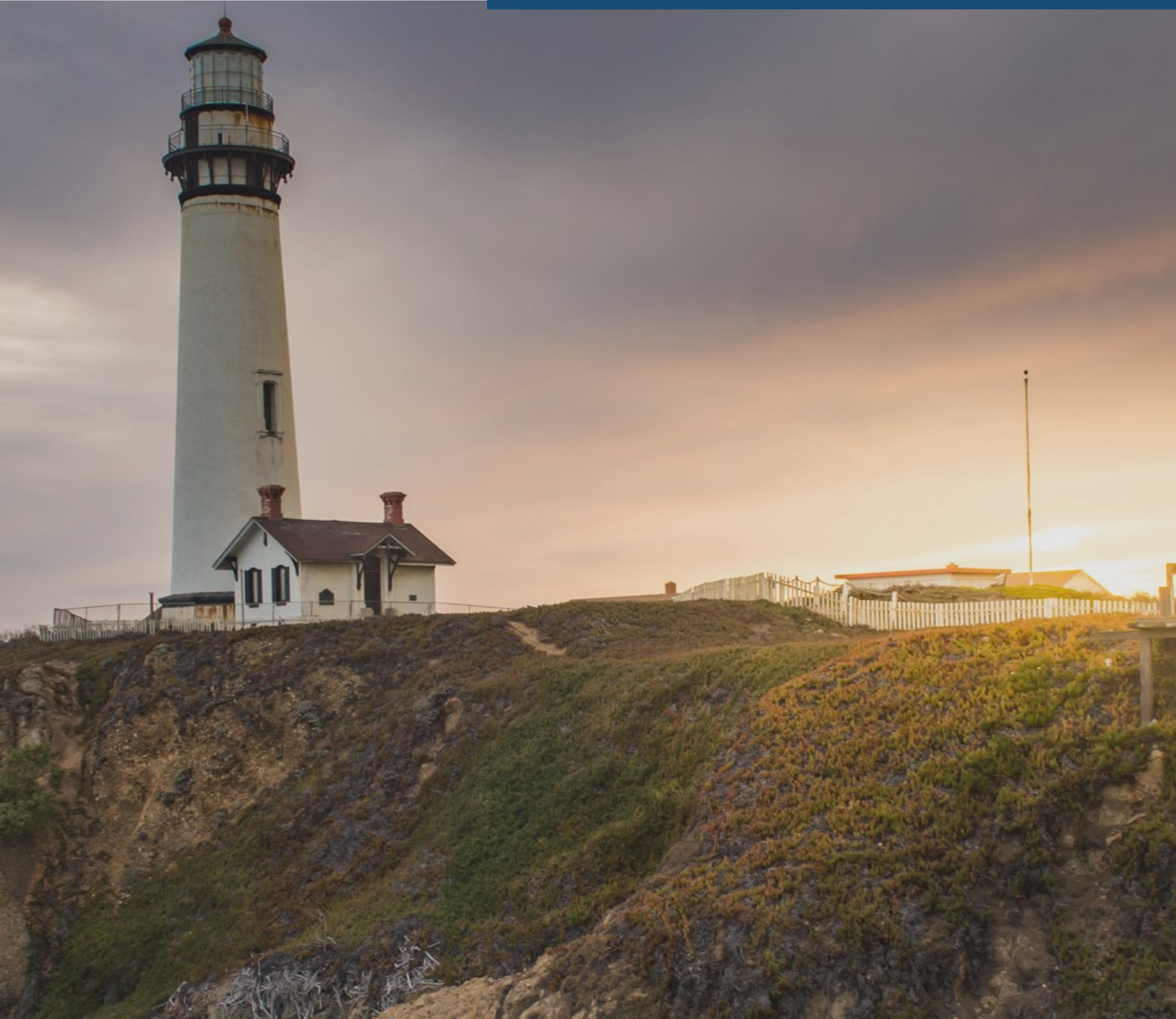




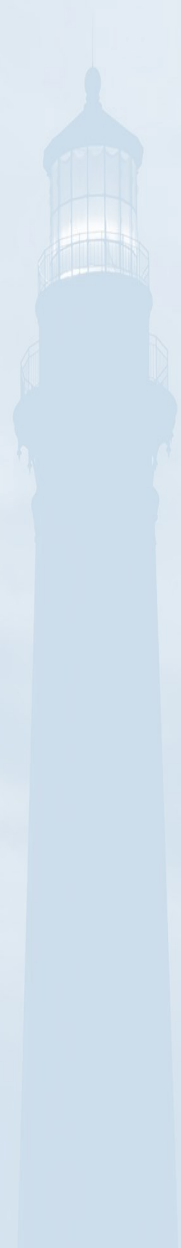
2020 POPULAR ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2020



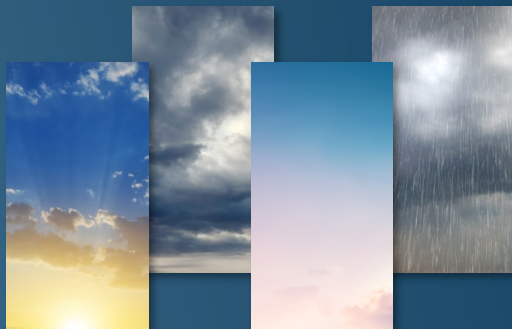
San Mateo County Employees' Retirement Association
Redwood City, State of California

A Pension Trust Fund of the County of San Mateo and Participating Employers



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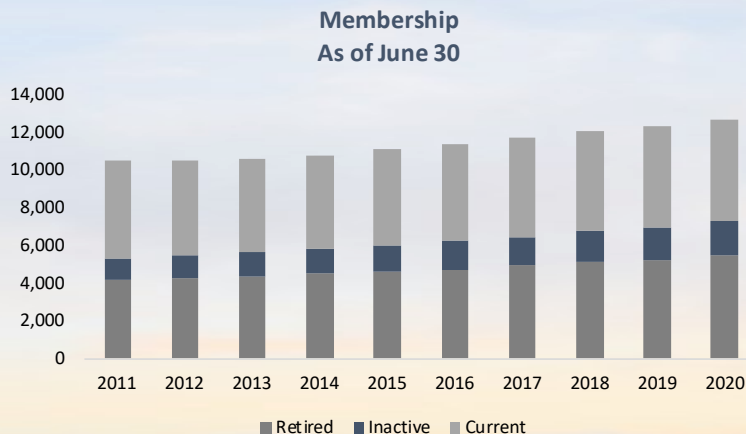
LIGHTING THE WAY FORWARD

Visible in all weather conditions, the lighthouse provides stability and direction. Just as it can guide us through storms, it still glows when all is well, consistently leading the way forward.

This **Popular Annual Financial Report** is a condensed version of the San Mateo County Employees' Retirement Association's (SamCERA) Comprehensive Annual Financial Report (CAFR), which is prepared in accordance with generally accepted accounting principles in the United States of America. The CAFR provides in-depth information about the financial, investment, actuarial, statistical, and compliance aspects of SamCERA and is available online at www.samcera.org. For the 17th consecutive year, the Government Finance Officers Association (GFOA) of the United States and Canada presented an award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) to SamCERA in recognition of its PAFR for the fiscal year ended June 30, 2019.

About SamCERA

SamCERA is a cost-sharing multiple-employer, defined benefit pension plan established to provide pension benefits for all permanent employees of the County of San Mateo (the County), the Superior Court of the County of San Mateo, and the San Mateo County Mosquito and Vector Control District. As of June 30, 2020, SamCERA had a total of 12,736 active, inactive, and retired members.



Mission & Goals

SamCERA serves as a loyal fiduciary for its members and as a prudent administrator of the retirement system with three primary goals:

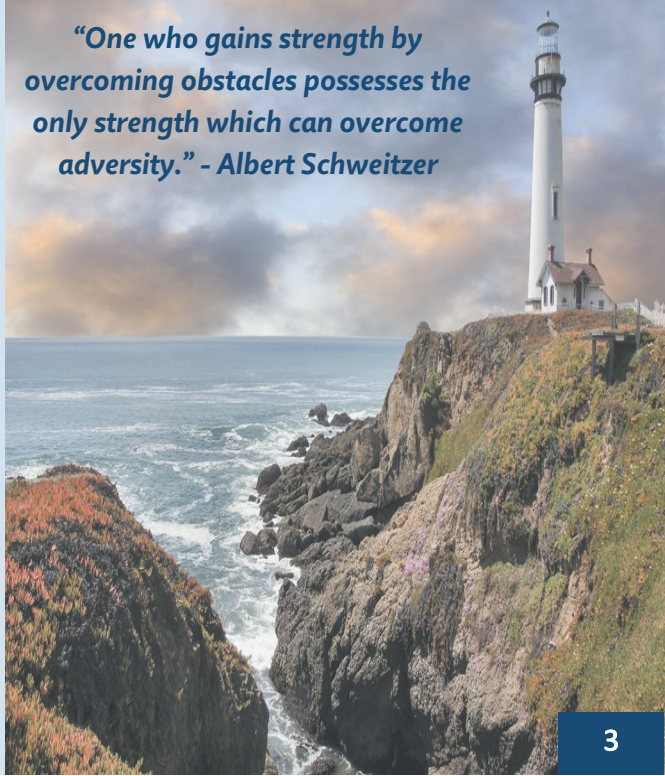
- Provide professional services and information to members and other stakeholders
- Prudently manage the assets to ensure the ability to pay all earned benefits while minimizing the costs to employers
- Constantly improve the effectiveness of SamCERA's services and the efficiency of its operations

Lighting the Way Forward

Over recent months, terms like "social distancing" have found their way into the common vernacular and will no doubt remain in our memories long after the pandemic comes to an end. We are all experiencing a range of emotions from pain associated with the loss of life to the inspiration we feel seeing people rise to overcome the challenges in front of them.

As we navigate through this crisis, we are staying focused on our financial strength, and we are confident in the consistent financial framework that has been established by the Board of Retirement and our Investment Team. While the fund is not immune to short-term volatility and market events, our long-term strategic course provides retirement security to our members and eligible beneficiaries now and well into the future.

"One who gains strength by overcoming obstacles possesses the only strength which can overcome adversity." - Albert Schweitzer



Board of Retirement



KURT HOEFER

Board Chair

Appointed by the Board
of Supervisors

Ninth Member



AL DAVID

Vice Chair

Elected by the General Members

Third Member



ROBERT RAW

Secretary

Elected by the Safety Members

Seventh Member



SANDIE ARNOTT

Board Member

Ex Officio per the 1937 Act

First Member



KATHERINE O'MALLEY

Board Member

Elected by the General Members

Second Member



ERIC TASHMAN

Board Member

Appointed by the Board of
Supervisors

Fourth Member



BENEDICT J. BOWLER

Board Member

Appointed by the Board of
Supervisors

Fifth Member



MARK BATTEY

Board Member

Appointed by the Board of
Supervisors

Sixth Member



PAUL HACKLEMAN

Board Member

Elected by the Retired Members

Eighth Member



ALMA SALAS

Board Member

Elected by the Retired
Members

Retiree Alternate



SUSAN LEE

Board Member

Elected by the Safety
Members

Safety Alternate

A Message From CEO

There has never been a more appropriate time to be lighting the way forward than Fiscal Year 2019-20, a year like no other. In mid-February, the fund was on pace to achieve its 6.5% assumed rate of return on the back of record highs in the U.S. equity markets. Then the markets abruptly changed course and plummeted when it became apparent that COVID-19 was becoming a global pandemic. The rest of February and early March saw significant declines in the fund's market value. By mid-March, the markets began to gradually rebound in a slow and steady recovery, but the volatility of the market continued to reverberate throughout the broader economy impacting different sectors in different ways. Despite this, the fund returned near zero for the year which, under the circumstances, can be considered a minor victory. Even with the near flat returns, SamCERA was able to increase its estimated funded status by 0.6% to 86.4%.

As to our investment performance, the fiscal year 2019-20 return was far under our long-term assumed rate of return of 6.5% at -0.2% net of investment fees and underperformed our benchmark by 1.8%. This return is below median among large (greater than \$1 billion in assets) public plans. Underperformance during the past three years, coupled with elevated risk this past year, has resulted in a lower risk-adjusted return relative to the benchmark over all trailing periods. However, over the most recent ten-year period ended June 30, 2020, SamCERA's performance was above median at 8.0%.

Early this year, SamCERA began transitioning the portfolio to its new asset allocation policy. The new policy removed the Risk Parity allocation of 8% and lowered the Inflation Hedge allocation by 3%. The Growth and Diversifying performance driver allocations were increased by a combined 11%. This updated allocation best positions the portfolio for continued stability as our plan matures while we navigate our expected current low-return environment.

SamCERA continues to benefit from the foresight of its participating employers who proactively accelerated the pace of reducing their unfunded actuarial accrued liability through supplemental contributions. The commitment of the San Mateo County Board of Supervisors and the San Mateo County Mosquito and Vector Control District enabled us to close the fiscal year with an increase to our funded ratio on this year's Actuarial Valuation.

As anticipated, this year marked the point where the number of retirees of the system has exceeded the numbers of active members. While this is the natural progression of defined benefit retirement systems, this milestone reminds us of the responsibility that trustees and administrators of the fund have in lighting the way forward. Prudent stewardship in uncertain times is how we can best strengthen the system to ensure that promised benefits are timely paid to all members and their eligible beneficiaries.

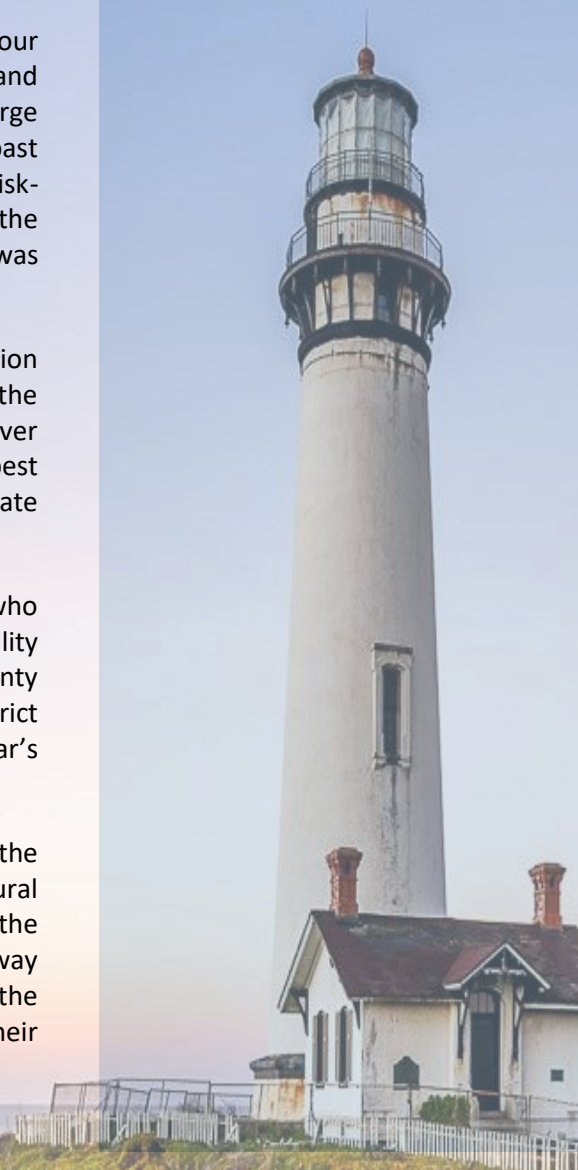
Sincerely,



Scott Hood
Chief Executive Officer



Chief Executive Officer



***Lighthouses don't get all wobbly when the weather gets rough;
they just stand there shining. - unknown***

Financial Highlights

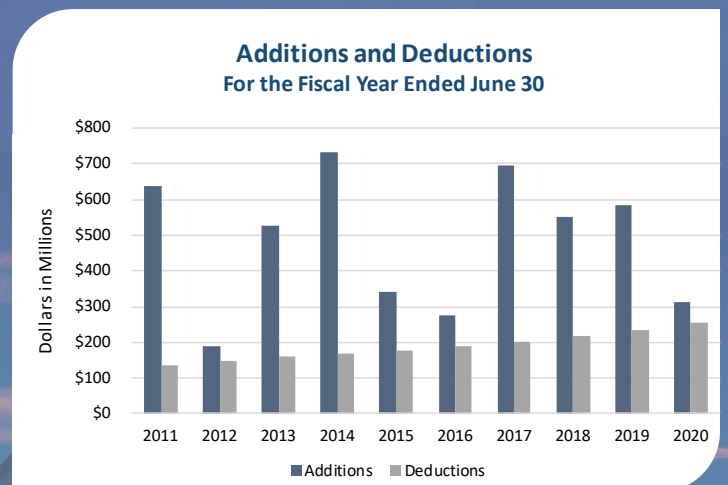
As of June 30, 2020, SamCERA's net position restricted for pensions reached \$4.8 billion, which is exclusively for meeting ongoing benefit obligations to its members and their eligible beneficiaries.

Additions to the retirement fund consist mainly of member contributions, employer contributions, and investment income.

Deductions from the retirement fund mainly include benefit payments to retired members and eligible beneficiaries, refunds of contributions to terminated employees, and operating costs.

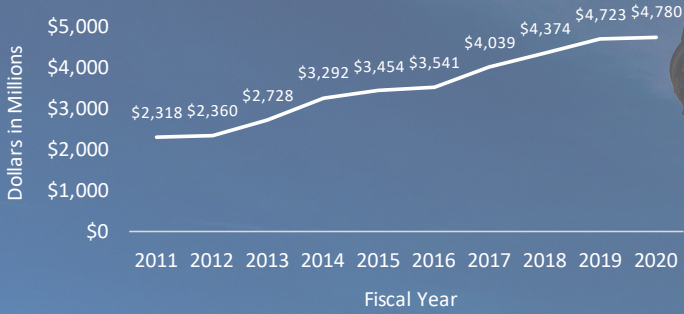
(Dollars in Millions)	2020	2019	Change
Additions			
Employer contributions	\$ 199	\$ 195	\$ 4 (a)
Employer supplemental contributions	0	51	-51 (b)
Member contributions	71	68	3 (a)
Net investment income	42	271	-229 (c)
Total additions	312	585	-273
Deductions			
Service retirement benefits	213	197	16 (d)
Disability retirement benefits	28	25	3
Survivor, death and other benefits	2	2	0
Member refunds	4	4	0
Administrative expenses	6	6	0
Information technology expenses	2	2	0
Total deductions	255	236	19
Changes in net position	57	349	-292
Net position restricted for pensions			
Beginning of fiscal year	4,723	4,374	349
End of fiscal year	\$4,780	\$4,723	\$ 57

- (a) Required contributions increased modestly because of increases in active employee payrolls.
- (b) Supplemental contributions declined to zero as the primary sponsor, the County of San Mateo, did not make any contributions to pay down its unfunded liability in fiscal year 2020.
- (c) Net investment income slipped, partly due to negative financial impacts from the pandemic, and partly due to underperformance in investments.
- (d) Service retirement benefits increased modestly, partly caused by the annual cost of living adjustment, and partly by benefit payments to newly added retirees in fiscal year 2020.



Financial Highlights (Continued)

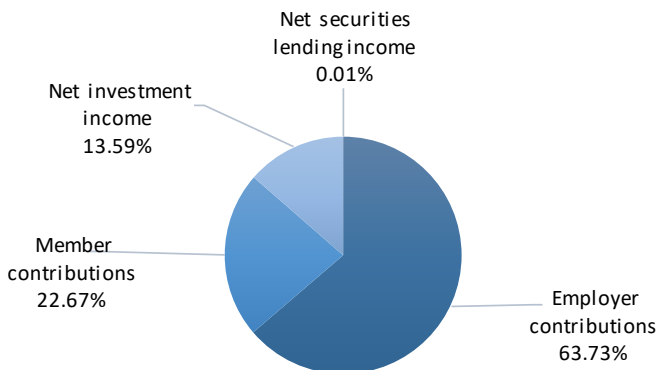
SamCERA's Net Position As of June 30



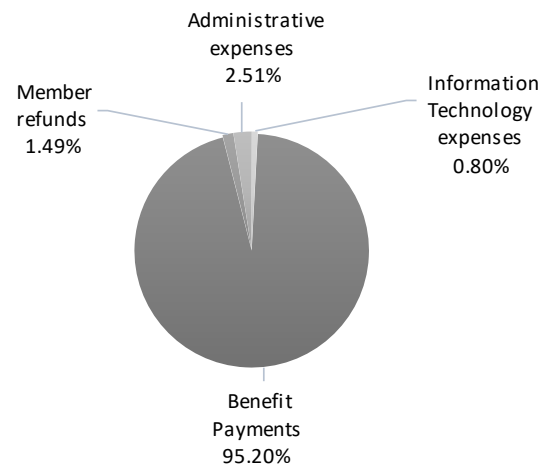
Changes in SamCERA's Net Position For the Fiscal Year Ended June 30



\$\$ Inflows For the Fiscal Year Ended June 30, 2020



\$\$ Outflows For the Fiscal Year Ended June 30, 2020



Portfolio Performance

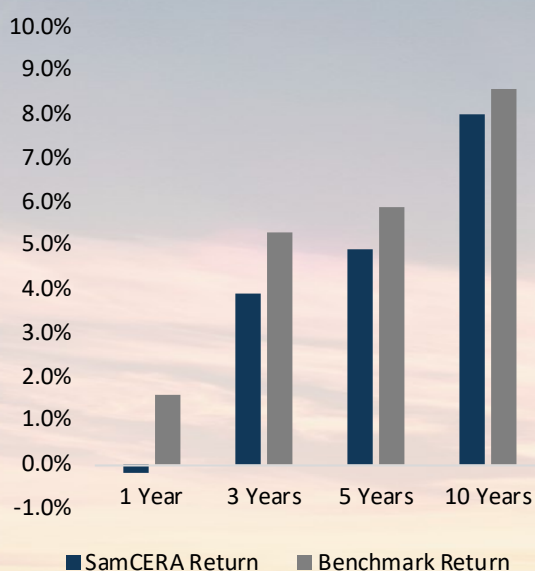
SamCERA's portfolio fair value increased slightly to \$4.8 billion as of June 30, 2020, as the net combination of portfolio appreciation and contributions, less total deductions (i.e. benefits paid, administrative expense, etc.), added approximately \$57 million to the fund.

SamCERA's portfolio returned -0.2% net of investment management fees for the fiscal year ended June 30, 2020, underperforming SamCERA's policy benchmark return by 1.8%. This fiscal-year performance resulted in below median performance relative to SamCERA's peers, as defined by large (greater than \$1 billion in assets) public plans. The table below shows net performance characteristics for the total fund over 1, 3, 5, and 10- year trailing periods ended June 30, 2020. Underperformance in the past three fiscal years, along with elevated risk over the past year, has resulted in a lower risk-adjusted return relative to the benchmark over all trailing periods.

Total Fund Net Performance Characteristics Ended June 30, 2020

	1 Year	3 Years	5 Years	10 Years
SamCERA Return	-0.2%	3.9%	4.9%	8.0%
Benchmark Return	1.6%	5.3%	5.9%	8.6%
Excess Return	(1.80)%	(1.40)%	(1.00)%	(0.60)%
Peer Rank Return (Percentile)	79th	87th	72nd	38th
SamCERA Risk (Standard Deviation)	12.1	8.8	8.0	8.2
Benchmark Risk (Standard Deviation)	11.5	8.6	8.0	8.5
SamCERA Sharpe Ratio	-0.1	0.3	0.5	0.9
Benchmark Sharpe Ratio	0.0	0.4	0.6	1.0

Investment Performance



"When it comes to investing, we want our money to grow with the highest rates of return, and the lowest risk possible. While there are no shortcuts to getting rich, there are smart ways to go about it." – Phil Town

Composite Net Performance for Trailing Year Ended June 30, 2020

Composite	Allocation (%)*	Composite Return	Benchmark Return	Excess Return
Public Equity	40.0	0.5%	2.1%	-1.6%
Fixed Income	31.6	4.4%	6.4%	-2.0%
Alternatives	12.0	2.5%	0.0%	2.5%
Inflation Hedge	15.0	-10.5%	-6.7%	-3.8%

* Liquidity balance was 1.4% as of June 30, 2020.

Investment Policy (Old vs. New)

	<u>Old Policy</u>	<u>New Policy</u>
Growth	52%	55%
Public Equity	37%	39%
Private Equity	6%	6%
Opportunistic Cred	9%	10%
Diversifying	20%	28%
Core Fixed Income	14%	21%
Absolute Return	6%	6%
Liquidity	0%	1%
Inflation Hedge	20%	17%
Real Estate	10%	10%
Private Real Assets	4%	3%
Public Real Assets	6%	4%
Risk Parity	8%	0%

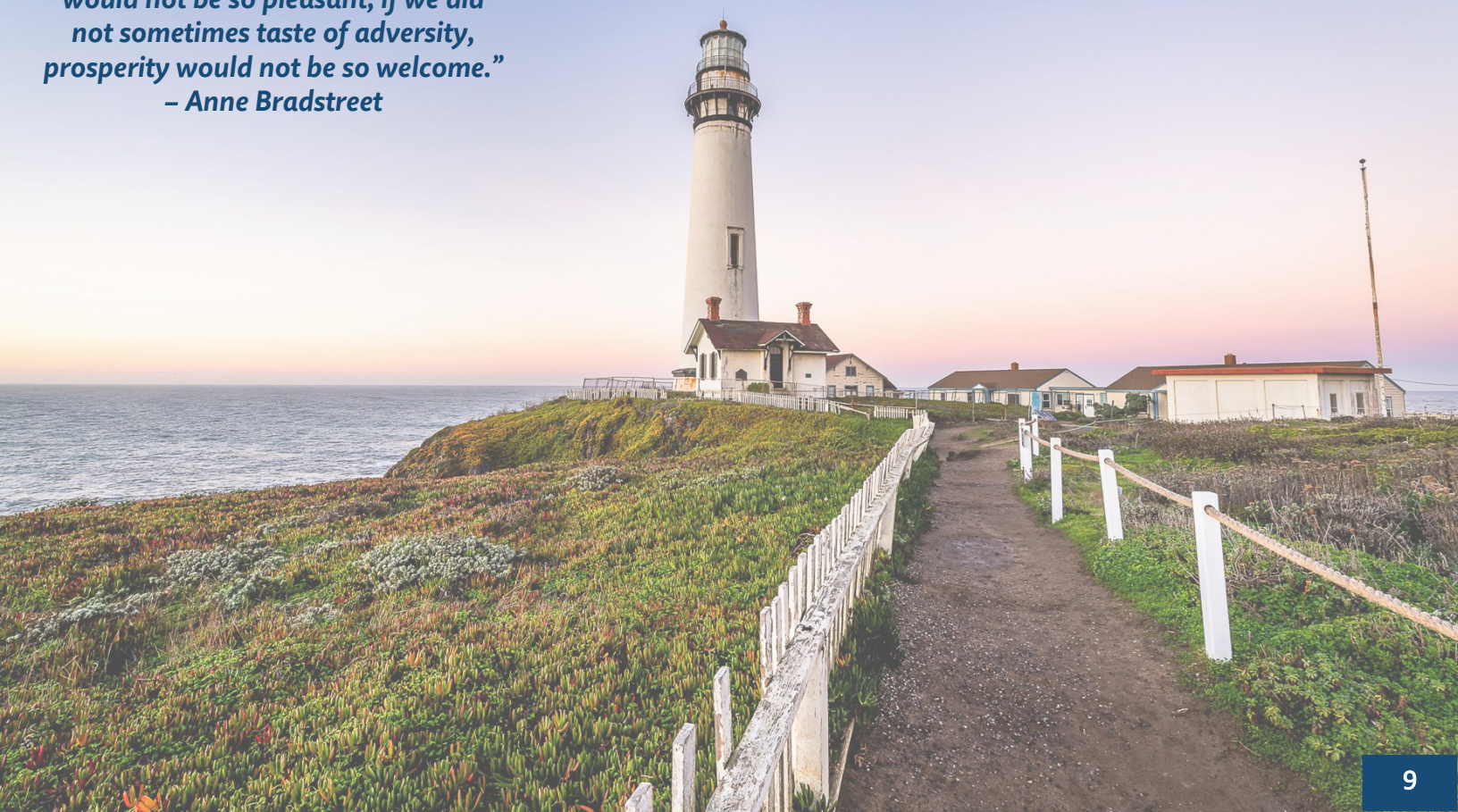
Note: New policy effective on July 1, 2020.

Looking Forward

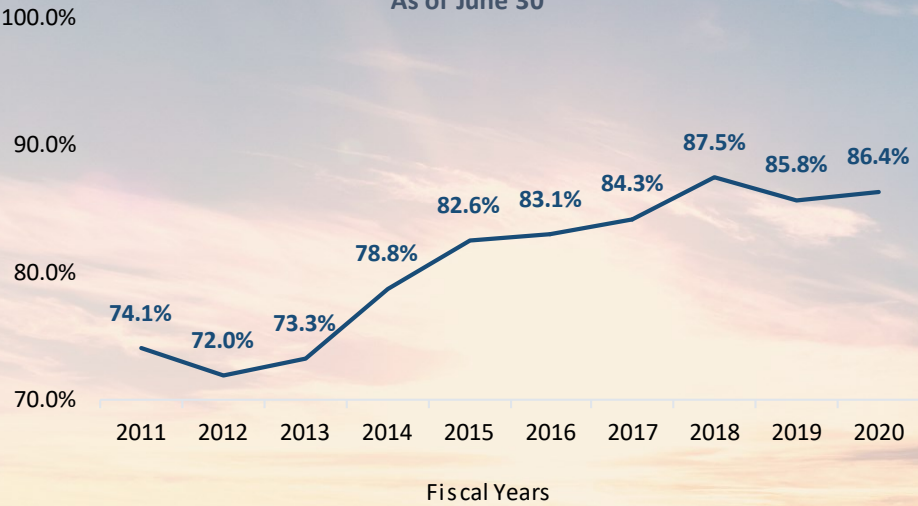
Given the immense uncertainty caused by the COVID-19 pandemic, the Investment Team's goal remains steadfast: To provide an attractive risk-adjusted return stream on the investment portfolio to support the financial retirement of the County's employees and retirees. Given the plethora of potential risks, from policy mistakes, the pandemic itself, the increased Fed balance sheet, larger fiscal deficits/debt, higher potential inflationary pressures, asset price bubbles, and of course election year uncertainty, "balance" will be key to successfully navigating the future. SamCERA continues to keep a balanced risk posture without relying too much on any single asset, strategy, or return stream.

We will also strive to balance our long-term investment time horizon with thoughtful assessment of more shorter-term opportunities. We will balance seeking return (offense) with lowering risk/capital preservation (defense). We will balance portfolio income and portfolio capital appreciation. And as always, we will use our long-term investment policy to guide us through these dynamic times.

*"If we had no winter, the spring would not be so pleasant; if we did not sometimes taste of adversity, prosperity would not be so welcome."
– Anne Bradstreet*



Funded Ratio
As of June 30



Number of Retirees and Beneficiaries
As of June 30



Average Monthly Pension Benefit
As of June 30

