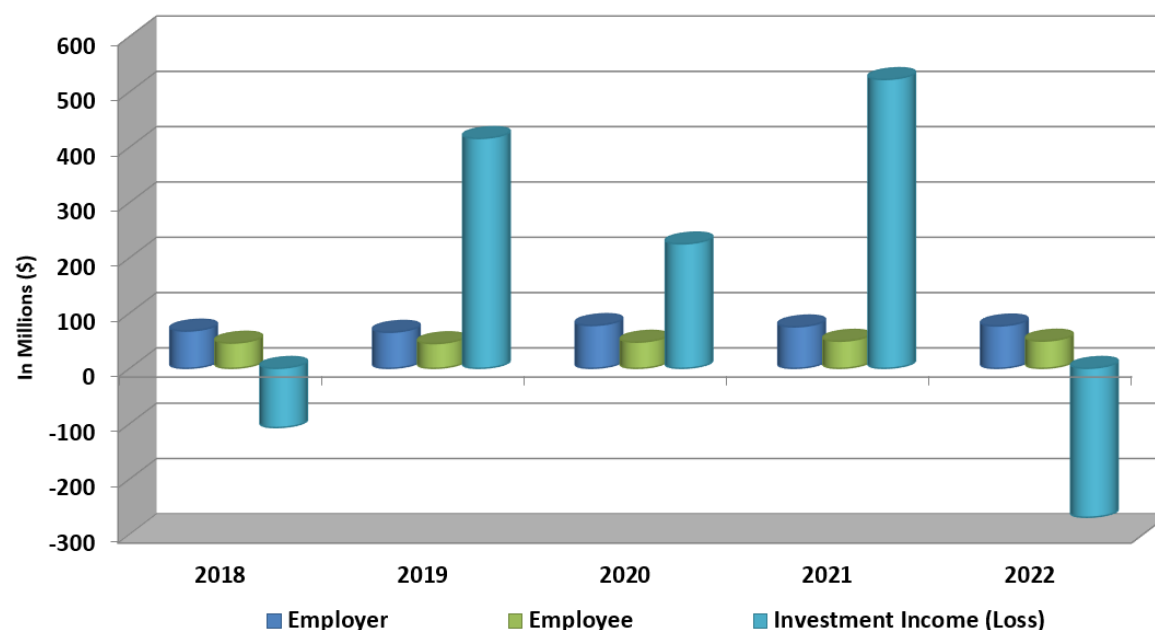
FUND REVENUE

(Dollars in Millions)

The primary sources to finance the benefits SCERA provides to its members are accumulated through income on investments and through the collection of employee and employer contributions. The income sources for the fiscal year ended December 31, 2022, totaled a negative \$143.5 million. The negative revenue was attributed to the investment losses sustained due to market turbulence.

Fiscal Year Ending 12/31	Employer Pension Contributions	Employee Pension Contributions	Net Investment Income (Loss)	Total
2022	\$ 76.6	\$ 49.2	\$ (269.3)	\$ (143.5)
2021	75.0	49.1	522.1	646.2
2020	77.5	47.4	225.0	349.9
2019	65.1	44.7	415.6	525.4
2018	67.4	45.6	(107.1)	5.9

SCERA Revenue by Type



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

FUND EXPENSES

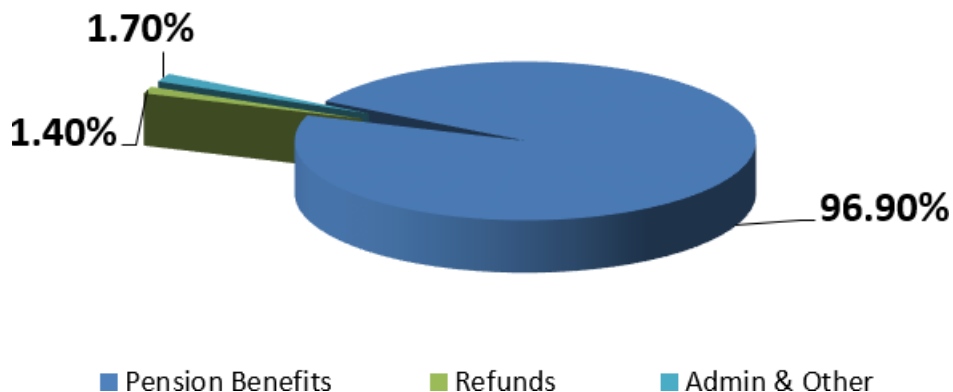
(All \$ in Millions)

The primary uses of assets are the payment of pension benefits to retirees and their beneficiaries, refund of contributions to former employees, and the cost of administering the system. Pension Benefits and refunds increased by approximately 5% in 2022 due to a growing number of retirees and an increasing number of refunds of contributions to former employees.

Fiscal Year Ending 12/31	Pension Benefits	Refunds	Admin & Other Expense	Total
2022	\$ 201.7	\$ 3.0	\$ 3.5	\$ 208.2
2021	193.1	2.4	3.0	198.5
2020	186.0	4.1	3.0	193.1
2019	179.4	3.3	3.6	186.3
2018	170.4	2.2	3.6	176.2

FUND EXPENSES (continued)

SCERA Expenses



HISTORICAL MEMBERSHIP

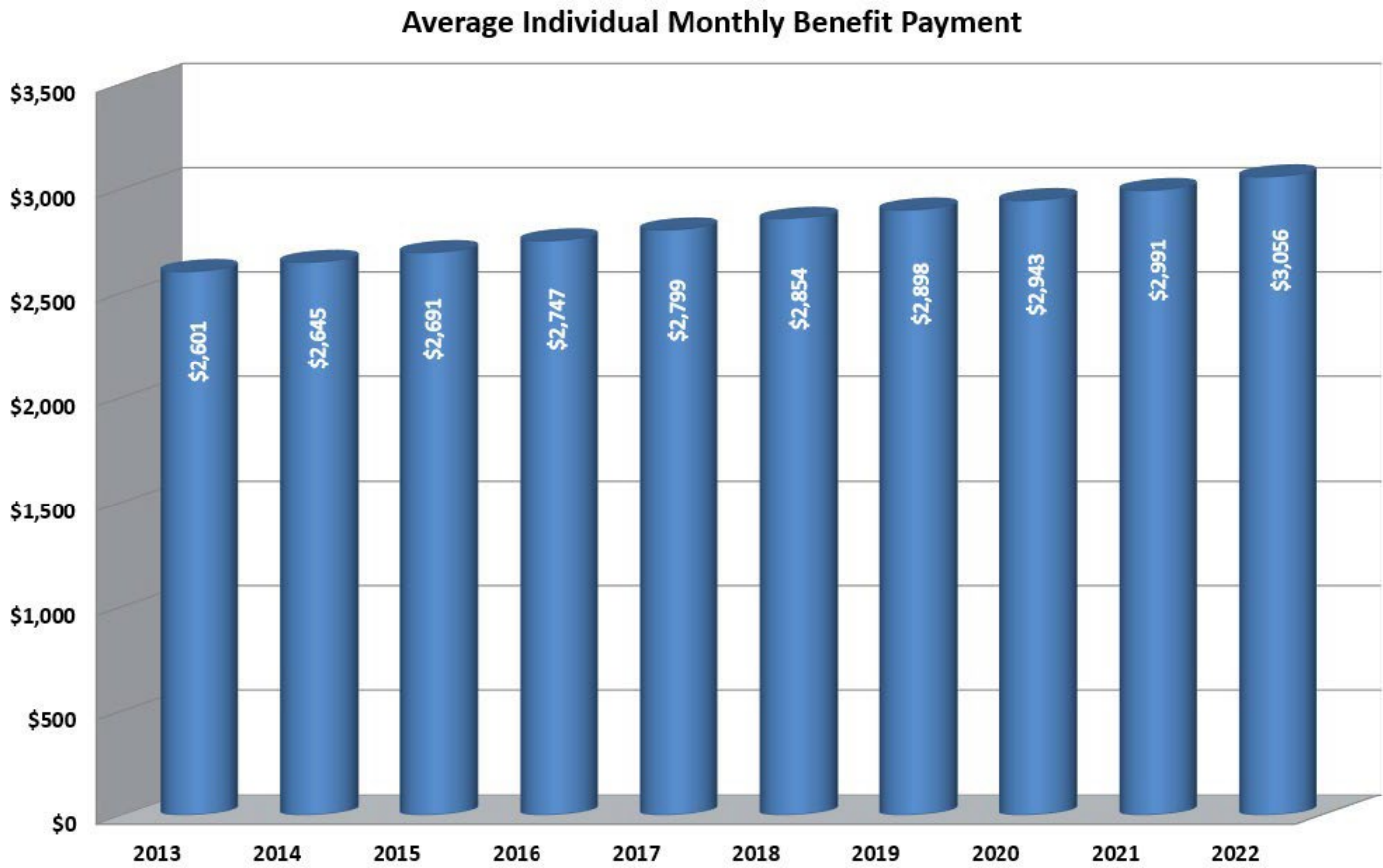
Membership includes the total number of active employees paying into the plan; inactive members with contributions still in the plan and the total number of retired members and beneficiaries drawing monthly pension benefits. Though our active and deferred member counts outnumber the retired and beneficiaries, the deferred or non-participating member count has grown consistently over the last 10 years resulting in a smaller number of members contributing to the plan to cover benefit payments. As a result, investment returns have become more important to cover benefit payments.

Fiscal Year Ending 12/31	Active & Deferred Members	Retired Members & Beneficiaries	Total Members	Average Annual Retiree Benefit Received
2022	5,791	5,627	11,418	\$ 36,677
2021	5,635	5,478	11,113	35,892
2020	5,535	5,347	10,882	35,315
2019	5,435	5,250	10,685	34,781
2018	5,316	5,096	10,412	34,247

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

AVERAGE BENEFIT PAYMENTS

The chart below is a broad representation of average benefits paid monthly over 10 years to retirees and survivors. Both general and safety member figures are combined in this calculation. The chart includes all members who have retired through December 31, 2022.



ISSUED BY

Julie Wyne, JD, MPA, *Chief Executive Officer*

Cheryl Enold, CPA, *Finance and Retiree Services Manager*

James Failor, CFA, *Chief Investment Officer*

The financial data in the PAFR is derived from the more detailed ACFR. Both are consistent with generally accepted accounting principles and guidelines established by the Governmental Accounting Standards Board. You can find both the ACFR and the PAFR online at www.scretire.org.

Sonoma County Employees' Retirement Association
433 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403-9089

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