

SDCERA



Popular Annual Financial Report

For the Fiscal Year ended June 30, 2018

San Diego County Employees Retirement Association

San Diego County, CA

SDCERA POPULAR ANNUAL FINANCIAL REPORT As of June 30, 2018

This Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2018 (FY 2018) provides a summary of SDCERA's financial activities. The financial data was taken from SDCERA's fiscal year 2018 Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018. Unlike the financial data in the CAFR, the data in this PAFR is unaudited and does not provide all of the necessary financial statements and note disclosures required by generally accepted accounting principles. You can review the FY 2018 CAFR on our website at www.sdcera.org.

The following information presents financial, investment and membership data as of June 30, 2018.

SDCERA MEMBERSHIP

As of June 30, 2018

Category	2018	2017	Change
Active Members	17,869	17,994	(125)
Retired Members	19,028	18,247	781
Terminated Vested (Deferred)	5,928	5,659	269
Total Membership	42,825	41,900	925

FINANCIAL

The Statement of Fiduciary Net Position is the financial statement that presents SDCERA's major categories of assets and liabilities and their related values. It presents the assets available for future payments of benefits to retirees and beneficiaries and the current liabilities owed as of June 30, 2018, with comparative totals as of June 30, 2017 (FY 2017).

Table 1: FIDUCIARY NET POSITION

As of June 30, 2018 and 2017

(dollars in thousands)

	2018	2017	Increase/ (Decrease)	% Change
Cash, cash equivalents and collateral cash	\$ 1,114,541	\$ 278,898	\$ 835,643	299.6%
Securities lending cash collateral	41,118	38,383	2,735	7.1%
Receivables	331,123	914,718	(583,595)	(63.8%)
Investments	11,258,433	11,343,269	(84,836)	(0.8%)
Property, plant & equipment	8,005	9,577	(1,572)	(16.4%)
Total assets	\$ 12,753,220	\$ 12,584,845	\$ 168,375	1.3%
Collateral payable for securities lending	41,141	38,414	2,727	7.1%
Investments purchased	401,209	1,114,764	(713,555)	(64.0%)
Other	21,955	23,989	(2,034)	(8.5%)
Total liabilities	\$ 464,305	\$ 1,177,167	\$ (712,862)	-60.6%
Plan Net Position at June 30	\$ 12,288,915	\$ 11,407,678	\$ 881,237	7.7%

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The Statement of Changes in Fiduciary Net Position is the financial statement that provides an income statement presentation of annual additions to and deductions from the Plan as of June 30, 2018, with FY 2017 comparative totals.

Table 2: CHANGES IN FIDUCIARY NET POSITION

For the years ended June 30, 2018 and 2017
(dollars in thousands)

	2018	2017	Increase/ (Decrease)	% Change
Additions				
Employer pension contributions	\$ 524,487	\$ 438,827	\$ 85,660	19.5%
Employer OPEB contributions	19,638	20,409	(771)	(3.8%)
Member contributions	140,402	113,213	27,189	24.0%
Net investment income	916,029	1,248,057	(332,028)	(26.6%)
Net securities lending income	684	461	223	48.4%
Total additions	\$ 1,601,240	\$ 1,820,967	\$ (219,727)	(12.1%)
Deductions				
Retirement benefits	\$ 685,549	\$ 647,068	\$ 38,481	6.0%
Health benefits	16,878	17,594	(716)	(4.1%)
Refund of contributions	4,389	3,558	831	23.4%
Administrative expenses	13,187	14,127	(940)	(6.7%)
Total deductions	\$ 720,003	\$ 682,347	\$ 37,656	5.5%
Net increase (decrease) in net position	\$ 881,237	\$ 1,138,620	\$ (257,383)	(22.6%)
Plan Net Position at beginning of year	11,407,678	10,269,058		
Plan Net Position at end of year	\$ 12,288,915	\$ 11,407,678		

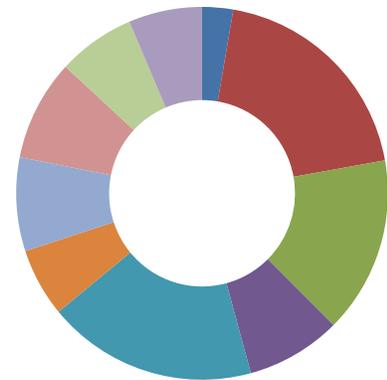
INVESTMENTS

SDCERA invests Trust Fund assets in stocks, bonds, real estate and private equity around the world with the goal of generating adequate long-term returns that, when combined with employer and employee contributions, will result in sufficient assets to pay SDCERA future retirement benefits now and into the future.

SDCERA's FY 2018 investment return was 7.9 percent, net of fees, and Trust Fund assets totaled \$12.3 billion as of June 30, 2018, an all-time fiscal year-end high. As of June 30, 2018, SDCERA's three-year return was 6.6 percent, the five-year return was 7.2 percent and the 10-year return was 5.2 percent, all net of fees.

SDCERA’s Investment Policy Statement (IPS) defines the Trust Fund’s governing principles, investment objectives and asset allocation. The governing principles are powerful: transparency, accountability and responsibility. The investment objective is to generate adequate long-term returns that, when combined with employer and employee contributions, will result in sufficient assets to pay SDCERA’s present and future obligations. To do so, requires a long-term perspective. In addition to defining acceptable asset classes, the IPS establishes the policies and procedures and safeguards for the Trust Fund. The IPS and its asset allocation are updated at least annually to ensure that SDCERA’s policies remain consistent with the prevailing investment and economic circumstances. IPS policies are monitored by staff for compliance on an ongoing basis and reported to the Board quarterly.

Another time-tested investment principle is that “a penny saved is a penny earned.” This is particularly true for a public pension system where each saved penny remains invested, with the gains compounding year after year for decades. Because of this simple fact, SDCERA rigorously looks to reduce investment expenses. Since 2015, investment expenses have been reduced significantly (e.g., over \$120 million since 2015). These savings, based on SDCERA’s current investment return assumption of 7.25% compounded annually, will add hundreds of millions of dollars to the Trust Fund in the coming years.



- Global equities- 2.7%
- US Equity - 19.5%
- Non-US Equity: Developed - 15.3%
- Non-US Equity: Emerging - 8.3%
- Risk-Reducing Fixed Income - 18.3%
- Return-Seeking Fixed Income - 5.9%
- Opportunistic - 8.1%
- Real Estate - 8.8%
- Private Equity - 6.7%
- Private Real Assets - 6.4%

ACTUARIAL

Segal Consulting, an independent actuary, prepared SDCERA’s FY 2018 Actuarial Valuation and Review that summarizes SDCERA actuarial data and establishes the funding requirements for fiscal year 2020. All FY 2018 actuarially determined contributions were paid. One important measure of SDCERA’s financial status is the funded ratio that compares the Plan’s valuation value of assets to its actuarial accrued liabilities. Generally, a higher funded ratio indicates a well-funded plan with assets sufficient to cover actuarial accrued liabilities. Segal’s Valuation reflects that the ratio of SDCERA’s valuation value of assets (\$12.4 billion, an all-time high) to the actuarial accrued liability (\$15.8 billion, also an all-time high) increased from 77.4 percent as of June 30, 2017 to 78.4 percent as of June 30, 2018. When calculated on the market value of assets for the same time periods, the funded ratio increased from 76.3 percent to 77.9 percent.

MANAGEMENT

Each year, SDCERA's senior management team agrees on an ambitious Action Plan and works hard to complete it. FY 2018 Action Plan accomplishments included improving all written member communication, enhancing SDCERA's inter-divisional effectiveness, leveraging information technology resources and managing more effectively through metrics. As a result of efforts like these, SDCERA was selected by the San Diego County Taxpayers Association as a finalist for its 2018 Regional "Golden Watchdog" Award that recognizes public agencies that "demonstrate cost-effectiveness and good governance."

BOARD OF RETIREMENT

In June 2018, Trustee David Myers retired from active service with the San Diego County Sheriff's Department. As a result, Dave's tenure as an SDCERA Trustee also came to an end. Alternate Trustee Tim Hancock, who is the Board's Alternate Seventh Member, will fill Dave's vacancy until a successor is elected. Trustee Richard Tartre was reappointed to the Board by the County Board of Supervisors for a second term beginning on July 1, 2018 and expiring on June 30, 2021.

This Popular Annual Financial Report (PAFR) is an overview of SDCERA's audited financial statements and other information contained in the Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended June 30, 2018 can be found in SDCERA's 2018 CAFR. SDCERA's PAFR provides summary financial information and does not conform to Generally Accepted Accounting Principles (GAAP), however, the SDCERA CAFR does conform to GAAP and provides the complete audited financial statements and associated Notes to the Financial Statements

Visit www.sdcera.org to read SDCERA's fiscal year 2018 Comprehensive Annual Financial Report.



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