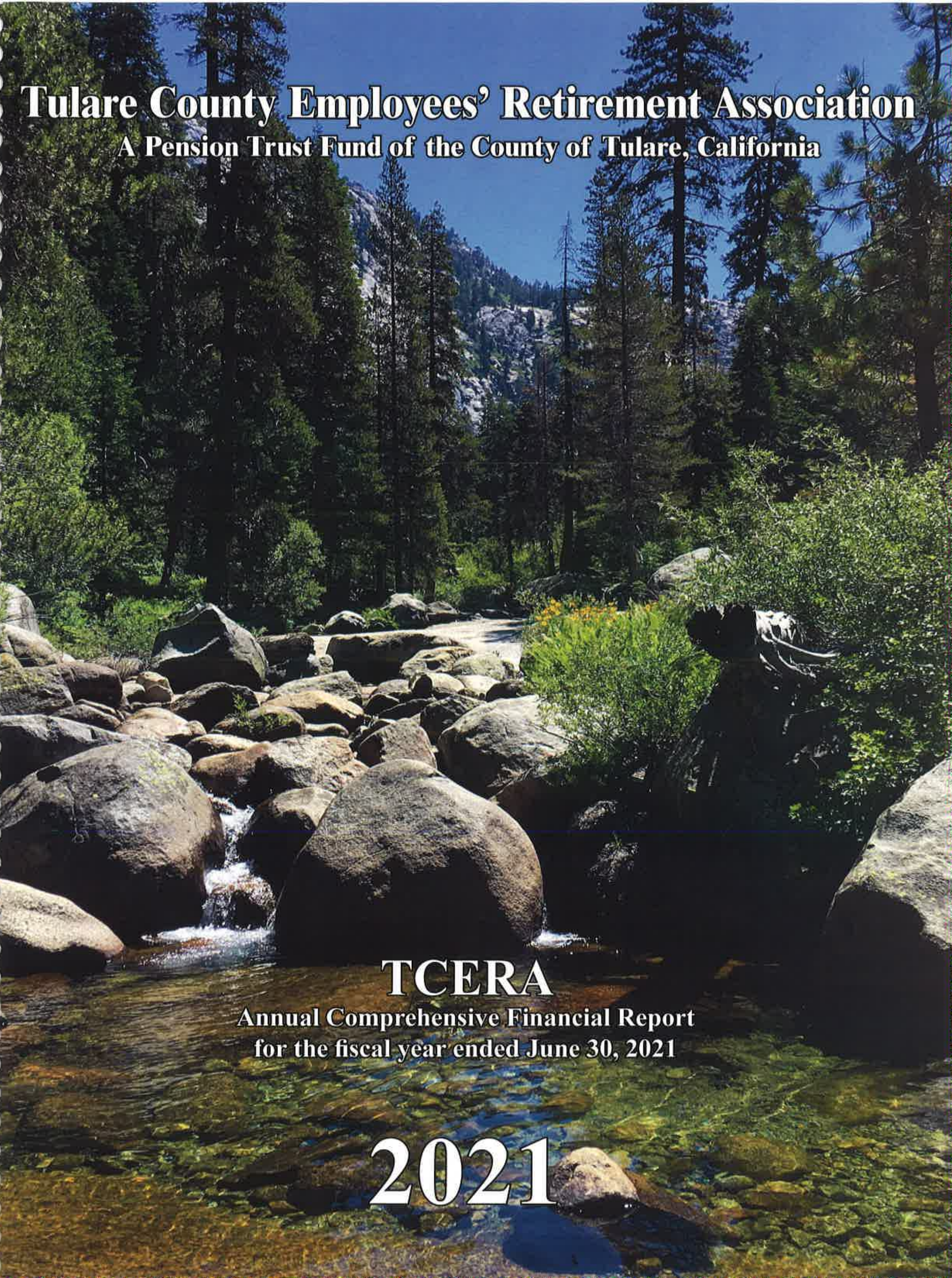

# Tulare County Employees' Retirement Association

## A Pension Trust Fund of the County of Tulare, California

# TCERA

## Annual Comprehensive Financial Report
## for the fiscal year ended June 30, 2021

# 2021

# Tulare County Employees' Retirement Association

***A Pension Trust Fund of the County of Tulare, California***

# Annual Comprehensive Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

## Prepared by:

*The Accounting Department*
*Tulare County Employees' Retirement Association*


*Leanne Malison*
*Retirement Administrator*

*Mary Warner*
*Assistant Retirement Administrator*



***Tulare County Employees' Retirement Association***
***136 N Akers Street***
***Visalia, California 93291***
***(559) 713-2900 FAX (559) 730-2631***

# TULARE COUNTY EMPLOYEES' RETIREMENT ASSOCIATION "TCERA"

***TCERA*** *is a retirement system, organized under the County Employees Retirement Law of 1937, which provides retirement, disability, and death benefits to the employees, retirees, and former employees of the County of Tulare, the Tulare County Superior Court, and the Strathmore Public Utility District.*

*TCERA's principal responsibilities include: management of the trust fund; delivery of retirement, disability, and death benefits to eligible members; administration of cost-of-living programs; and general assistance in retirement and related benefits.*

## Mission Statement

To provide retirement compensation, death and disability benefits to Tulare County and outside district retirees and their beneficiaries. To provide services for plan members to assist them in planning for their retirement. To preserve and maintain the assets of the system through prudent investment of employee and employer contributions, while maintaining a sound funded status for the system.

## TCERA Commitment

TCERA is committed to providing excellent service for its plan participants. The Mission is achieved through a competent, professional, impartial and open decision making process. Investments are managed to decrease risk while increasing returns. TCERA exists for the sole purpose of providing benefits to our members with the goals of maximizing member service, enhancing member communication to increase awareness of available benefits, and minimizing employer contributions.

## Goals

- To enhance communications with members and employers.
- To develop an environment which improves the Retirement Board's ability to fulfill its fiduciary responsibilities.
- To improve the level and delivery of services provided to plan participants.
- To achieve and sustain top quartile investment performance as measured by the Public Fund Universe.
- To attract, develop and retain competent and professional staff.

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## FINANCIAL SECTION



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### REQUIRED SUPPLEMENTARY INFORMATION

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### OTHER SUPPLEMENTAL INFORMATION



### OTHER INFORMATION



## INVESTMENT SECTION

## ACTUARIAL SECTION



## STATISTICAL SECTION



## OTHER REPORT

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# *introductory section*

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COUNTY OF TULARE
**BOARD OF RETIREMENT**

**Leanne Malison**
**Retirement Administrator**

136 N AKERS STREET
VISALIA, CALIFORNIA 93291

TELEPHONE (559) 713-2900
FAX (559) 730-2631
www.tcera.org

## Letter of Transmittal

November 29, 2021

Board of Retirement
Tulare County Employees' Retirement Association
136 N. Akers Street
Visalia, CA 93291-5121

Dear Board Members:

The Tulare County Employees' Retirement Association (TCERA) staff is submitting for your review the Annual Comprehensive Financial Report of the Tulare County Employees' Retirement Association for the fiscal year ended June 30, 2021, TCERA's 76th year of operation. The information contained in this report is designed to provide a complete and accurate review of the year's operations. The required financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Brown Armstrong Accountancy Corporation, independent auditor, has audited the financial statements. Management is responsible for the contents of this report and believes that internal controls are adequate and that the accompanying statements, schedules, and tables are fairly presented.

### TCERA AND ITS SERVICES

Currently, TCERA (also referred to as the Association or the Plan) has three plan sponsors. The Plan was established on July 1, 1945, to provide retirement allowances and other benefits to the safety and general members employed by the County of Tulare (the County). On July 1, 1968, the Strathmore Public Utility District joined the members of TCERA under the Association's provisions. Effective January 1, 2004, the Tulare County Superior Court (TCSC) separated from the County. TCERA established TCSC as a separate plan sponsor, which provides inclusion in membership for new employees while retaining the prior County employees with continuing membership.

TCERA is governed by the California Constitution, the County Employees Retirement Law of 1937, applicable sections and regulations of the United States Internal Revenue Code, and the bylaws, procedures and policies adopted by TCERA's Board of Retirement (the Board). The Tulare County Board of Supervisors may also adopt resolutions, as permitted by the County Employees Retirement Law of 1937, which may affect benefits of TCERA members.

The Board is responsible for determining TCERA's investment objectives, strategies, polices, and general management of TCERA. The Retirement Administrator is accountable for TCERA's operations and is an advisor to the nine member Board.

## MAJOR INITIATIVES, SERVICE EFFORTS AND ACCOMPLISHMENTS

During this fiscal year our initiatives, service efforts and accomplishments have continued to reflect the five stated goals of TCERA:

Enhance Communications with Members and Employers

- TCERA continues to focus on opportunities provided to members to increase their knowledge regarding TCERA and retirement benefits by continually evaluating and updating its educational seminars presented to members. Due to the COVID pandemic, TCERA started offering its many seminars through a web meeting platform. This change has been successful in ensuring the continuation of the numerous retirement seminars TCERA regularly schedules and the ability for each seminar to accommodate a larger group of members.

- Member benefit statements distributed annually provide not only contribution balance information, but also projected benefit estimates for vested members. This gives members an additional tool for their retirement planning. Because these statements are generated directly from TCERA's pension administration system, TCERA is able to distribute these statements quickly without relying on a third party for printing and distribution.

- *Pension Progress*, TCERA's quarterly newsletter, continues to provide up to date information for members. Electronic distribution for active members ensures timely delivery and easy access for employees. The newsletter is also available on TCERA's website.

- TCERA maintains member web services called *My TCERA*. My TCERA provides active members access to their demographic and balance information as well as the ability to calculate preliminary retirement benefit estimates using their current data. Retired members have access to payment acknowledgments and 1099R information and can submit updates to certain pension information. The My TCERA Retirement Modeler gives members the opportunity to use "what if" scenarios to assist with achieving their retirement goals. After enrolling in web services, My TCERA is accessible to members through a link available on TCERA's website.

- TCERA updates Facebook and Twitter communications with relevant news and information for its members. The use of social media provides yet another means of reaching TCERA members with important information.

- TCERA upgraded its website (www.tcera.org) to a platform that provides increased stability and a new look that enhances the user's experience.

- New audio-visual equipment installed in TCERA's Board room offers improved in-room sound quality and features for remote access. These enhancements were essential in continuing to provide access to public meetings during the COVID pandemic.

Develop an Environment which Improves the Retirement Board's Ability to Fulfill its Fiduciary Responsibilities

- The Board trustees continue their focus on Board education. Trustees are encouraged to attend seminars and conferences offered through qualified outside organizations. In addition, the Board has ramped up its internal education, offering on-site education on various administrative and investment topics. The educational opportunities in this fiscal year's education calendar covered Active/Passive Investments, Investment Refresher course, Index Fund review, Investments in China, Securities Lending, Risk/Standard Deviation, Strategic Asset allocation, and education from many of TCERA's current investment managers. In response to the pandemic, consultants and investment managers have provided multiple web-based conferences and seminars for trustees, providing another means of obtaining valuable education.

- After taking action in the prior year to reduce TCERA's interest rate assumption, the Board elected to maintain the current compounded rate of 7.00%. This was the result of the Board's continued analysis of projected investment returns, associated risk, and the recommendations of TCERA's actuary regarding the interest rate assumption. An asset/liability study presented just prior to the beginning of the fiscal year by Verus, TCERA's investment consultant, provided additional details regarding the fund that contributed to the discussion and eventual decision regarding the assumed rate. The Board acknowledged that maintaining the rate at its current level will place the plan in a favorable position for reaching its long-term investment return goals and achieving full funding status.

- The Board acknowledged its fiduciary responsibility in administrative matters through the periodic review of Board policies and resolutions. The trustees reviewed key policies and took action to update its policies regarding investments, trustee elections, hearing officer qualifications and electronic signatures. Acceptance of electronic signatures will facilitate the timely acceptance of documents from members and vendors thereby improving service and streamlining processes. The Board also updated resolutions regarding compensable pay codes. In addition, the Board adopted the optional provisions of California Assembly Bill 2101, authorizing the Retirement Administrator to approve retirement applications with later ratification by the Board and increasing the retirement application window from 60 days to 90 days prior to the date of retirement.

- The Board ensured continued compliance with Internal Revenue Code requirements for its tax qualification status by adopting required Section 415 limits.

Improve the Level and Delivery of Services Provided to Plan Participants

- TCERA continued to enhance its Pension Administration System and develop improved processes and workflow through expanded use of the system's capabilities. Efficiencies have already been realized in the use of the CPAS system and procedures continue to be refined to make the best use of the system's features.

- Due to the COVID pandemic in March of 2020, TCERA discontinued the use of group retirement sessions for members completing the final paperwork for TCERA retirement. In the face of increasing numbers of retirements and limited staff, TCERA found that offering retirement group sessions streamlined the process while still offering personalized service. Employees meet with a retirement specialist in a group of four to six TCERA members. The session focused on final retirement decisions and the completion of the retirement application packet. These group retirement sessions allowed TCERA to continue to meet the individual needs of our growing retirement population. TCERA intends to reinstate this process as soon as it is safe for members and staff to do so. Until that time, TCERA staff will continue to utilize phone, electronic communications, and one-on-one meetings to assist members through the retirement process.

- TCERA continues its protective measures for trustees, staff, and members in response to the COVID pandemic. Social distancing is enforced with any on site activity.

Achieve and Sustain Top Quartile Investment Performance as Measured by the Public Fund Universe

- The Board conducted its annual review of its investment policy as a part of its discussions regarding TCERA's strategic asset allocation. The trustees took action to update the policy reducing the international equity allocation to 15% and increasing the domestic equity allocation to 25% of the total portfolio; all other targets remain unchanged. This change addressed Board concerns regarding the disappointing performance of international equities. Discussion continued after fiscal year end and additional changes are expected in the new fiscal year.

- The Board spent considerable time evaluating the advantages and disadvantages of active investment management. After several educational sessions, the trustees directed Staff to implement a 50/50 active/passive split for TCERA's domestic equity portfolio.

- TCERA initiated a review of separate investment account guidelines to ensure that investment managers were provided the appropriate tools to achieve expected performance. The review resulted in the Board authorizing updated guidelines for BlackRock and Ivy that went into effect after fiscal year end.

- The Investment Committee conducted an active manager expense review. Fee reductions were negotiated with Franklin Templeton and PGIM as a result of the review. The amended contracts were executed after fiscal year end.

- TCERA's investments returned 24.0% gross of fees for the fiscal year ending June 30, 2021, ranking in the 83rd percentile of its peer group well below the median peer. The return also exceeded the Plan's policy benchmark of 22.1%. This was well over TCERA's investment rate assumption of 7% and represents a continued improvement in TCERA's ranking. TCERA's fixed income portfolio compared to peers was a major detractor to the peer ranking. The primary driver of TCERA's outsized returns was the upward trend in global equity markets. TCERA hopes to make progress with the disappointing ranking through the implementation of the changes the Board has made to its strategic investment allocation. TCERA continues to be optimistic in its ability to achieve its long-term investment goals as well as improve TCERA's position in comparison to peers.

- TCERA's policy of smoothing asset returns allowed the Board to authorize the posting of positive interest for both December 31, 2020 and June 30, 2021 in spite of the recognition of previous losses causing the smoothed rate to fall short of the interest assumption rate of 7.00% in effect for the fiscal year. The Board is confident that, barring unforeseen market turmoil, the implementation of its asset allocation combined with positive market environments will produce future investment performance in line with TCERA's goals. Member accounts and applicable reserves were credited with interest as follows:

| | |
|---|---|
| December 31, 2020 | Tiers 1-3 –2.8536%<br>Tier 4 – 2.7021% |
| June 30, 2021 | Tiers 1-3 – 3.4235%<br>Tier 4 – 2.8932% |

Attract, Develop, and Retain Competent and Professional Staff

- The Board authorized the addition of one new staff member. A new Retirement Specialist will be hired next fiscal year. This additional staffing will allow TCERA to continue to meet its goals for customer service in light of increased retirements and regulatory requirements.

- TCERA continued its focus on cross-training and professional development for all staff members. Weekly staff meetings provide an environment for exchange of information and training in various aspects of pension administration.

- Staff members participated in on-site training and off-site seminars and roundtables to bolster their understanding of retirement principles as available. The COVID pandemic has limited access to off-site seminars, but the availability of web-based programs has helped fill in that gap.

**MEMBERSHIP**

All permanent County, Strathmore Public Utility District, and TCSC employees working 50% or more in a regular allocated position are members of the Association.

| **TCERA's Membership**<br>*As of June 30, 2021 and 2020* | **2021** | **2020** |
|---|---|---|
| Active Plan Participants (vested/non-vested) | 4,484 | 4,605 |
| Inactive Participants (vested/non-vested) | 2,295 | 2,183 |
| Service Retirees | 2,619 | 2,574 |
| Disability Retirees | 342 | 347 |
| Survivors/Beneficiaries | 511 | 487 |
| Total Retirees/Beneficiaries | 3,472 | 3,408 |
| **Total Members** | **10,251** | **10,196** |

The Association's membership consists of General and Safety members who participate in one of the following four tiers:

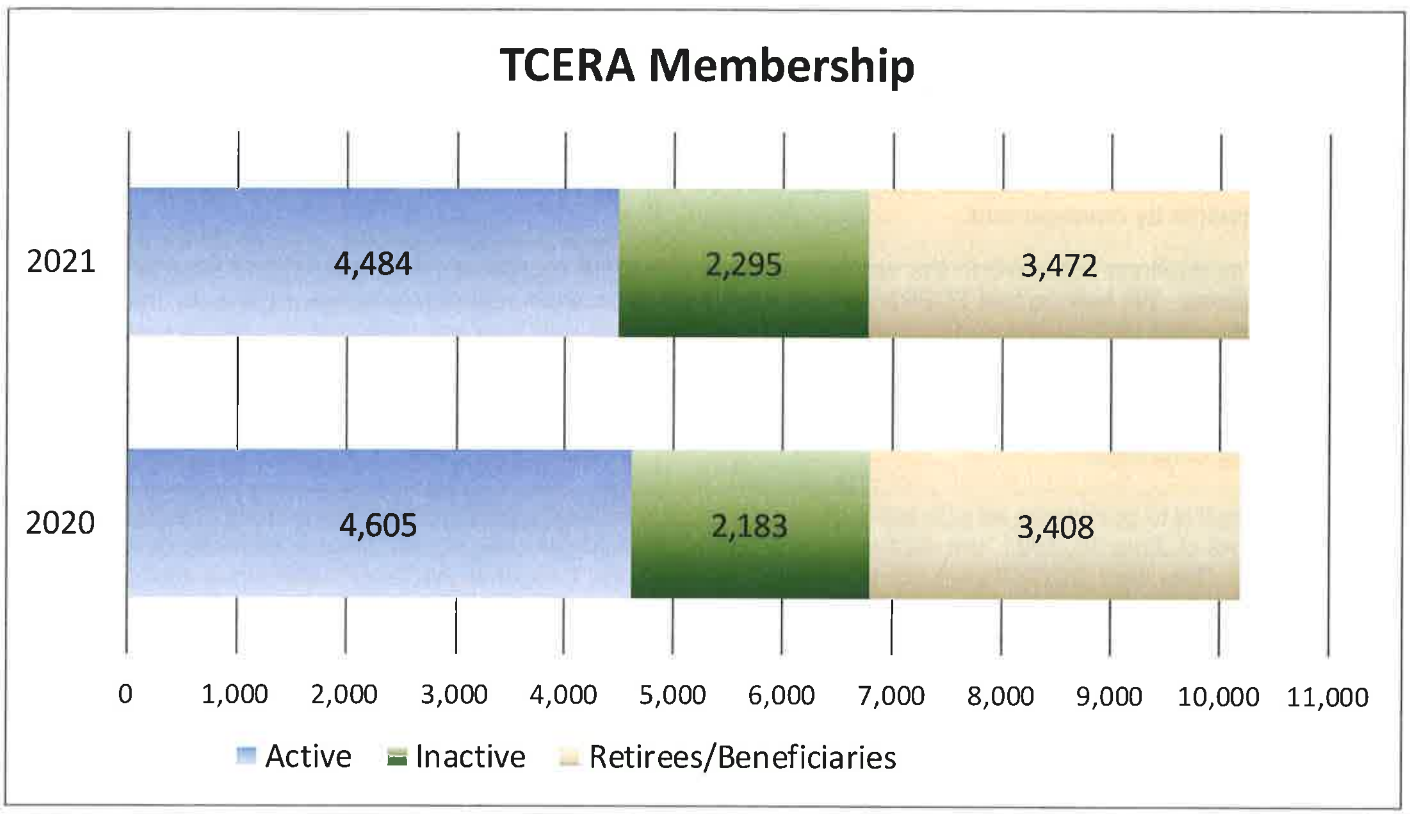
**Tier 1** – Includes all members who have a membership date on or before December 31, 1979. The County pays one-half of Tier 1 members' normal contributions. Benefits are calculated using the highest average one-year salary. Tier 1 members receive a maximum of 3% cost-of-living adjustment annually after retirement. Tier 1 general members with service earned on or after July 1, 2005 are now subject to IRS Section 415 limits due to the implementation of a new benefit formula. Only Tier 1 general members who entered deferred status prior to the implementation of the new benefit formula are exempt from these limits. All Tier 1 members are subject to Article 5.5 Alternative Financial Provisions of the California Government Code.

**Tier 2** – Includes all members who have a membership date from January 1, 1980 through December 31, 1989. Benefits are calculated using the highest average three-year salary. Tier 2 members receive a maximum of 2% cost-of-living adjustment annually after retirement. Tier 2 general members with service earned on or after July 1, 2005 are now subject to IRS Section 415 limits due to the implementation of a new benefit formula. Only Tier 2 general members who entered deferred status prior to the implementation of the new benefit formula are exempt from these limits. All Tier 2 members are subject to Article 5.5 Alternative Financial Provisions of the California Government Code.

**Tier 3** – Includes all members who have a membership date from January 1, 1990 through December 31, 2012. Benefits are calculated using the highest average three-year salary. Tier 3 members receive a maximum of 2% cost-of-living adjustment annually after retirement. All employees who joined TCERA on or after January 1, 1990 are subject to IRS Section 415 limits. All Tier 3 members are subject to Article 5.5 Alternative Financial Provisions of the California Government Code.

**Tier 4** – Includes all members who have a membership date on or after January 1, 2013 and are not eligible for reciprocal membership with another qualified retirement system. Tier 4 was established in response to the provisions of the California Public Employees' Pension Reform Act of 2012 (PEPRA). Benefits are calculated using the highest average three-year salary. Tier 4 members receive a maximum of 2% cost-of-living adjustment annually after retirement. All employees who joined TCERA on or after January 1, 1990 are subject to IRS Section 415 limits. Tier 4 members are not subject to Article 5.5 Alternative Financial Provisions of the California Government Code.

The covered payroll for all tiers for fiscal years ended June 30, 2021 and 2020 as reported in the most recent actuarial Governmental Accounting Standards Board (GASB) Statement No. 67/68 report dated June 30, 2021 was $276.13 million and $283.64 million, respectively.



**INVESTMENTS -** General Authority

Article XVI, Section 17 of the Constitution of the State of California provides that "Notwithstanding any other provisions of law or this Constitution, the Retirement Board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for the investment of moneys and administration of the system…"

Article XVI, Section 17(a) of the Constitution of the State of California provides that "the Retirement Board of a public pension or retirement system shall have sole and exclusive fiduciary responsibility over the assets…"

Article XVI, Section 17(c) of the Constitution of the State of California provides that "the members of the Retirement Board of a public pension or retirement system shall discharge their duties... 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 aim." By permitting further diversification of investments within a fund, the prudent expert standard may enable a fund to reduce overall risk and increase returns. A summary of TCERA's asset allocation can be found in the Investment Section of this report.

The prudent expert rule permits the Board to establish investment policy based upon professional advice and counsel and allows for the delegation of investment authority to professional advisors. TCERA's Investment Policy outlines the responsibility for the investments of the fund and the degree of risk that is deemed appropriate for the fund. Investment advisors are to carry out their responsibilities in accordance with the Board's policies and guidelines.

TCERA's investment return calculations are time-weighted and market value based. For the fiscal years ended June 30, 2021 and June 30, 2020, TCERA's investments provided a 24.0% and 0.9% time-weighted rate of return, respectively. TCERA's annualized rate of return over the last three years was 9.9%. For the 5-year and 10-year periods, the fund returned 9.9% and 7.7% annualized, respectively. Details regarding investment performance are included in the Investment Section of this report.

## FINANCIAL INFORMATION

### Internal Control

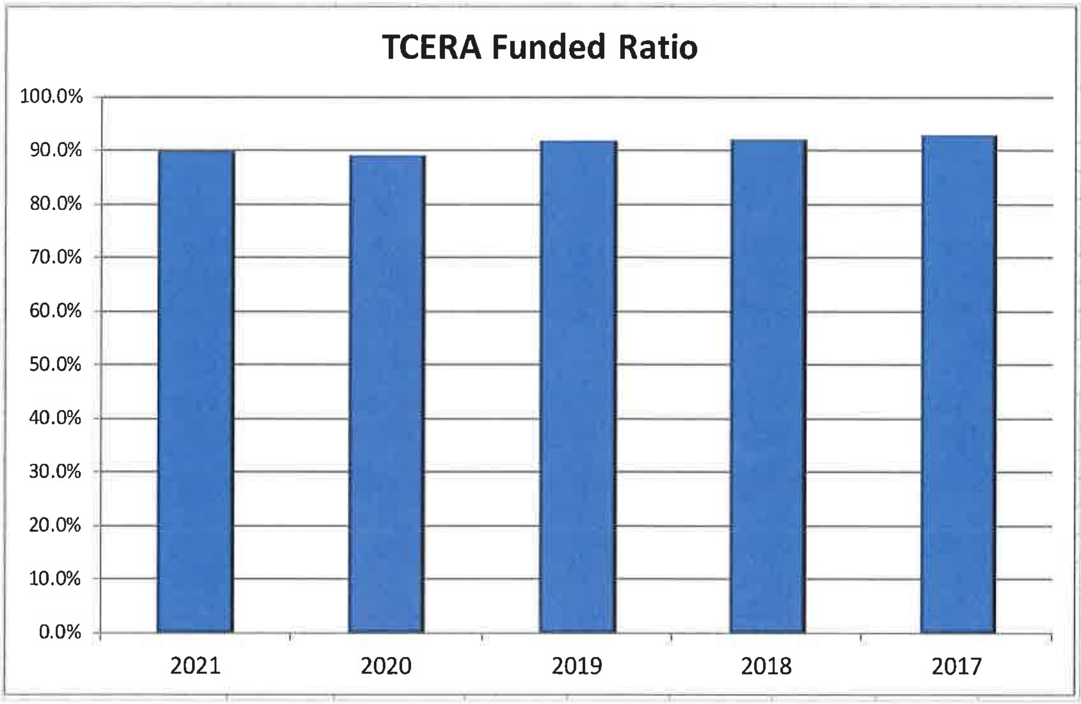
TCERA's management is responsible for implementing and sustaining internal controls designed to provide prudent assurance regarding the protection of assets and the reliability of financial records.

In developing and maintaining TCERA's accounting system, consideration is given to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. TCERA recognizes that even sound internal controls have inherent limitations. We believe that TCERA's internal accounting controls adequately safeguard assets and provide reasonable assurance that all financial transactions are properly recorded and they are designed to provide reasonable, but not absolute, assurance that these objectives are met. These controls have been improved with the implementation of an integrated pension administration system.

### Funding Status and Objective

The policy of the Board is to provide for an actuarial valuation on an annual basis, with an experience study to be conducted every three years. As of June 30, 2021, the date of the last actuarial evaluation, the actuarial value basis funded ratio for TCERA was 89.8%. Over time, TCERA seeks to reach full funding status. To further that end, TCERA has adopted a 19-year layered amortization of the unfunded actuarial liability to ensure that liabilities are fully paid over the amortization period. TCERA's primary funding objective, however, is to maintain a funded status that will allow for the payment of its long-term benefit obligations through contributions and investment income. TCERA will establish contribution rates that, to the extent possible, will remain as a level percentage of payroll over time and will fully fund the liability for each participant by the participant's retirement date. Toward that end, the following chart displays TCERA's healthy and relatively stable funded ratio over recent years:




A substantial increase occurred in the funded status as of June 30, 2017 as compared to prior periods not displayed in the chart above, primarily due to the issuance of $250 million in Pension Obligation Bonds by the County. TCERA's independent actuary, Cheiron, was authorized to produce a revised valuation for June 30, 2017 that included a receivable for the expected $250 million contribution. The bond proceeds were received by TCERA on June 30, 2018.

**Additional Discussion and Analysis of Fiscal Operations for the Fiscal Year**

An overview of TCERA's fiscal operations is presented in the Management's Discussion and Analysis (MD&A) preceding the financial statements. This transmittal letter, when taken into consideration with the MD&A, provides an enhanced picture of the activities of the pension fund.

**CERTIFICATES OF ACHIEVEMENT AND AWARDS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TCERA for its Annual Comprehensive Financial Report for the fiscal year ended June 30, 2020. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized Annual Comprehensive Financial Report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Annual Comprehensive Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

TCERA's Popular Annual Financial Report (PAFR), designed to provide the public with an understanding of TCERA's overall financial condition and enhanced services, achieved the Award for Outstanding Achievement in Popular Annual Financial Reporting from the GFOA for the fiscal year ended June 30, 2020.

In addition, TCERA applied for and was awarded the Public Pension Standards Award for Funding and Administration for 2021. This award is presented by the Public Pension Coordinating Council in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards. The Public Pension Coordinating Council is a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

**ACKNOWLEDGMENTS**

The preparation of the annual report on a timely basis is made possible by the effective teamwork of TCERA staff. It is intended to provide concise and reliable information reflecting the Board's management of its fiduciary responsibility to TCERA's trust fund and participants. I would like to thank our contract auditor, Brown Armstrong Accountancy Corporation, for their guidance and assistance.

On behalf of TCERA Board of Retirement and staff, I would like to take this opportunity to express our appreciation to the advisors, consultants, and to the many people who have worked so diligently to ensure the success of TCERA.

Respectfully submitted,

Leanne Malison

Leanne Malison
Retirement Administrator

## GFOA Certificate of Achievement

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Tulare County Employees' Retirement Association**
**California**

For its Comprehensive Annual Financial Report
For the Fiscal Year Ended

June 30, 2020

Christopher P. Morrill

Executive Director/CEO

## Public Pension Standards Award

Public Pension Coordinating Council

**Public Pension Standards Award**
**For Funding and Administration**
**2021**

Presented to

**Tulare County Employees' Retirement Association**

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

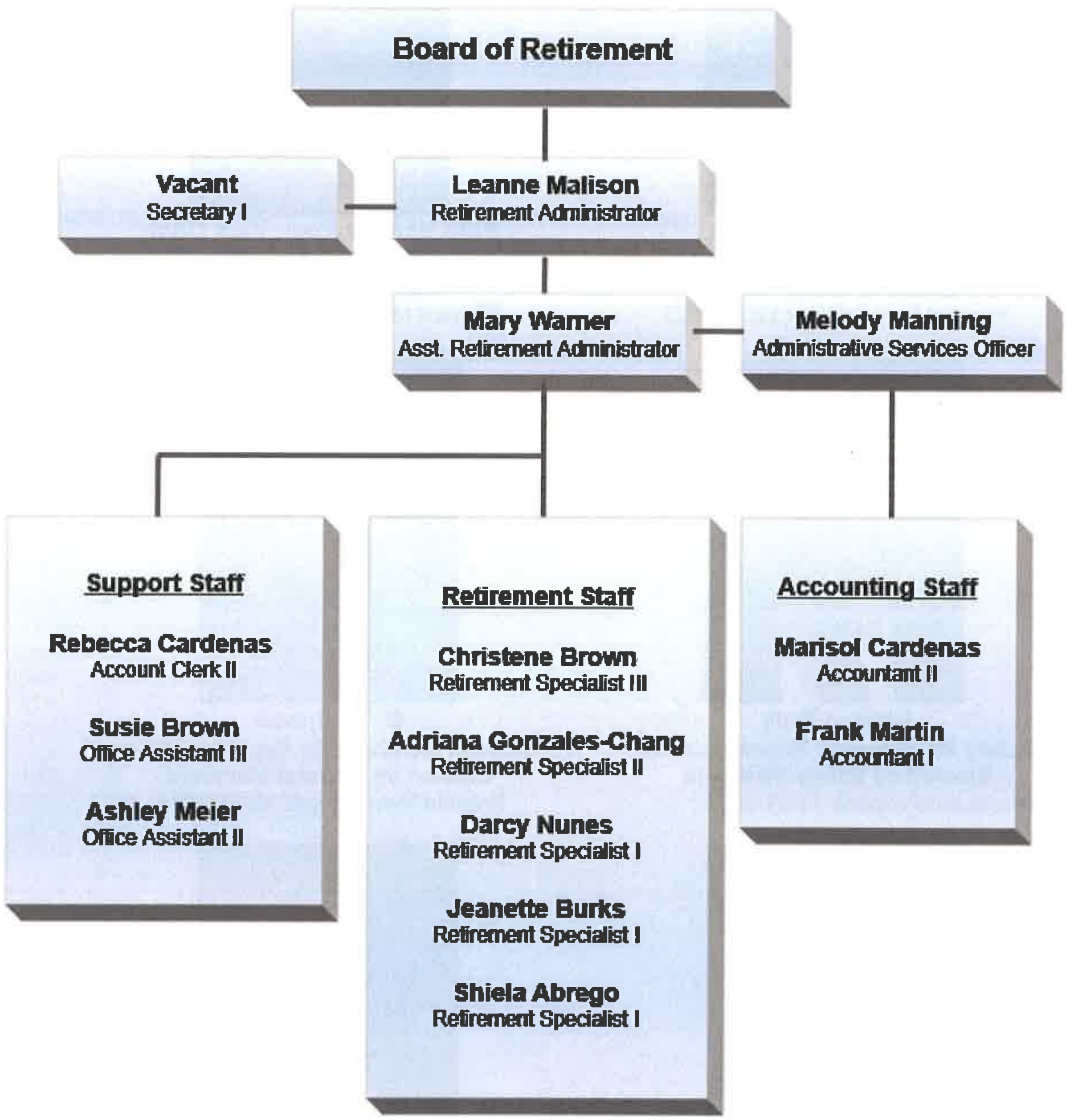
*Presented by the Public Pension Coordinating Council, a confederation of*

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

## TCERA Organizational Chart

### As of June 30, 2021



# Members of the Board of Retirement
## At June 30, 2021

**Wayne Ross, Chair**
**Appointed by the**
**Board of Supervisors**
Present term expires 12/31/2021

**Pete Vander Poel, Vice Chair**
**Appointed by the**
**Board of Supervisors**
Present term expires 12/31/2022

**Nathan Polk**
**Safety Membership Representative**
**Elected by Safety Members**
Present term expires 12/31/2021

**B. Ty Inman**
**General Membership Representative**
**Elected by General Members**
Present term expires 12/31/2021

**James Young, Member**
**Appointed by the**
**Board of Supervisors**
Present term expires 12/31/2021

**Laura Hernandez**
**General Membership Representative**
**Elected by General Members**
Present term expires 12/31/2022

## *Members of the Board of Retirement (Cont.)*

**Gary Reed, Member**
**Appointed by the**
**Board of Supervisors**
Present term expires 12/31/2022

**Cass Cook, Member**
**Auditor-Controller/Treasurer-Tax**
**Collector**
**Ex-Officio Member**


**David Vasquez, Alternate**
**Safety Membership Representative**
**Elected by Safety Members**
Present Term expires 12/31/2021

**Paul Sampietro, Alternate**
**Ex-Officio Alternate**
**For Auditor/Controller/Treasurer-Tax**
**Collector**

**David Kehler, Member**
Retired
**Elected by Retired Members**
Present term expires 12/31/2022

**George Finney, Alternate**
Retired
**Elected by Retired Members**
Present term expires 12/31/2022

# List of Professional Consultants

**AUDITOR**
Brown Armstrong Accountancy Corporation

**ACTUARY**
Cheiron, Inc.

**CUSTODIAN/SECURITIES LENDING**
BNY Mellon Global Securities Services

**DATA PROCESSING**
Tulare County Information & Communications Technology

**CUSTODIAL BANK**
BNY Mellon

**LEGAL COUNSEL**
Tulare County Counsel
Nossaman LLP
Hanson Bridget LLP

**INVESTMENT CONSULTANT**
Verus Advisory, Inc.

# List of Professional Investment Managers

Additional information regarding investment managers, including asset allocation and performance, can be found in the Investment Section of this report. The Schedule of Investment Management Fees and the Brokerage Policy/Commission Recapture can be found on pages 80-81 of the Investment Section.

**EQUITY: DOMESTIC**
Boston Partners
State Street Global Advisors
William Blair Investment Management
Ivy Investments
Quantitative Management Associates
LMCG Investments

**EQUITY: INTERNATIONAL**
PIMCO RAE
State Street Global Advisors
SG Advisers

**EQUITY: GLOBAL**
Kleinwort Benson Investors (KBI)

**FIXED INCOME: DOMESTIC**
BlackRock Financial Mgmt., Inc.
MacKay Shields
DoubleLine
State Street Global Advisors

**FIXED INCOME: GLOBAL**
Franklin Templeton Institutional
PGIM

**REAL ESTATE**
RREEF
Invesco
American Realty Advisors

**PRIVATE EQUITY**
Pantheon Ventures, Inc.
BlackRock Alternative Advisors
StepStone Group
Ocean Avenue Capital Partners
Pathway Capital Mgmt.

**PRIVATE CREDIT**
Sixth Street Partners

**OPPORTUNISTIC**
KKR Capital Markets, LLC
PIMCO Investments, LLC
Sixth Street Partners

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# *financial section*

# Independent Auditor's Report

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

www.ba.cpa
661-324-4971

## INDEPENDENT AUDITOR'S REPORT

Board of Retirement
Tulare County Employees' Retirement Association
Visalia, California

### Report on the Basic Financial Statements and the Other Information

We have audited the accompanying Statement of Fiduciary Net Position of Tulare County Employees' Retirement Association (TCERA), a pension trust fund of the County of Tulare, as of June 30, 2021, the Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the basic financial statements, which collectively comprise TCERA's basic financial statements as listed in the table of contents. We have also audited the Schedule of Cost Sharing Employer Allocations of TCERA and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan totals for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions, specified column totals, as of and for the fiscal year ended June 30, 2021, listed as other information in the table of contents.

### Management's Responsibility for the Basic Financial Statements and the Other Information

Management is responsible for the preparation and fair presentation of these basic financial statements and the other information in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements and the other information that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these basic financial statements and the other information based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements and the other information are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements and other information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements and the other information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to TCERA's preparation and fair presentation of the basic financial statements and the other information 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 TCERA's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the basic financial statements and the other information.

BAKERSFIELD
4200 Truxtun Avenue, Suite 300
Bakersfield, CA 93309
661-324-4971

FRESNO
10 River Park Place East, Suite 208
Fresno, CA 93720
559-476-3592

STOCKTON
2423 West March Lane, Suite 202
Stockton, CA 95219
209-451-4833

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the basic financial statements and the other information referred to above present fairly, in all material respects, the fiduciary net position of TCERA as of June 30, 2021, and the respective changes in fiduciary net position for the fiscal year then ended; the Schedule of Cost Sharing Employer Allocations of TCERA for the fiscal year ended June 30, 2021; and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan totals for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions, specified column totals, as of and for the fiscal year ended June 30, 2021, listed as other information in the table of contents, in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) and the required supplementary information (RSI), as noted in the table of contents, be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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 Supplemental Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise TCERA's basic financial statements. The other supplemental information and the introductory, investment, actuarial, and statistical sections, 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.

The other supplemental 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. Such 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 auditing standards generally accepted in the United States of America. In our opinion, other supplementary information, as noted in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Report on Summarized Comparative Information**

We have previously audited TCERA's June 30, 2020, basic financial statements, and our reported dated November 30, 2020, expressed an unmodified opinion on those audited basic financial statements. In our opinion, the summarized comparative information presentation herein as of June 30, 2020, is consistent in all material respects, with the audited basic 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 November 29, 2021, on our consideration of TCERA'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 TCERA'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 TCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 29, 2021

# Management's Discussion and Analysis

We are pleased to provide this overview and analysis of the financial activities of the Tulare County Employees' Retirement Association (TCERA, the Association, or the Plan) for the fiscal year ended June 30, 2021. We encourage readers to take into account the information presented here in conjunction with additional information that we have furnished in the Letter of Transmittal beginning on page 1 in this Annual Comprehensive Financial Report.

### Financial Highlights

- At the close of the fiscal year 2021, TCERA's Fiduciary Net Position restricted for pension benefits was $1.98 billion. The Fiduciary Net Position is held in trust for the payment of pension benefits to participants and their beneficiaries and is available to meet TCERA's ongoing obligations.

- TCERA's total Fiduciary Net Position restricted for pension benefits increased by 356.4 million, or 22.0%, primarily as a result of an increase in the fair value of investments.

- TCERA's primary funding objective is to maintain a funded status that will allow for the payment of its long-term benefit obligations through contributions and investment income. TCERA will establish contribution rates that, over time, will remain as a level percentage of payroll and will fully fund the liability for each participant by the participant's retirement date. As of June 30, 2021, the date of the last actuarial valuation, the funded ratio for TCERA was 89.8%. In general, this indicates that for every dollar of benefits due TCERA had approximately $0.898 of assets available for payment as of that date.

- Revenues (additions to Fiduciary Net Position) for the fiscal year ended June 30, 2021 totaled $455.4 million, which includes employer contributions of $36.8 million, Plan member contributions of $23.5 million, net investment income of $394.9 million, and lease and other income of $0.2 million.

- Expenses (deductions from Fiduciary Net Position) for the fiscal year ended June 30, 2021 totaled $99.0 million, which includes retiree benefits of $92.7 million, member refunds of $3.6 million, and administrative expenses of $2.7 million.

### Overview of the Financial Statements

This management's discussion and analysis introduces the readers to TCERA's basic financial statements, the **Statement of Fiduciary Net Position** and the **Statement of Changes in Fiduciary Net Position**.

**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.

**The Statement of Changes in Fiduciary Net Position**, conversely, provides a view of the current year additions to and deductions from the fund.

TCERA's basic financial statements and the note disclosures to the basic financial statements are in compliance with accounting principles generally accepted in the United States of America for governments (GAAP) as established by the Governmental Accounting Standards Board (GASB). GAAP requires certain disclosures and also requires entities such as TCERA to report using the full accrual method of accounting. The full accrual method of accounting is similar to a for-profit pension system's accounting as revenues are recognized when earned and expenses when incurred, regardless of when cash is transferred. TCERA complies with all material requirements of GAAP.

## Management's Discussion and Analysis

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position report information about TCERA's balances as of the end of the fiscal year and its activities during the year. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized gains and losses are shown on investments, and all Capital Assets are depreciated over their useful lives.

These two statements summarize TCERA's Fiduciary Net Position restricted for pension benefits. Net Position restricted for pension benefits is the difference between assets and liabilities and is one way to measure the Plan's financial position. Over time, increases and decreases in TCERA's Fiduciary Net Position restricted for pension benefits serve as one indicator of whether the Plan's financial health is improving or deteriorating. Other factors, such as market conditions and funded ratio, should also be considered in measuring TCERA's overall health. (See TCERA's financial statements on pages 27-28 of this report.)

Supporting the disclosures in the financial statements are the notes to the basic financial statements. Also included in this Annual Comprehensive Financial Report, in addition to this discussion and analysis, are the **introductory section**, **required supplemental information**, **other supplemental information**, and **investment, actuarial and statistical sections**. The **notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. (See Notes to Basic Financial Statements on pages 29-51 of this report.)

**Required and Other Supplemental Information** is included in addition to the basic financial statements and accompanying notes on pages 52-56. Required supplemental information is presented due to the provisions of the Governmental Accounting Standards Board (GASB). Other supplemental information enhances the reader's understanding of TCERA's operations, as do the supporting schedules. Contained within the required supplemental information is information regarding TCERA's progress in funding its obligations to members. Page 93 of the actuarial section includes a Schedule of Funding Progress.

The Schedule of Administrative Expenses, Fees, Other Investment Expenses and Payments to Consultants, and the Schedule of Net Position Restricted for Pension Benefits are other supplemental information and are presented on pages 57-59 immediately following the required supplemental information on pensions of this report.

**Other Information**, which includes two schedules pertaining to GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The two schedules include the Schedule of Cost Sharing Employer Allocations and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan, is provided on pages 60-62.

## Financial Analysis

As previously noted, the Fiduciary Net Position may serve over time as a useful indication of TCERA's financial position (see Table 1 on the following page). The assets of TCERA exceeded its liabilities at the close of the fiscal year June 30, 2021. As of June 30, 2021, $1.98 billion in Fiduciary Net Position was restricted for pension benefits. All of the Net Position is available to meet TCERA's ongoing obligation to plan participants and their beneficiaries.

As of June 30, 2021, Fiduciary Net Position increased by 22.0% over the prior fiscal year primarily due to an increase in the fair value of investments. An increase in liabilities slightly offset the increase in assets resulting in the overall increase in Fiduciary Net Position. The changes in total assets and total liabilities were the result of decreased cash, increases in receivables and payables for purchases of investments, and increased collateral and obligations under TCERA's securities lending program during the fiscal year.

Despite any challenging short-term variations in the stock market, TCERA remains in a financial position that will enable the Plan to meet its future obligations to participants and beneficiaries. TCERA remains focused on the long-term performance of the fund, dependent on a strong and successful investment program, risk management, and strategic planning.

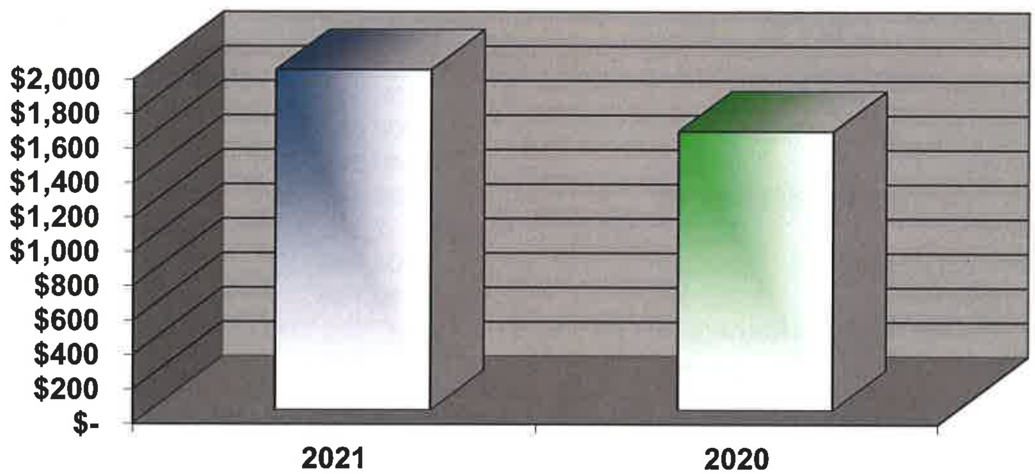
**Management's Discussion and Analysis**

## TCERA'S FIDUCIARY NET POSITION (Table 1)

*As of June 30*
*(dollars in thousands)*

| | 2021 | 2020 | Amount Increase/ (Decrease) | Percent Increase/ (Decrease) |
|---|---|---|---|---|
| Current and Other Assets | $ 94,885 | $ 111,165 | $ (16,280) | -14.64% |
| Investments at Fair Value | 1,994,998 | 1,567,258 | 427,740 | 27.29% |
| Capital Assets, Net | 1,372 | 1,671 | (299) | -17.89% |
| Total Assets | 2,091,255 | 1,680,094 | 411,161 | 24.47% |
| Total Liabilities | 115,070 | 60,274 | (54,796) | 90.91% |
| Fiduciary Net Position | $ 1,976,185 | $ 1,619,820 | $ 356,365 | 22.00% |

TCERA'S FIDUCIARY NET POSITION
(Dollars in Thousands)




**Capital Assets**

As of June 30, 2021, TCERA's investment in capital assets decreased slightly over the last fiscal year with a total of $1.4 million (net of accumulated depreciation and amortization) compared to $1.7 million for the prior year. This investment in capital assets includes equipment, furniture, pension administration system, and TCERA's office building. The decrease in TCERA's investment in capital assets for the current year on a percentage basis was 17.89% less than fiscal year ended June 30, 2020, reflecting a decrease in both tangible and intangible assets associated with the accumulated depreciation and amortization of those assets.

**Management's Discussion and Analysis**

**Reserves**

Reserves are not required, nor recognized, under GAAP. These are not shown separately on the Statement of Fiduciary Net Position, but they equate to, and are accounts within, the Fiduciary Net Position restricted for pension benefits and are vital to TCERA's operations.

TCERA's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see Table 2 below). Furthermore, TCERA has in place a ten-year smoothing methodology. Under GAAP, investments are stated at fair value instead of cost and include the recognition of the unrealized gains and losses in the current period. The difference between the fair value of assets inclusive of the cumulative unrealized gains and losses and the amounts reported from the ten-year smoothing methodology (or actuarial value) comprises the Market Stabilization Reserve. Under the ten-year smoothing methodology, a portion of these gains and losses is recognized and allocated to all other reserves.

As a result of the ten-year smoothing of investment gains and losses, the Plan credited interest at December 31, 2020 and June 30, 2021 at a rate less than investment returns and less than the actuarial assumption rate. Tiers 1, 2 and 3 were credited interest of 2.8536% for December 31, 2020 and 3.4235% for June 30, 2021. Tier 4 was credited 2.7021% for December 31, 2020 and 2.8932% for June 30, 2021. This interest crediting, combined with an increase to the Plan's contingency reserve and smoothed market losses in the fiscal year ended June 30, 2021, resulted in a decrease in the Market Stabilization Reserve equal to $272.4 million as of June 30, 2021.

## TCERA'S RESERVES AT FAIR VALUE (Table 2)

*As of June 30*
*(dollars in thousands)*

| | 2021 | 2020 |
|---|---|---|
| Employee Reserves | $ 339,547 | $ 319,562 |
| Employer Reserves | 908,887 | 859,181 |
| Retiree Reserves | 446,256 | 442,157 |
| Supplemental Retirement Benefit Reserves | 108,446 | 108,348 |
| Other Reserves | 2,660 | 4,273 |
| Market Stabilization Reserve | 108,714 | (163,716) |
| Contingency Reserve | 60,736 | 49,228 |
| TCERA Property, Inc. Retained Earnings (Holding Corporation) | 939 | 787 |
| Total Reserves at Fair Value | $ 1,976,185 | $ 1,619,820 |

**Changes in Fiduciary Net Position**

The Fiduciary Net Position as of June 30, 2021 was $1.98 billion compared to $1.62 billion as of June 30, 2020. This represents an increase in Fiduciary Net Position of $356.4 million, a 22.0% increase over the previous fiscal year. The increase in the Fiduciary Net Position is due primarily to an increase in investments at fair value (See Table 3 on the following page).

*Additions to Fiduciary Net Position:* There are three primary sources of funding for TCERA retirement benefits: earnings on investments of assets, employer contributions, and plan member contributions. An increase in employer contributions, an increase in plan member contributions and a large increase in net investment income for the fiscal year ended June 30, 2021 combined for total additions of $455.4 million (see Table 3).

**Management's Discussion and Analysis**

*Deductions from Fiduciary Net Position:* TCERA's assets are predominantly used for the payment of benefits to retirees and their beneficiaries and for refunds of contributions to terminated employees. Effective for fiscal year 2011, the County Employees Retirement Law of 1937 (the '37 Act) limits administration cost to the greater of 21/100ths of 1 percent of the Association's accrued actuarial liability or $2 million, as adjusted annually by the amount of an annual cost of living adjustment. The '37 Act also allows for some expenses (such as computer related expenses and actuarial costs) to be excluded from the calculation. TCERA's total administrative expenses for the period ended June 30, 2021 were equal to $2.74 million, or 14/100ths of 1 percent of the Association's accrued actuarial liability of $1.96 billion. This represents a decrease in administrative expenses of 3.96% over the fiscal year ended June 30, 2020. Of the total expenses, TCERA has identified $428.7 thousand in computer and actuarial costs that are excluded from the '37 Act administrative limits. As a result, TCERA's administrative expenses were 12/100ths of 1 percent of the accrued actuarial liability, well under the statutory limit of 21/100ths of 1 percent. Retiree benefits, member refunds, and administrative expenses resulted in total deductions of $99.0 million, an increase of 5.02% over the prior fiscal year (See Table 3).

## CHANGES IN FIDUCIARY NET POSITION - Condensed (Table 3)

For Fiscal Years Ended June 30
*(dollars in thousands)*

| | 2021 | 2020 | Amount Increase/ (Decrease) | Percent Increase/ (Decrease) |
|---|---|---|---|---|
| **Additions** | | | | |
| Employer Contributions | $ 36,766 | $ 35,310 | $ 1,456 | 4.12% |
| Plan Member Contributions | 23,536 | 23,104 | 432 | 1.87% |
| Investment Income | 404,089 | 19,205 | 384,884 | 2004.08% |
| Less Investment Expense | (9,198) | (9,878) | 680 | -6.88% |
| Other Income | 188 | 188 | - | 0.00% |
| Total Additions | $ 455,381 | $ 67,929 | $ 387,452 | 570.38% |
| **Deductions** | | | | |
| Retiree Benefits | $ 92,690 | $ 87,893 | $ 4,797 | 5.46% |
| Member Refunds | 3,586 | 3,534 | 52 | 1.47% |
| Administrative Expenses | 2,740 | 2,853 | (113) | -3.96% |
| Total Deductions | $ 99,016 | $ 94,280 | $ 4,736 | 5.02% |
| **Changes in Fiduciary Net Position** | | | | |
| Beginning of Fiscal Year | 1,619,820 | 1,646,171 | (26,351) | -1.60% |
| Changes in Fiduciary Net Position | 356,365 | (26,351) | 382,716 | -1452.38% |
| End of Fiscal Year | $ 1,976,185 | $ 1,619,820 | $ 356,365 | 22.00% |

**Actuarial Funding Status**

TCERA retains an independent actuarial firm, Cheiron, Inc., to conduct annual actuarial valuations to monitor the Plan's funding status. The June 30, 2021 actuarial valuation established TCERA's funding status to be 89.8% using the entry age normal method with a ten-year smoothing to determine the actuarial value of assets. The funded ratio of the Plan increased by approximately 0.8% from 89.1% in 2020 to 89.8% in 2021 and the actuarial value of assets (excluding the Supplemental Retiree Benefit Reserve (SRBR)) increased by 5.3% from $1.67 billion in 2020 to $1.76 billion in 2021. During the year, the value of actuarial liabilities increased by 4.4% to $1.96 billion. As of June 30, 2021, the Unfunded Actuarial Liability (UAL) for TCERA decreased by $6.1 million, from $205 million to $199 million. It should be noted that the actuarial funding status of the plan was significantly improved in 2017 due to the issuance of Pension Obligation Bonds by the County of Tulare (the County). The 19-year bonds were issued at coupons ranging from 3.909% to 4.445% and will require level debt service payments through the bond maturity date of June 1, 2037. Details of the bond issuance are available in the Tulare County Annual Comprehensive Financial Report available on the County's website (https://tularecounty.ca.gov/county/).

## Management's Discussion and Analysis

### Economic Factors

The real GDP grew at a 6.4% quarterly annualized rate as the U.S. recovery continued at a quicker-than-expected pace. It appears that investors have put the 2020 pandemic-induced recession behind them. Implied volatility, realized market volatility, and the risks reflected in asset prices are very low suggesting that investors perceive a strong economy, a healthy business environment, and very few threats on the horizon. The U.S. unemployment rate has been slow to rebound, despite a full recovery in economic activity possibly suggesting that government spending has had an outsized impact and raises risks around a stimulus "hangover" when spending programs end. Economies around the world continue to recover as life began to move back to normal. This did not apply to all economies, as Brazil, Japan, and much of Africa and Southeast Asia still grapple with the effects of COVID and new variants of the virus. Additional analysis of economic conditions can be found in the Investment Section. The Board of Retirement (the Board) will continue to monitor and respond to changes in economic factors in relation to its investment portfolio.

### New Pension Accounting and Financial Reporting Standards

Governmental Accounting Standards Board (GASB) issued the following standards for implementation during the fiscal year ended June 30, 2021. *Statement No. 98, The Annual Comprehensive Financial Report,* was implemented this fiscal year. This Statement replaces an existing term but does not otherwise establish new accounting and financial reporting requirements. *Statement No. 84, Fiduciary Activities* objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. This is not applicable to TCERA. The primary objectives of *Statement No. 90, Majority Equity Interests* are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This is not applicable to TCERA.

### Requests for Information

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

TCERA<br>
136 N. Akers Street<br>
Visalia, CA 93291-5121

Respectfully submitted,

Leanne Malison

Leanne Malison<br>
Retirement Administrator

# Statement of Fiduciary Net Position

*As of June 30, 2021, with Comparative Totals*
*(dollars in thousands)*

| | 2021 | 2020 |
|---|---|---|
| **ASSETS** | | |
| Cash, Short-Term Investments | | |
| Cash | $ 36,976 | $ 90,812 |
| Short-Term Investments | 30,731 | 7,318 |
| **Total Cash, Short-Term Investments** | **67,707** | **98,130** |
| Receivables | | |
| Sales of Investments | 23,884 | 10,315 |
| Interest and Dividends | 2,273 | 1,847 |
| Employee and Employer Contributions | 1,014 | 860 |
| Other Receivables | 7 | 13 |
| **Total Receivables** | **27,178** | **13,035** |
| Investments, at Fair Value | | |
| U.S. Government Obligations | 88,100 | 56,714 |
| Municipal Bonds | 435 | 591 |
| Global Bonds | 94,274 | 95,379 |
| Domestic Corporate Bonds | 378,767 | 321,911 |
| Domestic Stocks | 548,504 | 362,983 |
| International Stocks | 401,644 | 360,467 |
| Real Estate | 195,568 | 177,779 |
| Alternative Investments (Private Equity, Private Credit) | 230,977 | 156,097 |
| Collateral on Loaned Securities | 56,729 | 35,337 |
| **Total Investments, at Fair Value** | **1,994,998** | **1,567,258** |
| Capital Assets | | |
| Land | 370 | 370 |
| Building, Office Equipment & Furniture, net of accumulated depreciation of $657 and $638, respectively | 699 | 694 |
| Pension Administration System, net of accumulated amortization of $2,451 and $2,148, respectively | 303 | 607 |
| **Total Capital Assets, net** | **1,372** | **1,671** |
| **TOTAL ASSETS** | **$ 2,091,255** | **$ 1,680,094** |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Purchase of Investments | $ 51,172 | $ 19,237 |
| Obligations under Securities Lending Program | 56,729 | 35,337 |
| Refunds Payable | 4,099 | 3,392 |
| Accounts Payable | 2,955 | 2,204 |
| **Total Current Liabilities** | **114,955** | **60,170** |
| Long-Term Liabilities | | |
| Compensated Absences | 115 | 104 |
| **Total Long-Term Liabilities** | **115** | **104** |
| **TOTAL LIABILITIES** | **$ 115,070** | **$ 60,274** |
| **NET POSITION RESTRICTED FOR PENSION BENEFITS** | **$ 1,976,185** | **$ 1,619,820** |

The accompanying notes are an integral part of these basic financial statements.

## Statement of Changes in Fiduciary Net Position

*For the Fiscal Year Ended June 30, 2021 with Comparative Totals*
*(dollars in thousands)*

| | 2021 | 2020 |
|---|---|---|
| **ADDITIONS** | | |
| Contributions | | |
| Employer | $ 36,766 | $ 35,310 |
| Plan Member | 23,536 | 23,104 |
| **Total Contributions** | **60,302** | **58,414** |
| Investment Activity Income | | |
| Net Appreciation in Fair Value of Investments | 381,705 | (946) |
| Interest | 3,649 | 5,219 |
| Dividends | 4,153 | 4,400 |
| Real Estate Operating Income | 6,015 | 5,155 |
| Other Investment Income | 8,446 | 4,561 |
| **Total Investment Activity Income** | **403,968** | **18,389** |
| Less Expenses from Investing Activities | 9,145 | 9,188 |
| **Net Investing Activity Income** | **394,823** | **9,201** |
| From Securities Lending Activities | | |
| **Securities Lending Income** | 121 | 816 |
| Less Expenses from Securities Lending Income | | |
| Management Fee | 12 | 10 |
| Borrower Rebate | 41 | 680 |
| **Net Securities Lending Income** | **68** | **126** |
| **Total Net Investment Activity Income** | **394,891** | **9,327** |
| Other Income | 188 | 188 |
| **TOTAL ADDITIONS** | **$ 455,381** | **$ 67,929** |
| **DEDUCTIONS** | | |
| Benefits | $ 92,690 | $ 87,893 |
| Refunds of Contributions | 3,586 | 3,534 |
| Administrative Expenses | 2,740 | 2,853 |
| **TOTAL DEDUCTIONS** | **$ 99,016** | **$ 94,280** |
| **NET POSITION RESTRICTED FOR PENSION BENEFITS** | | |
| Net Changes in Fiduciary Net Position | 356,365 | (26,351) |
| Beginning of Fiscal Year | 1,619,820 | 1,646,171 |
| **END OF FISCAL YEAR** | **$ 1,976,185** | **$ 1,619,820** |

The accompanying notes are an integral part of these basic financial statements.

# Notes to Basic Financial Statements

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### REPORTING ENTITY

The Tulare County Employees' Retirement Association (TCERA, Association or the Plan) is under the exclusive management and control of the Board of Retirement (the Board) whose authority is granted by Government Code §31450 et seq., and the California Constitution. The Association is an independent department of the County of Tulare (the County). Selected financial statements and disclosures are included in the County's Annual Financial Report as a pension trust fund. The Association has no financial or operational relationships that meet the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statements No. 39, *The Financial Reporting Entity,* and No. 61, the *Financial Reporting Entity: Omnibus* and No. 80, *Blending Requirements for Certain Component Units* for inclusion as a component unit of the Association. *Statement No. 84 - Fiduciary Activities*. This standard is not applicable to TCERA. *Statement No. 90, Majority Equity Interests.* This standard is also not applicable to TCERA.

### BASIS OF ACCOUNTING

The Association prepares its basic financial statements on the accrual basis of accounting. Investment income is recognized when it is earned and expenses are recognized in the period when they are incurred. Employee and employer contributions are recognized as revenues when due pursuant to formal commitments as well as statutory or contractual agreements. Benefits and refunds of prior contributions are recognized when they are due and payable in accordance with the Plan. All investment purchases and sales are recorded on trade date. The net appreciation (depreciation) in fair value of investments held by TCERA is recorded as an increase (decrease) to investment income based on the valuation of investments monthly.

The Association follows the accounting principles and reporting guidelines as set forth by GASB.

### COMPENSATED ABSENCES

The liability for accumulated annual leave earned by TCERA employees, included in other liabilities on the *Statement of Fiduciary Net Position,* is recorded when earned by the employee. Upon termination of employment, an employee receives compensation for unused annual leave limited by the contractual agreements established by the County.

### INVESTMENTS

The Board has exclusive control of the investments of the Association. Statutes authorize the Board to invest, or delegate the authority to invest, the assets of the Association in any investment allowed by statute and considered prudent in the informed opinion of the Board. Investments are stated at fair value, in accordance with accounting principles generally accepted in the United State of America (GAAP). Values for stocks, publicly traded bonds, and issues of the U.S. Government and its agencies are valued according to sale prices of recognized exchanges as of the fiscal year end, with international securities reflecting currency exchange rates in effect at fiscal year end.

Private Equity and Real Assets:

Private equity and real asset partnerships are reported based on the fair value provided by the General Partner on a quarterly basis. The General Partner considers the financial conditions and operating results of the portfolio companies, the nature of the investments, marketability, and other relevant factors.

Rate of Return:

For the fiscal year ended June 30, 2021 the annual money-weighted rate of return on the Plan's investments, net of investment expense, was 23.9%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

### RECEIVABLES

Receivables consist primarily of interest, dividends, and investments in transition, i.e., traded but not settled, and contributions owed by the employing entities as of June 30, 2021.

### ESTIMATES

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### CAPITAL ASSETS

Capital Assets are recorded at cost. Depreciation and amortization of Capital Assets are computed on a straight-line basis over their estimated useful lives, currently ranging from three to forty years.

### SECURITIES LENDING

Cash collateral received in the course of securities lending transactions is recorded as a current asset of the Association, and the obligation to repay the collateral is recorded as a current liability, in accordance with the requirements of GASB Statement No. 28. In addition, gross earnings received on invested cash collateral are reported as Other Investment Income, and borrower rebates and agent fees are recorded as Investment Expenses. In comparison, the Net Securities Income was $68 thousand and $126 thousand for the fiscal years ended June 30, 2021 and June 30, 2020, respectively. The decrease in net securities lending income was due primarily to a decrease in the borrower rebate. Non-cash collateral, and the related repayment obligation, is not recorded on the books of the Association, as there is no ability to pledge or sell the collateral absent borrower default. See Note 3 for additional information on securities lending.

### IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

*Statement No. 98, The Annual Comprehensive Financial Report,* was implemented this fiscal year. This Statement replaces an existing term but does not otherwise establish new accounting and financial reporting requirements. The following standards have been issues by GASB for implementation effective this fiscal year: *Statement No. 84 - Fiduciary Activities*. This standard is not applicable to TCERA. *Statement No. 90, Majority Equity Interests* This standard is also not applicable to TCERA.

### FUTURE PRONOUNCEMENTS

TCERA has reviewed GASB Statement No. 87 – *Leases*, GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*, GASB Statement No. 91 – *Conduit Debt Obligations*, GASB Statement No. 92 – *Omnibus 2020*, GASB Statement No. 93 – *Replacement of Interbank Offered Rates*, GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, Statement No. 96 – *Subscription-Based Information Technology Arrangements*, and GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statement No. 14 and No. 84, and a supersession of GASB Statement No. 32* and does not believe these pronouncements will have any material effect.

### COMPARATIVE DATA

The accompanying financial statements include summarized information from the prior year's financial statements for comparative purposes only. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Such information should be read in conjunction with TCERA's basic financial statements for the fiscal year ended June 30, 2020, from which the summarized information was derived.

**NOTE 2 - PLAN DESCRIPTION**

TCERA was established July 1, 1945 under the provisions of the County Employees Retirement Law of 1937 (Government Code §31450 et seq.) (the '37 Act). The Association operates as a multiple-employer cost sharing defined benefit plan and provides retirement, disability and death benefits for qualified employees of the County, the Strathmore Public Utility District, and the Tulare County Superior Courts (TCSC). The Association was integrated with Social Security in 1956. A nine-member Board of Retirement (Board) administers the Association. The authority for establishing or amending benefits resides with the Tulare County Board of Supervisors.

MEMBERSHIP

All permanent County, Strathmore Public Utility District, and TCSC employees working 50% or more in a regular allocated position are members of the Association. The Association's membership consists of General and Safety members who participate in one of the following four tiers:

Tier 1 – Includes all members who have a membership date on or before December 31, 1979. The County pays one-half of Tier 1 members' normal contributions. Benefits are calculated using the highest average one-year salary. Tier 1 members receive a maximum of 3% cost-of-living adjustment (COLA) annually after retirement. Tier 1 general members with service earned on or after July 1, 2005 are now subject to Internal Revenue Service Section (IRS) 415 limits due to the implementation of a new benefit formula. Only Tier 1 general members who entered deferred status prior to the implementation of the new benefit formula are exempt from these limits. All Tier 1 members are subject to Article 5.5 Alternative Financial Provisions of the California Government Code.

Tier 2 – Includes all members who have a membership date from January 1, 1980 through December 31, 1989. Benefits are calculated using the highest average three-year salary. Tier 2 members receive a maximum of 2% COLA annually after retirement. Tier 2 general members with service earned on or after July 1, 2005 are now subject to IRS Section 415 limits due to the implementation of a new benefit formula. Only Tier 2 general members who entered deferred status prior to the implementation of the new benefit formula are exempt from these limits. All Tier 2 members are subject to Article 5.5 Alternative Financial Provisions of the California Government Code.

Tier 3 – Includes all members who have a membership date from January 1, 1990 through December 31, 2012. Benefits are calculated using the highest average three-year salary. Tier 3 members receive a maximum of 2% COLA annually after retirement. All employees who joined TCERA on or after January 1, 1990 are subject to IRS Section 415 limits. All Tier 3 members are subject to Article 5.5 Alternative Financial Provisions of the California Government Code.

Tier 4 – Includes all members who have a membership date on or after January 1, 2013 and are not eligible for reciprocal membership with another qualified retirement system. Tier 4 was established in response to the provisions of the California Public Employees' Pension Reform Act of 2012 (PEPRA). Benefits are calculated using the highest average three-year salary. Tier 4 members receive a maximum of 2% COLA annually after retirement. All employees who joined TCERA on or after January 1, 1990 are subject to IRS Section 415 limits. Tier 4 members are not subject to Article 5.5 Alternative Financial Provisions of the California Government Code.

The covered payroll for the fiscal years ended June 30, 2021 and June 30, 2020, as calculated according to GASB Statement No. 67, GASB Statement No. 68, and GASB Statement No. 82 requirements, was $276.13 million and $283.64 million, respectively.

## Notes to Basic Financial Statements

**NOTE 2 - PLAN DESCRIPTION (Cont.)**

**TCERA's Membership**
*As of June 30*

| | 2021 | 2020 |
|---|---|---|
| Active Plan Participants (vested/non-vested) | 4,484 | 4,605 |
| Inactive Participants (vested/non-vested) | 2,295 | 2,183 |
| Service Retirees | 2,619 | 2,574 |
| Disability Retirees | 342 | 347 |
| Survivors/Beneficiaries | 511 | 487 |
| Total Retirees/Beneficiaries | 3,472 | 3,408 |
| **Total Members** | **10,251** | **10,196** |

SERVICE RETIREMENT BENEFIT

Tiers 1, 2, and 3 benefits partially vest at five years of service. Full vesting requires ten years of service and a minimum age of 50 in order to receive a lifetime monthly retirement benefit. Members with 30 years of service (20 years for safety members), regardless of age, are eligible for retirement benefits, as are members who reach age 70, regardless of years of service. The benefit is a percentage of monthly final average salary per year of service, depending on age at retirement. Because the Plan is integrated with Social Security, the benefit is reduced by 1/3 of the percentage multiplied by the first $350 of monthly final average salary, per year of service credited after January 1, 1956.

Tier 4 benefits fully vest at five years of service. A minimum age of 52 for general members and 50 for safety members is required in order to receive a lifetime monthly retirement benefit. The benefit is a percentage of monthly final average salary per year of service, depending on age at retirement.

The summary of major plan provisions, including benefit factors, is disclosed on pages 94-96 in the Actuarial Section of this document.

SUPPLEMENTAL RETIREMENT BENEFIT (Tiers 1, 2, and 3 only)

For Tiers 1, 2, and 3, a supplemental benefit of $45.00 per month was paid to retirees through April 1988. This benefit was increased effective May 1, 1988 to include $1.65 per month for each full year of service from 5 years to 25 years ($8.25 per month for 5 years, up to $41.25 per month for 25 years or more). Effective June 1, 1995, eligibility for this benefit required that retirees have at least five years of service with the County or a TCERA member outside district. Effective April 1, 1996, this benefit is available only to retirees having at least ten years of service with TCERA. This change does not affect any retirees already receiving benefits.

On July 1, 1997, all retirees and beneficiaries/survivors with a retirement date prior to April 1, 1977 received a new benefit of an additional $3.00 per month, per year of service, not to exceed 30 years of service. Retirees received this benefit in addition to the previously granted benefit; beneficiaries/survivors only received this benefit.

Effective January 1, 1999, the Board modified the benefit to allow members to receive $9.50 for every completed year of service. The Board also adopted a change in criteria for payment of the supplemental benefits. This benefit was only paid to those who actually worked under TCERA for a minimum of 10 years, with the benefit capped at a maximum of 20 years.

**NOTE 2 - PLAN DESCRIPTION (Cont.)**

On July 1, 2000, an increase was made to the monthly payments currently made from the Supplemental Retiree Benefit Reserve (SRBR). Actual amounts varied depending upon completed years with TCERA. Furthermore, a cash continuance was paid to survivors equal to 50% of what the original retiree was receiving as a monthly benefit from the SRBR at the time of his/her death. Additionally, a COLA was applied when the purchasing power of the member's original basic retirement allowance fell below 75% of the original basic allowance.

On November 14, 2001, the Board approved additional cash benefit payments effective on December 1, 2001 from the SRBR which provided a higher level of assistance to current and future retired members. The benefit improvements increased the current benefit from $12.50 per year of service to $16.00 per year of service, beginning with ten years of service and having a cap at twenty years of service.

Effective July 1, 2007, the cash benefit was increased once more to $18.00 per year of service, retaining the ten year minimum TCERA service requirement and the cap at twenty years of TCERA service. Furthermore, the Board continued the cash continuance paid to survivors equal to 50% of what the original retiree was receiving as a monthly benefit from the SRBR at the time of his/her death. The Board also approved an additional COLA for all retired members to apply when the purchasing power of the member's original basic retirement allowance falls below 85%.

On April 10, 2013, the Board established a reduction to the cash benefit for current and future retirees to be phased in over a five year period in an effort to ensure that the benefit would be sustained into the foreseeable future. Pursuant to that action, the cash benefit is payable as follows:

- July 1, 2013 - $17.00 per year of qualifying TCERA service
- July 1, 2014 - $16.00 per year of qualifying TCERA service
- July 1, 2015 - $15.00 per year of qualifying TCERA service
- July 1, 2016 - $14.00 per year of qualifying TCERA service
- On or after July 1, 2017 - $12.50 per year of qualifying TCERA service

The service requirements, purchasing power COLA, and continuance benefit as described above remain in effect.

DEATH BENEFIT

Death Before Retirement

In addition to a return of contributions, with interest, a death benefit is payable to the member's beneficiary or estate in the amount of one month's salary for each completed year of service with the Association, but not to exceed six months' salary.

In lieu of the above basic death benefit, if a member dies after becoming eligible for service retirement or non-service connected disability, an eligible spouse or minor child may elect to receive 60% of the allowance that the member would have received for retirement as of the day of the member's death. If the member dies in the performance of duty, an eligible spouse or minor child receives 50% of the member's final average salary.

## Notes to Basic Financial Statements

**NOTE 2 - PLAN DESCRIPTION (Cont.)**

Death After Retirement

Death benefits after retirement depend upon the type of retirement, the member's employment status at retirement, and the retirement option selected. If the retirement was for service connected disability, 100% of the member's basic allowance as it was at death is continued to the surviving spouse for life. If the retirement was for other than service connected disability, and the unmodified option was selected at the time of retirement, 60% of the member's allowance is continued to an eligible spouse for life. If the deceased member retired directly from active employment with a TCERA employer, a lump sum burial benefit of $5,000 is paid to the beneficiary or estate.

DISABILITY BENEFIT

In accordance with Section 31727.7 of the '37 Act, upon retirement for a non-service connected disability, in lieu of any other allowance, a member who has five years or more of credited service shall receive a disability allowance equal to the percentage of final compensation set forth opposite the member's number of years credited service in the following table:

| Years of Service | Percentage of Final Compensation |
|---|---|
| Five years, but less than six years | 20% |
| Six years, but less than seven years | 22 |
| Seven years, but less than eight years | 24 |
| Eight years, but less than nine years | 26 |
| Nine years, but less than ten years | 28 |
| Ten years, but less than eleven years | 30 |
| Eleven years, but less than twelve years | 32 |
| Twelve years, but less than thirteen years | 34 |
| Thirteen years, but less than fourteen years | 36 |
| Fourteen years, but less than fifteen years | 38 |
| Fifteen or more years | 40 |

If the disability is service connected, the member may retire regardless of length of service, and the benefit is 50% of final average salary, unless the member is also eligible for a service retirement, in which case the member receives the greater of the two amounts.

TERMINATION

Upon termination from the Association, members' accumulated contributions are refundable with interest accrued through the prior interest crediting period. Interest on member accounts is credited semiannually on June 30 and December 31. Withdrawal of such accumulated contributions results in forfeiture of all benefits.

## NOTE 3 - DEPOSIT AND INVESTMENT RISK DISCLOSURES

### SUMMARY OF INVESTMENT POLICIES

The '37 Act authorizes TCERA's Board with the exclusive control of the investment of the employees' retirement fund. By law, the Board may, in its discretion, invest, or delegate the authority to invest, the assets of the fund 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.

Furthermore, the law requires the Board and its officers and employees to discharge their duties with respect to the Plan:

- Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.
- With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in 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 investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

The TCERA Investment Policy Statement encompasses the following:

- Domestic Equity Policy
- International Equity Policy
- Fixed Income Policy
- Cash and Cash Equivalents Investments Policy
- Real Estate Policy
- Private Equity Policy
- Private Credit Policy
- Hedge Funds Policy
- Securities Lending Program Policy
- Directed Brokerage Policy
- Manager Monitoring and Review Policy

### CREDIT RISK

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. TCERA seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. To control credit risk, credit quality guidelines have been established and documented in TCERA's Investment Policy and individual manager contracts.

The Fixed Income Portfolio as presented in the Credit Quality Ratings chart includes the following components:

- U.S. Core/Core Plus Fixed Income – This portfolio will provide exposure to the U.S. fixed income market (maturities greater than 1 year) including, but not limited to, Treasury and government agency bonds, corporate debt, mortgage bonds (including collateralized mortgage obligations), Yankees, asset-backed securities, Eurodollar bonds, private placements and emerging market bonds. The portfolio will be comprised of both investment grade and below-investment grade issues. This category may include High Yield and U.S. TIPS investments as allowed in TCERA's investment policy and as directed by the Board.

- Global Fixed Income – The global fixed income allocation will provide broader exposure to fixed income opportunities in both domestic and international markets.

**NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURES (Cont.)**

CREDIT QUALITY RATINGS OF INVESTMENTS IN FIXED INCOME SECURITIES

The credit quality of investments in fixed income securities as rated by nationally recognized ratings organizations as of June 30, 2021 are as follows (dollars in thousands):

| Quality Ratings | Fair Value |
|---|---|
| AAA | $ 6,283 |
| AA | 1,856 |
| A | 17,437 |
| BAA | 23,576 |
| BA | 5,623 |
| B | 1,610 |
| CAA | 21 |
| FHLMC Pools (AAA) | 5,277 |
| FNMA Pools (AAA) | 5,711 |
| GNMA Pools (AAA) | 2,425 |
| U.S. Agencies (AAA) | 121 |
| U.S. Governments (AAA) | 47,104 |
| Not Rated* | 444,532 |
| **Total Investments in Fixed Income Securities** | $ 561,576 |

*Securities not rated include commitments to purchase FHLMC, FNMA, and GNMA reported in the Fixed Income Securities chart beginning on page 38.

**NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURES (Cont.)**

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that in the event of a financial institution's failure, TCERA would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or collateralized. Although there is no specific policy addressing custodial credit risk, TCERA has taken steps to mitigate any such risk. TCERA's deposits are not exposed to custodial credit risk as its deposits are eligible for and covered by "pass-through" insurance in accordance with applicable law and Federal Deposit Insurance Corporation (FDIC) rules and regulations. Additional insurance against loss and theft is provided through a Financial Institution Bond.

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, TCERA would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, not registered in TCERA's name, and held by the counterparty. TCERA's direct securities investments are not exposed to custodial credit risk because all securities are held by TCERA's custodial bank in TCERA's name.

Concentration of Credit Risk

As of June 30, 2021, TCERA did not hold any investments in any one issuer that would represent five percent or more of fiduciary net position. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this requirement.

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Retirement has not adopted a formal policy related to interest rate risk. Interest rate risk is controlled through portfolio restrictions incorporated into each fixed income investment manager's guidelines.

## Notes to Basic Financial Statements

**NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURES (Cont.)**

FIXED INCOME SECURITIES

As of June 30, 2021, TCERA had the following investments and maturities (dollars in thousands):

| | 2021 | |
|---|---|---|
| **Investment Type** | **Fair Value** | **Modified Duration** |
| Asset Backed Securities - Airplane Receivables | $ 736 | 3.71 |
| Asset Backed Securities - Car Loans | 491 | 0.04 |
| Asset Backed Securities - Equipment | 49 | 4.13 |
| Aerospace and Defense | 1,244 | 9.13 |
| Automobiles & Components | 98 | 8.01 |
| Banking & Finance | 12,169 | 5.93 |
| Banking & Finance - Perpetual | 291 | 3.79 |
| Capital Goods | 524 | 5.03 |
| Chemicals | 262 | 8.45 |
| Cleared Credit Default Swaps | (36) | N/A |
| CMBS - Agency | 121 | 10.34 |
| CMBS - Conduit | 1,466 | 4.25 |
| Commercial Services & Supplies | 829 | 5.20 |
| Commit to Purchase FNMA Pools | 20,142 | 5.01 |
| Commit to Purchase GNMA Pools | 365 | 3.07 |
| Commit to Purchase GNMA Multi Family Pools | 6,631 | 4.51 |
| Communications | 2,129 | 8.36 |
| Credit Default Swaps | 2 | N/A |
| Eurodollars Futures | (2) | 3.10 |
| FHLMC Multiclass | 408 | 2.08 |
| FHLMC Pools | 4,868 | 4.21 |
| FNMA Pools | 5,588 | 3.55 |
| FNMA REMIC | 123 | 0.07 |
| Food Beverage & Tobacco | 1,603 | 9.84 |
| GNMA Multi Family Pools | 2,040 | 3.81 |
| GNMA Single Family Pools | 385 | 3.80 |

**NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURES (Cont.)**

| | 2021 | |
|---|---|---|
| **Investment Type** | **Fair Value** | **Modified Duration** |
| Health Care | $ 2,645 | 9.55 |
| Industrial | 369 | 6.22 |
| Insurance | 301 | 8.15 |
| Interest Only US Agencies | 211 | 7.76 |
| Investment Companies | 156 | 4.28 |
| Materials | 64 | 3.46 |
| Mining | 25 | 13.80 |
| Muni - General | 86 | 7.87 |
| Non-U.S. Government Bonds | 2,436 | 6.56 |
| Oil & Gas | 1,859 | 5.91 |
| Paper and Forest Products | 46 | 15.23 |
| Preferred Shares - Perpetual - Financial | 161 | 3.04 |
| Preferred Shares - Perpetual Prvt PLC Bank | 264 | 2.12 |
| Principal only U.S. Agencies | 156 | 8.73 |
| Private Placements - ABS | 4,576 | 1.62 |
| Private Placements - Banking | 922 | 2.38 |
| Private Placements - MBS | 3,626 | 3.92 |
| Private Placements - More than 1 Year | 7,542 | 5.61 |
| Reits | 1,068 | 7.31 |
| Retail | 374 | 9.16 |
| Taxable Municipals | 349 | 12.21 |
| Technology | 3,685 | 9.47 |
| Transportation | 1,022 | 9.15 |
| Treasury Bonds | (31) | 609.68 |
| Treasury Notes | (11) | 1,452.66 |

## Notes to Basic Financial Statements

**NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURES (Cont.)**

| | 2021 | |
|---|---|---|
| **Investment Type** | **Fair Value** | **Modified Duration** |
| U.S. Governments | $ 47,104 | 9.03 |
| Utility - Electric | 2,855 | 13.10 |
| Utility - Gas | 165 | 9.47 |
| Untility - Telephone | 3,969 | 6.57 |
| Whole Loan - Collateralized Mortgage Obligation | 204 | 1.02 |
| Yankee Bonds | 48 | 7.73 |
| SUBTOTAL | 148,772 | |
| Commingled Funds U.S. Debt | 327,925 | N/A |
| International Commingled Funds | 84,879 | N/A |
| **Total TCERA Fixed Income** | $ 561,576 | |

### 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. TCERA's international equity managers are permitted to invest in authorized countries. Forward currency contracts and currency futures (maturity ranging from at least 30 days and not to exceed one year for either instrument) are permitted for defensive currency hedging. Although TCERA does not have a specific policy regarding foreign currency risk, TCERA seeks to mitigate this risk through its Investment Policy constraints.

### INTERNATIONAL INVESTMENT SECURITIES AT FAIR VALUE

TCERA's Non-U.S. and global equity investments are targeted at 18% of the portfolio with a maximum investment of 30%. The majority of TCERA's international investments are in commingled funds with currency exposure managed according to the investment contract. As of June 30, 2021 there was no direct exposure to Foreign Currency Risk in U.S. Dollars.

**NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURES (Cont.)**

DERIVATIVES

The Association invests indirectly, through its portfolio managers, in foreign currency forward transactions to limit its exposure to fluctuations in foreign currency exchange rates. Aside from net currency gains or losses reported as a component of investment income, no other amounts are recorded on the financial statements. These forward transactions typically range from one to six months. When used in a hedging strategy, a loss in value of the underlying security, due to a weakening of a foreign currency relative to the U.S. Dollar will result in an opposite gain in value of the foreign currency transaction. The reverse is true for a foreign currency, which strengthens relative to the U.S. Dollar. Fair values of currency forward contracts are obtained through TCERA's custodian bank, BNY Mellon Global Securities Services (BNY Mellon Global). BNY Mellon Global uses an independent third party pricing service for these price quotes.

The following Investment Derivatives schedule reports the fair value balances and notional amounts of derivatives outstanding as of and for the fiscal year ended June 30, 2021, classified by type. For financial reporting purposes, all TCERA derivatives are classified as investment derivatives.

**Investment Derivatives**
*As of June 30, 2021*
*(dollars in thousands)*

| Derivative Type | Notional Value | Fair Value |
|---|---|---|
| Currency Forward Contracts | $ - | $ - |
| Counterparty Swap Exposure | 1,595 | 34 |
| **Total** | **$ 1,595** | **$ 34** |

Foreign currency forward transactions are conducted with highly rated AA financial institutions, typically major worldwide commercial or investment banks. As of June 30, 2021, the maximum amount of loss that could occur due to credit risk is the fair value above. Collateral is not required by TCERA to reduce exposure to credit risk. Furthermore, TCERA is not party to master netting agreements.

Counterparty risk occurs when the financial institution (who engages in the forward transaction with the Association) has a liability due to the Association and is unable to pay. This risk is monitored on a daily basis by the investment advisors and limited to maximum levels of exposure for the entire portfolio.

SECURITIES LENDING

State statutes do not prohibit the Association from participating in securities lending transactions, and the Association has, via a Securities Lending Authorization Agreement with BNY Mellon Global, authorized BNY Mellon Global to lend its securities to broker-dealers and banks pursuant to a form of loan agreement. Any of the Association's securities may be loaned pursuant to the terms of the securities lending agreement, unless the Association notifies BNY Mellon Global otherwise. Due to the decreased liquidity in the credit markets in 2008, the Board elected to cap the Association's participation in Securities Lending at $87,100,589, effective October 31, 2008. The Board has taken no action to remove the cap.

**NOTE 3 – DEPOSIT AND INVESTMENT RISK DISCLOSURES (Cont.)**

Available securities may be loaned to any borrower selected by BNY Mellon Global in its sole discretion, provided credit quality criteria are met. Securities on loan must be collateralized with a value of not less than 100% of the fair value of the loaned securities. Collateral received may include cash, U.S. Government securities, sovereign debt rated A or better, Canadian Provincial Debt, convertible bonds, and other agreed upon collateral, with restrictions on the use of foreign collateral. At year-end, TCERA had no credit risk exposure to borrowers, because the collateral exceeded the amount borrowed.

As of June 30, 2021, the fair value of securities on loan was $60.8 million and the value of collateral received for the securities on loan was $62.2 million, of which $5.5 was non-cash collateral and $56.7 million was cash collateral from equity and fixed income securities. This resulted in an overcollateralization with a ratio of 102.28%. Non-cash collateral, which TCERA does not have the ability to sell unless the borrower defaults, is not reported in the Statement of Fiduciary Net Position. The maturities of collateral investments in the securities lending program are not structured to match the maturities of the securities lending arrangements. Lending arrangements are considered "open loans" that do not have a set maturity.

**Securities Lending Program**
**As of June 30, 2021**
*(dollars in thousands)*

| Securities on Loan | Fair Value of Securites on Loan | Collateral Received | Colateral Percent |
|---|---|---|---|
| Domestic Equities | $ 34,531 | $ 35,344 | |
| Domestic Fixed Income | 20,928 | 21,385 | |
| Total Cash | 55,459 | 56,729 | |
| Total Non-Cash | 5,385 | 5,501 | |
| **Total Securities on Loan** | $ 60,844 | $ 62,230 | **102.28%** |

EXTERNAL INVESTMENT POOLS

The Association participates in various external investment pools, as defined by GASB Statement No. 31. The Association maintains funds on deposit with the Tulare County Treasurer. These funds are pooled with those of other agencies in the County and invested. Substantially all information required for GASB Statement No. 31 was not available at the time these financial statements were prepared. The difference between cost and fair value of investments held by the County Treasury at June 30, 2021 was determined to be immaterial. The Association's participation in the County investment pool is not mandatory.

During the fiscal year, the Association has, via a Securities Lending Authorization Agreement, authorized BNY Mellon Global to lend its securities to broker-dealers and banks pursuant to a form of loan agreement. Cash collateral received in respect of such loans was invested at the direction of the Association in the Pooled Employee ASL Short Term Fund, a pooled external investment vehicle (the Fund).

The fair value of investments held by the Fund is based upon valuations provided by a recognized pricing service. Because the Fund does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940, BNY Mellon Global has valued the Fund's investments at fair value for reporting purposes. The Fund is not registered with the Securities and Exchange Commission. BNY Mellon Global, and consequently the investment vehicles it sponsors (including the Fund), is subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the Association's position in the Fund is not the same as the value of the Fund shares. There was no involuntary participation in this external investment pool by the Association for the fiscal year.

## NOTE 4 - FAIR VALUE MEASUREMENT

As required by GASB Statement No. 72, *Fair Value Measurement and Application*, TCERA has classified its investments according to a fair value hierarchy. The hierarchy is structured based on three types of input to develop the fair value measurements for investment.

**Level 1** reflects measurements based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

**Level 2** reflects measurements based on inputs, other than quoted prices, that are observable for an asset or a liability, either directly or indirectly.

**Level 3** reflects measurements based on unobservable inputs for an asset or a liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require management judgment or estimation.

The categorization of TCERA's investments within the fair value hierarchy is based upon the pricing transparency of the instrument and should not be perceived as a measure of the particular investment's risk.

### Equity and Fixed Income Securities

Equity securities, classified in Level 1 of the fair value hierarchy, are valued using prices quoted in active markets issued by pricing vendors for these securities. Debt and equity securities, classified in Level 2 of the fair value hierarchy, are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Debt and equity securities, classified in Level 3 of the fair value hierarchy, are securities whose stated market price is unobservable by the marketplace; many of these securities are priced by the issuers or industry groups for these securities. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by TCERA's custodian bank, BNY Mellon Global Securities Services.

### Private Equity and Real Estate Funds

Investments in Private Equity, and Real Estate funds are valued at estimated fair value, as determined in good faith by the General Partner (GP). These investments are initially valued at cost with subsequent adjustments that reflect third party transactions, financial operating results, and other factors deemed relevant by the GP. These assets are valued at Net Asset Value (NAV).

### Real Estate Investments

Investments in Real Estate are valued at estimated fair value, as determined in good faith by the Investment Manager. These investments are initially valued at cost with subsequent adjustments that reflect third party transactions, financial operating results, and other factors deemed relevant by the Investment Manager. Properties are subject to independent third party appraisals every three years. As applicable, these assets are reported in Level 3 or at NAV.

The following two charts provide a summary of TCERA's investments as classified according to the fair value hierarchy requirements. Assets classified in Level 1 are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available from the primary vendor. When certain requirements are met, an investment may be measured at NAV. Assets meeting these criteria are reported separately with descriptions of the investments.

## Notes to Basic Financial Statements

**NOTE 4 - FAIR VALUE MEASUREMENT (Cont.)**

### FAIR VALUE MEASUREMENT

June 30, 2021
(dollars in thousands)

| Investments by Fair Value Level [1] | June 30, 2021 | Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1) | Fair Value Measurements Using: Significant Other Observable Inputs (Level 2) |
|---|---|---|---|
| Debt Securities | | | |
| U.S. Government Obligations | $ 88,536 | $ 47,062 | $ 41,474 |
| Global Bonds | 9,395 | - | 9,395 |
| Domestic Corporate Bonds | 50,841 | - | 50,841 |
| Equity Securities | | | |
| Domestic Stocks | 373,056 | 373,056 | - |
| Commingled Funds | | | |
| Global Bonds | 84,879 | - | 84,879 |
| Domestic Corporate Bonds | 327,925 | - | 327,925 |
| Domestic Stocks | 175,448 | - | 175,448 |
| International Stocks | 296,070 | - | 296,070 |
| Securities Lending Collateral | 56,729 | - | 56,729 |
| Total Investments by Fair Value Level | $ 1,462,879 | $ 420,118 | $ 1,042,761 |
| **Investments Measured at NAV** | | | |
| International Equity Funds | $ 105,574 | | |
| Real Estate Funds | 195,568 | | |
| Private Equity Funds | 230,977 | | |
| Total Investments Measured at NAV | 532,119 | | |
| **Total Investments** | $ 1,994,998 | | |

**Note**: Values derived from custodian bank and presented based on securities classification. Amounts per asset class, when aggregated, correspond to values presented in the Statement of Fiduciary Net Position.

[1] TCERA did not hold any investments classified in Level 3 as of June 30, 2021.

**NOTE 4 - FAIR VALUE MEASUREMENT (Cont.)**

## INVESTMENTS MEASURED AT NET ASSET VALUE (NAV)
June 30, 2021
(dollars in thousands)

| Investments Measured at NAV | June 30, 2021 | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| International Equity Funds (1) | $ 105,574 | $ - | Monthly | 30 days |
| Real Estate Funds (2) | 195,568 | 137,640 | Quarterly, Not Eligible | 45 days |
| Private Equity Funds (3) | 230,977 | 131,092 | Not Eligible | Not applicable |
| Total Investments Measured at NAV | $ 532,119 | $ 268,732 | | |

(1) **International Equity Funds.** This investment type includes one international equity fund that is considered to be commingled in nature. It is valued at the NAV of units held at the end of the period based upon the fair value of the underlying investments.

(2) **Real Estate Funds.** This portfolio includes two real estate funds, one private Real Estate Investment Trust and one closed end fund, that invest primarily in a diversified portfolio of institutional quality multi-family, industrial, retail, and office assets in the United States. The fair values of the investments in this type have been determined using the NAV (or its equivalent) of the Plan's ownership interest in partners capital or trust. The Real Estate Investment Trust has monthly liquidity under most circumstances, while the closed end fund is ineligible for redemption.

3) **Private Equity Funds.** This allocation consists of investments with five fund of funds managers and two direct investments. The underlying managers within the fund of funds diversify investments throughout the various private equity strategies. The direct investments are mezzanine and distressed debt.

**NOTE 5 – CONTINGENCY RESERVES**

California Government Code (§31616) requires a minimum of 1.0% of the total assets of the Plan be set aside as a contingency reserve. It was created to serve as a reserve against deficiencies in interest earnings or losses on investments in other years, and for other contingencies. The target Contingency Reserve goal set by the Board was adopted for 3.0% of total assets. TCERA's Contingency Reserve balance of 3.0% of total accounting assets, excluding securities lending collateral, as of June 30, 2021 was $60.7 million.

## Notes to Basic Financial Statements

### NOTE 6 – ADMINISTRATIVE EXPENSES

The Board establishes an annual administrative budget as authorized by Government Code §31580.2. The annual budget for administrative expenses is limited to 21/100ths of 1% of the Association's Actuarial Accrued Liability (AAL). Administrative Expenses as of June 30, 2021, excluding computer and actuarial costs, were approximately 12/100ths of 1% of the Association's AAL. Employer and Employee contributions as of June 30, 2021 were insufficient to cover benefit payments and administrative expenses. The shortfall was covered by investments.

### NOTE 7 – COMMERCIAL LEASE AGREEMENT

Effective September 2001, the Board entered into a commercial lease agreement with TCERA Property, Inc. for the purpose of housing the administrative offices of the Association. The lease is perpetual with lease amounts subject to change by action of the Board of Directors of TCERA Property, Inc. The sum of payments for the fiscal year July 1, 2020 through June 30, 2021 was $187,680.

Annual amounts payable are as follows:

| Fiscal Year | Annual Amount |
|---|---|
| 2022 | $ 187,680 |
| 2023 | $ 187,680 |

### NOTE 8 – CAPITAL ASSETS AND PROJECT IN PROCESS

Capital Assets consist of the following:
(dollars in thousands)

| | 2021 | Estimated Useful Life in Years |
|---|---|---|
| Assets Not Being Depreciated | | |
| Land | $ 370 | N/A |
| Assets Being Depreciated | | |
| Building and Improvements | 1,178 | 40 |
| Office Equipment and Computers | 179 | 3 -10 |
| Less: Accumulated Depreciation | (658) | |
| Total Tangible Assets | 699 | |
| Intangible Assets | | |
| Pension Administration System | 2,755 | 10 |
| Less: Accumulated Amortization | (2,452) | |
| Total Intangible Assets | 303 | |
| **Capital Assets, Net of Accumulated Depreciation and Amortization** | **$ 1,372** | |

Depreciation and amortization expense for the fiscal year ended June 30, 2021 was $352 thousand.

## NOTE 9 – COMMITMENTS AND CONTINGENCIES

### CAPITAL COMMITMENTS

TCERA's real estate and private equity investment managers identify and acquire investments on a discretionary basis. Each manager's investment activity and discretion is controlled by TCERA's Investment Policy and the guidelines and limitations set forth in the contract, subscription agreement, limited partnership agreement and/or other contractual documents applicable to each manager. Such investments are further restricted by the amount of capital allocated or committed to each manager. TCERA's Investment Policy, contractual obligations, and capital commitments are subject to approval by the Board and may be updated as often as necessary to reflect TCERA investment preferences, as well as changes in market conditions.

As of June 30, 2021, outstanding capital commitments consisted of:
(dollars in thousands)

| Investment Manager | Investment Type | Total Capital Commitment | Outstanding Capital Commitment |
|---|---|---|---|
| American Realty Advisors | Real Estate | $80,000 | $57,640 |
| BlackRock Alternative Advisors | Private Equity | $15,000 | $2,477 |
| Invesco | Real Estate Debt | $80,000 | $80,000 |
| KKR Mezzanine Partners | Private Equity | $15,000 | $473 |
| Ocean Avenue Fund III | Private Equity | $20,000 | $2,400 |
| Ocean Avenue Fund IV | Private Equity | $20,000 | $10,660 |
| Pantheon Ventures, Inc. | Private Equity | $15,000 | $825 |
| Pathway Fund 8 | Private Equity | $20,000 | $2,667 |
| Pathway Fund 9 | Private Equity | $20,000 | $5,069 |
| Pathway Fund 10 | Private Equity | $10,000 | $8,010 |
| StepStone Group | Private Equity | $27,000 | $3,974 |
| Sixth Street Partners DCP Fund | Private Credit | $140,000 | $56,271 |
| Sixth Steet Partners TAO Fund | Private Credit | $50,000 | $38,266 |
| Total Outstanding Commitments | | | $268,732 |

## NOTE 10 – NET PENSION LIABILITY

Net Pension Liability of Employers: The net pension liability (NPL) (i.e., the Plan's liability determined in accordance with GASB Statement No. 67 less the fiduciary net position) is shown below in thousands:

| | June 30, 2021 |
|---|---|
| Total Pension Liability | $2,247,728 |
| Plan Fiduciary Net Position | (1,976,185) |
| Employers' Net Pension Liability | $271,543 |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 87.92% |

The NPL decreased by approximately $167.5 million since the prior measurement date, primarily due to strong asset performance over last year. The discount rate decreased from 6.96% to 6.95% due to the results of the crossover test. The investment gains or losses are recognized over five years, and the actuarial liability gains and assumption changes are recognized over the average remaining service life, which is also five years. Unrecognized amounts are reported as deferred inflows of resources and deferred outflows of resources.

**NOTE 10 – NET PENSION LIABILITY (Cont.)**

Actuarial Assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The Total Pension Liability at the end of the measurement year, June 30, 2021, was measured as of a valuation date of June 30, 2021, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 67. Key methods and assumptions used are presented below:

| | |
|---|---|
| Inflation | The cost-of-living as measured by the Consumer Price Index (CPI) will increase at the rate of 2.75% per year. |
| Expected Return on Assets | 7.15% net of investment expenses as of June 30, 2021. |
| Salary Increases | Payroll increases are assumed to increase 3.00% per year. Individual salaries are assumed to increase with a wage inflation component of 3.00% and a longevity/ promotion component that varies by years of service and division, ranging from 0.50% to 8.00% for General Members and 1.00% to 9.00% for Safety Members. |
| Ad hoc Post-Employment Benefit Changes | None. |
| Post Retirement COLA | Benefits are assumed to increase after retirement at the rate of 2.6% per year for Tier 1 and 2.0 % per year for Tiers 2-4. |
| Mortality Assumptions | RP-2014 Mortality Tables with Generational improvement using Projection Scale MP-2019 and adjusted to reflect TCERA experience. |
| Most Recent Actuarial Experience Study | June 30, 2020 (conducted every three years). |
| Discount Rate | 6.95% blended discount rate, net of pension plan investment expense, including inflation. |
| Municipal Bond Rate | 2.16% net of investment expenses as of June 30, 2021 (Bond Buyer 20-year Bond GO Index, June 24, 2021). |
| Administrative Expenses | Administrative Expenses used in the cashflow projection are assumed to average 0.15% of assets annually. |

**NOTE 10 – NET PENSION LIABILITY (Cont.)**

Asset Allocation and Expected Long-Term Real Rate of Return by Asset Class:

The allocation of investment assets within the investment portfolio is approved by the Board and is incorporated into TCERA's Investment Policy. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Plan. The following table displays the Board approved asset allocation:

| Asset Class | June 30, 2021 Target Percent |
|---|---|
| Large Cap Equity | 19.00% |
| Small Mid Cap Equity | 6.00% |
| Non-U.S. Equity (Developed and Emerging) | 15.00% |
| Global Equity | 3.00% |
| US Fixed Income | 17.00% |
| Global Fixed Income | 5.00% |
| Emerging Market Debt | 5.00% |
| Core Real Estate | 10.00% |
| Value-Add Real Estate | 5.00% |
| Real Estate Debt | 5.00% |
| Private Credit | 5.00% |
| Private Equity | 5.00% |
| | 100.00% |

The following table displays the Expected Long-Term Real Rate of Return by Asset Class:

| Asset Class | Expected Long-Term Real Rate of Return |
|---|---|
| Large Cap Equity | 3.10% |
| Small Mid Cap Equity | 3.20% |
| Non-U.S. Equity (Developed and Emerging) | 3.20% |
| Global Equity | 3.20% |
| US Fixed Income | 0.20% |
| Global Fixed Income | -0.90% |
| Emerging Market Debt | 2.80% |
| Core Real Estate | 3.80% |
| Value-Add Real Estate | 5.80% |
| Real Estate Debt | 0.20% |
| Private Credit | 7.30% |
| Private Equity | 2.60% |
| Total Fund | 3.20% |

Note: Real return forecasts are from Verus' 2021 Capital Market Assumptions which include a 2.0% inflation expectation.

**NOTE 10 – NET PENSION LIABILITY (Cont.)**

The long-term expected real rate of return was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges 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 adjusted for inflation of 2.0%. Real return forecasts are from Verus Investments' 2021 Capital Market Assumptions.

Discount Rate: The discount rate used to measure the Total Pension Liability was 6.95%.

The investment rate of return assumption used for actuarial funding was 7.00% for the fiscal year ended June 30, 2021.

GASB Statement No. 67 requires determination that the Plan'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 6.95%.

The projection of cash flows used to determine the discount rate assumed that TCERA contributions will be equal to the actuarially determined contributions, reflecting a payment equal to annual Normal Cost and an amount necessary to amortize the total June 30, 2015 Unfunded Actuarial Liability (UAL) as a level percentage of payroll over a closed 19-year period with payments as a level percentage of payroll, assuming payroll increases of 3.00% per year. Subsequent gains and losses are being amortized over new 19-year closed periods, also as a level percentage of payroll.

Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members until 2087, when only a portion of the projected benefit payments can be made from the projected fiduciary net position.

Projected benefit payments are discounted at the long-term expected return on assets of 7.15% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.16% to the extent they are not available. The single equivalent rate used to determine the Total Pension Liability as of June 30, 2021 was 6.95%.

The assumed discount rate has been determined in accordance with the method prescribed by GASB Statement No. 67.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of TCERA as of June 30, 2021, calculated using the discount rate of 6.95%, as well as what TCERA's net pension liability in thousands would be if it were calculated using a discount rate that is 1-percentage-point lower (5.95%) or 1-percentage-point higher (7.95%) than the current rate:

As of June 30, 2021:
(dollars in thousands)

| TCERA Net Pension Liability | 1% Decrease (5.95%) | Current Discount Rate (6.95%) | 1% Increase (7.95%) |
|---|---|---|---|
| | $598,291 | $271,543 | $6,323 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 76.8% | 87.9% | 99.7% |

## Notes to Basic Financial Statements

**NOTE 11 – SUBSEQUENT EVENTS**

Subsequent to June 30, 2021 and through November 29, 2021, the date through which management evaluated subsequent events and on which the financial statements were issued, TCERA did not identify any subsequent financial events.

## Schedule of Changes in Net Pension Liability and Related Ratios

Fiscal Years June 30:
(dollars in thousands)

| | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| **Total Pension Liability** | | | | |
| Service cost | $ 54,859 | $ 49,424 | $ 49,484 | $ 46,838 |
| Interest | 141,880 | 140,390 | 133,895 | 126,586 |
| Differences between expected and actual experience | 85,474 | (54,091) | (6,667) | 10,342 |
| Changes of assumptions | 2,930 | 70,788 | (37,996) | 41,148 |
| Benefit payments, including refunds of member contributions | (96,276) | (91,427) | (85,097) | (80,716) |
| **Net Change in Total Pension Liability** | 188,867 | 115,084 | 53,619 | 144,198 |
| **Total Pension Liability - Beginning** | 2,058,861 | 1,943,777 | 1,890,158 | 1,745,960 |
| **Total Pension Liability - Ending (a)** | $ 2,247,728 | $ 2,058,861 | $ 1,943,777 | $ 1,890,158 |
| **Plan Fiduciary Net Position** | | | | |
| Contributions- employer | $ 36,766 | $ 35,310 | $ 33,494 | $ 286,263 |
| Contributions- member | 23,536 | 23,104 | 22,325 | 18,512 |
| Net investment income | 395,079 | 9,515 | 90,779 | 95,857 |
| Benefit Payments, including refunds of member contributions | (96,276) | (91,427) | (85,097) | (80,716) |
| Administrative expense | (2,740) | (2,853) | (2,806) | (2,666) |
| **Net Change in Plan Fiduciary Net Position** | 356,365 | (26,351) | 58,695 | 317,250 |
| **Plan Fiduciary Net Position - Beginning** | 1,619,820 | 1,646,171 | 1,587,476 | 1,270,226 |
| **Plan Fiduciary Net Position - Ending (b)** | $ 1,976,185 | $ 1,619,820 | $ 1,646,171 | $ 1,587,476 |
| **Net Pension Liability - Ending (a)-(b)** | $ 271,543 | $ 439,041 | $ 297,606 | $ 302,682 |
| **Plan Fiduciary Net Position as a Percentage of the Total Pension Liability** | **87.92%** | **78.68%** | **84.69%** | **83.99%** |
| **Covered Payroll** | $ 276,127 | $ 283,640 | $ 264,218 | $ 256,049 |
| **Net Pension Liability as a Percentage of Covered Payroll** | **98.34%** | **154.79%** | **112.64%** | **118.21%** |

*Note: Numbers may not add to totals due to rounding*

### *Schedule of Changes in Net Pension Liability and Related Ratios (Cont.)*

Fiscal Years June 30:
(dollars in thousands)

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Total Pension Liability** | | | | |
| Service cost | $ 38,203 | $ 38,308 | $ 35,168 | $ 39,672 |
| Interest | 118,664 | 115,716 | 97,473 | 94,277 |
| Changes of benefit terms | - | - | - | - |
| Differences between expected and actual experience | 11,936 | (40,602) | 7,590 | - |
| Changes of assumptions | 69,608 | 23,922 | 180,187 | 13,588 |
| Benefit payments, including refunds of member contributions | (76,961) | (72,332) | (68,560) | (65,954) |
| **Net Change in Total Pension Liability** | 161,450 | 65,012 | 251,858 | 81,583 |
| **Total Pension Liability - Beginning** | 1,584,510 | 1,519,498 | 1,267,640 | 1,186,057 |
| **Total Pension Liability - Ending (a)** | $ 1,745,960 | $ 1,584,510 | $ 1,519,498 | $ 1,267,640 |
| **Plan Fiduciary Net Position** | | | | |
| Contributions- employer | $ 33,616 | $ 31,297 | $ 30,992 | $ 25,953 |
| Contributions- member | 18,190 | 16,815 | 18,887 | 18,969 |
| Net investment income | 132,865 | (20,309) | 122,400 | 179,878 |
| Benefit Payments, including refunds of member contributions | (76,961) | (72,332) | (68,560) | (65,954) |
| Administrative expense | (2,612) | (2,616) | (2,408) | (1,639) |
| **Net Change in Plan Fiduciary Net Position** | 105,098 | (47,145) | 101,311 | 157,207 |
| **Plan Fiduciary Net Position - Beginning** | 1,165,127 | 1,212,272 | 1,110,961 | 953,754 |
| **Plan Fiduciary Net Position - Ending (b)** | $ 1,270,225 | $ 1,165,127 | $ 1,212,272 | $ 1,110,961 |
| **Net Pension Liability - Ending (a)-(b)** | $ 475,735 | $ 419,383 | $ 307,226 | $ 156,679 |
| **Plan Fiduciary Net Position as a Percentage of the Total Pension Liability** | **72.75%** | **73.53%** | **79.78%** | **87.64%** |
| **Covered Payroll** | $ 243,366 | $ 238,559 | $ 229,431 | $ 234,439 |
| **Net Pension Liability as a Percentage of Covered Payroll** | **195.48%** | **175.80%** | **133.91%** | **66.83%** |

*Note: Numbers may not add to totals due to rounding*

### *Schedule of Changes in Net Pension Liability and Related Ratios (Cont.)*

**Notes to Schedule of Changes in Net Pension Liability and Related Ratios:**

**Net Pension Liability** – See information in Note 10 regarding the increase in the net pension liability.

**Benefit Changes** – All members with a membership date on or after January 1, 2013 enter the new tiers created by the California Public Employees' Pension Reform Act of 2013 (PEPRA). There were no changes in benefits during the year.

**Fiduciary Net Position** – The fiduciary net position is calculated based on financial information available to the actuary for the preparation of the actuarial valuation and does not include subsequent adjustments.

**Scope of Schedule** – The schedule is intended to show information for 10 years. Recalculations of prior years are not required. If prior years are not reported in accordance with the standards of Governmental Accounting Standards Board (GASB) Statements No. 67 and No. 68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented. Payroll for fiscal year 2014 forward is based on amounts provided to the actuary by the participating employers. Previous payroll figures were determined by the prior actuary.

## Schedule of Contributions

(dollars in thousands)

| Fiscal Year Ended June 30 | Actuarially Determined Contributions | Contributions in Relation to the Actuarially Determined Contributions | Contribution Deficiency (Excess) | Actuarially Determined Covered Payroll | Contributions as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| **2012** | 25,257 | 25,257 | - | 222,635 | 11.34% |
| **2013** | 29,847 | 29,847 | - | 230,955 | 12.92% |
| **2014** | 25,953 | 25,953 | - | 234,439 | 11.07% |
| **2015** | 30,992 | 30,992 | - | 229,431 | 13.51% |
| **2016** | 31,297 | 31,297 | - | 238,559 | 13.12% |
| **2017** | 33,616 | 33,616 | - | 243,366 | 13.81% |
| **2018 *** | 36,263 | 36,263 | - | 256,049 | 14.16% |
| **2019** | 33,494 | 33,494 | - | 264,218 | 12.68% |
| **2020** | 35,310 | 35,310 | - | 283,640 | 12.45% |
| **2021** | 36,766 | 36,766 | - | 276,127 | 13.31% |

** For the FYE 2018, the contribution shown in this schedule does not include the additional $250 million contribution made by the County at the end of the Fiscal Year.*

## *Schedule of Contributions (Cont.)*

### Notes to Schedule of Contributions:

| | |
|---|---|
| **Valuation date** (1) | Actuarially determined contribution rates are calculated as of **June 30, 2019**, two years prior to the end of the fiscal year in which contributions are reported. |

**Methods and assumptions used to determine contribution rates:**

| | |
|---|---|
| **Actuarial cost method** | Entry age normal |
| **Amortization method** | Level percentage of payroll. Payroll is expected to increase during the amortization period at the assumed rate of inflation. |
| **Remaining amortization period** | 19 years, layered |
| **Asset valuation method** | 10-year smoothing of investment return with a 30% asset corridor which deviates from the actuarial investment return assumptions. |
| **Inflation** | 3.00% |
| **Salary increases** | 3% plus merit component based on employee classification and years of service. |
| **Investment rate of return** | 7.25% per annum (7.12% compounded semi-annually). The investment rate of return includes inflation. |
| **Retirement age** | Retirement age varies by membership type and tier. Refer to Note 2, Plan Description for more information. |
| **Mortality - Retirement** | General Members - RP 2014 Sex Distinct Combined Healthy Tables, published by the Society of Actuaries, with Generational Improvement, using Projections Scale MP-2016, increased by 12.1% for males and 8.0% for females to reflect Plan experience.<br><br>Safety Members - RP 2014 Sex Distinct Combined Healthy Tables with blue-collar adjustment, published by the Society of Actuaries, with Generational Improvement using Projections Scale MP-2016, increased by 4.5% for males to reflect Plan experience. |
| **Mortality - Disability** | All Members - RP 2014 Sex Distinct Generational Disabled Annuitant Mortality Table with Generational Improvement using Projection Scale MP-2016. |
| **Cost of living adjustments** | 2.7% per year for Tier 1 and 2% for Tiers 2, 3, and 4. |

(1) Actuarial determined contributions are calculated based on the actuarial valuation one year prior to the beginning of the plan year.

## Schedule of Investment Returns

Annual money-weighted rate of return, net of investment expense

| Fiscal Year: | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| | 23.85% | 0.74% | 6.10% | 7.60% | 11.70% |

| Fiscal Year: | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| | -1.30% | 1.10% | 17.00% | 11.90% | n/a |

**Notes to Schedule of Investment Returns:**
*Schedule is intended to show information for 10 years.*
*Additional years will be displayed as they become available.*
*Years where information is not available are identified as n/a.*

# Schedule of Administrative Expenses

*For the Fiscal Year Ended June 30, 2021*
(dollars in thousands)

| | |
|---|---|
| **Personnel Services** | |
| Salaries | |
| General | $ 834 |
| Benefits | |
| General | 443 |
| Board Fees - Per Diem Payments | 19 |
| **Total Personnel Services** | 1,296 |
| **Professional Services** | |
| Actuarial | 129 |
| Data Processing | 300 |
| Audit | 45 |
| Professional Services - Disablity | 75 |
| Legal Counsel | |
| General | 32 |
| Disability | 67 |
| **Total Professional Services** | 648 |
| **Communication** | |
| Printing | 28 |
| Communication | 15 |
| Postage | 40 |
| **Total Communicaton** | 83 |
| **Rentals** | |
| Office Space | 188 |
| **Total Rentals** | 188 |
| **Other** | |
| Training | 4 |
| Transportation and Travel | 8 |
| Maintenance | 28 |
| Insurance | 62 |
| Utilities | 20 |
| Depreciation and Amortization | 352 |
| Office | 49 |
| Other County Department Charges | 2 |
| **Total Other** | 525 |
| **Total Administrative Expenses** | $ 2,740 |

# Fees, Other Investment Expenses and Payments to Consultants

*For the Fiscal Year Ended June 30, 2021*
*(dollars in thousands)*

| | |
|---|---|
| **Investment Activity** | |
| Equity | |
| Domestic | $ 1,398 |
| International | 1,243 |
| Fixed Income | |
| Domestic | 1,248 |
| Global | 379 |
| Alternative Investments | |
| Private Equity | 1,148 |
| Private Credit | 1,271 |
| Real Estate | |
| Real Estate Managers | 1,714 |
| **Total from Investment Activity** | **8,401** |
| **Securities Lending Activity** | |
| Securities Lending Program Expenses | 53 |
| **Total from Securities Lending Activity** | **53** |
| **Other Investment Expenses** | |
| Investment Custodian | 319 |
| Investment Consultant | 245 |
| Other | 180 |
| **Total from Other Investment Expenses** | **744** |
| **Total Fees and Other Investment Expenses** | **$ 9,198** |

| | |
|---|---|
| **Payments to Consultants** | |
| **Nature of Service** | |
| Actuarial | $ 129 |
| Audit | 45 |
| Legal Counsel | |
| General | 32 |
| Disability | 67 |
| **Total Consulting Fees** | **$ 273** |

# Schedule of Net Position Restricted for Pension Benefits

*As of June 30, 2021*
*(dollars in thousands)*

| | |
|---|---|
| Employee reserves, July 1 | $ 319,562 |
| Contributions | 23,536 |
| Withdrawals | (3,586) |
| Transfers | (18,867) |
| Interest crediting | 18,902 |
| Employee reserves, June 30 | 339,547 |
| | |
| Employer reserves, July 1 | 859,182 |
| Contributions | 36,766 |
| Benefits Paid | - |
| Transfers | (41,901) |
| Interest crediting | 54,840 |
| Employer reserves, June 30 | 908,887 |
| | |
| Retiree reserves, July 1 | 442,157 |
| Benefits Paid | (86,014) |
| Transfers | 60,758 |
| Interest crediting | 29,355 |
| Retiree reserves, June 30 | 446,256 |
| | |
| SRBR reserves, July 1 | 108,348 |
| Benefits Paid | (6,676) |
| Interest crediting | 6,774 |
| SRBR reserves, June 30 | 108,446 |
| | |
| Other reserves, July 1 | 4,273 |
| Transfers - Intra Member Contribution Account | 5,902 |
| Interest crediting | (7,515) |
| Other reserves, June 30 | 2,660 |
| | |
| Market Stabilization reserve, July 1 | (163,717) |
| Net Change in Market Stabilization | 272,431 |
| Market Stabilization reserve, June 30 | 108,714 |
| | |
| Contingency reserve, July 1 | 49,228 |
| Transfers | 11,508 |
| Contingency reserve, June 30 | 60,736 |
| | |
| TCERA Property, Inc. Retained Earnings (Holding Corporation), July 1 | 787 |
| Net income | 152 |
| TCERA Property, Inc. Retained Earnings (Holding Corporation), June 30 | 939 |
| | |
| **Net position restricted for pension benefits** | **$ 1,976,185** |

## Schedule of Cost Sharing Employer Allocations

For the Fiscal Year Ended June 30, 2021
(dollars in thousands)

| Employer | 2021 Actual Employer Contributions | 2021 Employer Allocation Percentage |
|---|---|---|
| County of Tulare | $ 33,586 | 91.35% |
| Tulare County Association of Governments[1] | 181 | 0.49% |
| Tulare County Superior Court | 2,965 | 8.06% |
| Strathmore Public Utility District | 34 | 0.09% |
| Total | $ 36,766 | 100.00% |

[1] The Tulare County Association of Governments is a district within Tulare County.

## Employer Pension Amounts Allocated by Cost Sharing Plan

June 30, 2021
(dollars in thousands)

| | | DEFERRED OUTFLOWS OF RESOURCES | | | | |
|---|---|---|---|---|---|---|
| Employer | Net Pension Liability | Differences Between Expected and Actual Experience | Net Differences Between Projected and Actual Investment Earnings | Changes of Assumptions | Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions | Total Deferred Outflows of Resources |
| Tulare County | $ 248,056 | $ 64,354 | $ - | $ 48,458 | $ 7,394 | $ 120,206 |
| Tulare County Assn of Goverments[1] | 1,337 | 347 | - | 261 | 303 | 911 |
| Tulare County Superior Court | 21,899 | 5,681 | - | 4,278 | 3,520 | 13,479 |
| Strathmore Public Utility District Total | 251 | 65 | - | 49 | 87 | 201 |
| Total | $ 271,543 | $ 70,447 | $ - | $ 53,046 | $ 11,304 | $ 134,797 |

## Employer Pension Amounts Allocated by Cost Sharing Plan (Cont.)

| Employer | DEFERRED INFLOWS OF RESOURCES | | | | |
|---|---|---|---|---|---|
| | Differences Between Expected and Actual Economic Experience | Changes of Assumptions | Net Differences Between Projected and Actual Investment Earnings | Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions | Total Deferred Inflows of Resources |
| Tulare County | $ 32,085 | $ 13,884 | $ 135,446 | $ 3,853 | $ 185,268 |
| Tulare County Assn of Goverments [1] | 173 | 75 | 730 | 772 | 1,750 |
| Tulare County Superior Court | 2,832 | 1,226 | 11,957 | 6,608 | 22,623 |
| Strathmore Public Utility District Total | 33 | 14 | 137 | 70 | 254 |
| **Total** | **$ 35,123** | **$ 15,199** | **$ 148,270** | **$ 11,303** | **$ 209,895** |

| Employer | PENSION EXPENSE | | |
|---|---|---|---|
| | Collective Proportionate Share of Plan Pension Expense | Net Amortization of Deferred Amts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of | Total Pension Expense Excluding That Attributable to Employer-Paid Member Contributions |
| Tulare County | $ 55,955 | $ 2,463 | $ 58,418 |
| Tulare County Assn of Goverments [1] | 302 | (302) | - |
| Tulare County Superior Court | 4,940 | (2,147) | 2,792 |
| Strathmore Public Utility District Total | 57 | (14) | 42 |
| **Total** | **$ 61,253** | **$ -** | **$ 61,252** |

[1] The Tulare County Association of Governments is a district within Tulare County.
*Note: Numbers may not add to totals due to rounding*

# Notes to Other Information

BASIS OF PRESENTATION AND BASIS OF ACCOUNTING

Employers that participate in TCERA were required to implement GASB 68 for their first fiscal year that commenced after June 15, 2014. The amounts reported as of their fiscal year end (their reporting date) must be based on a measurement date up to 12 months prior to their reporting date. For employers with a reporting date of June 30, their 2021 disclosures can be based on either the June 30, 2020 or 2021 measurement dates. If an employer elects to base their 2021 disclosures on the June 30, 2020 measurement date, the GASB 68 schedules in this report with a measurement date of June 30, 2021 will be used for their 2022 reporting date.

TCERA is a cost-sharing multiple-employer pension plan, each employer participating in TCERA must reflect a portion of the collective Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows in their financial statements.

USE OF ESTIMATES IN THE PREPARATION OF THE SCHEDULES

The preparation of these schedules in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Actual results could differ from those estimates.

AMORTIZATION OF DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

Proportionate shares for each participating employer are generally determined based on the ratio of each participating employer's actual contributions to TCERA during the measurement year to the sum of the employer contributions. Proportionate shares for each participating employer are generally determined based on the ratio of each participating employer's actual contributions to TCERA during the measurement year to the sum of the employer contributions.

The proportionate share allocated to each individual employer will change on each measurement date. The net effect of the change in proportion on the share of the collective NPL, collective deferred outflows, and collective deferred inflows allocated to each employer becomes a deferred outflow or inflow for that employer and is recognized over the average future working life of TCERA's active and inactive members (five years). Similarly, the difference between each employer's actual contributions and the employer's proportionate share of collective employer contributions becomes a deferred outflow or inflow for that employer and is recognized over the average future working life of TCERA's active and inactive members (five years).

The difference between projected and actual investment earnings on pension plan investments is amortized over 5 years on a straight-line basis. One-fifth was recognized in pension expense during the measurement period, and the remaining difference between projected and actual investment earnings on pension plan investments at June 30, 2021, is to be amortized over the remaining periods. The changes in assumptions and differences between expected and actual experience are recognized over the average of the expected remaining service lives of all employees that are provided with pensions through TCERA (active and inactive employees) determined as of June 30, 2020 (the beginning of the measurement period ending June 30, 2021) and is four years. Prior period changes of assumptions and differences between expected and actual experience are continued to be recognized based on the expected remaining service lives of all employees calculated as of those prior measurement dates.

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# *investment section*

# Independent Consultant's Report

Verus

October 15, 2021

The Board of Retirement
Tulare County Employees' Retirement Association
136 N. Akers Street
Visalia, California 93291

The investment portfolio of the Tulare County Employees' Retirement Association attained a total value of $1.95 billion over the fiscal year and returned 23.6% for the period, net of investment management fees. This return exceeded the Plan's policy benchmark of 22.1%. The primary driver of TCERA's outsized returns was the upward trend in global equity markets, as the world economy continued to recover rapidly from the impact of Covid and global equity markets looked forward to continued economic normalization. For the year ending June 30, 2021, the global stock market returned nearly 40%. Despite TCERA's strong performance, it ranked below the performance of the median peer in a universe of public pension plans with assets greater than $1 billion. Underperformance relative to the median peer resulted primarily from TCERA's more conservative positioning, as reflected by less equity and more fixed income during uncommonly strong equity markets.

Despite the challenges posed by the global pandemic over the past year, the Board's work to re-position the portfolio continued, and investments in real estate and private credit were funded in a favorable market environment. In addition, the Board re-assessed its risk tolerance and established an asset allocation with additional private markets investments and less fixed income effective August 11, 2021, which is expected to yield a higher rate of return going forward. The private markets investments will be funded over the next several years to ensure vintage year diversification. In the meantime, the assets will be held in real estate and equity index funds, which will serve as proxies for the new investments until they are ready to be funded.

Moving forward, the Board will continue to monitor the Plan's strategic asset allocation and its implementation for potential improvement opportunities as it strives to ensure the retirement of TCERA's participants is secure.

Sincerely,

Scott J. Whalen, CFA, CAIA
Executive Managing Director, Senior Consultant

NOTE: Returns for periods greater than one year are annualized. Investment return calculations are time-weighted, market value based, and consistent with industry standards and best practices for performance measurement.

# Economic Conditions and Outlook

### 2021 summary

Two steps forward, one step back, two steps forward, one step back. Slow and bumpy improvement probably best describes the trajectory of the global economy over the last year. The faster-than-expected distribution of highly effective vaccines within the developed world paved the way for gradual reopening of developed economies, but emerging economies with less access to quality vaccines were less prepared to deal with the litany of more-virulent mutations and had to respond with more draconian social distancing controls to mitigate increases in case growth.

Risk-on sentiment propelled financial markets forward, backstopped by continued support from global central banks, the light at the end of the tunnel provided by vaccines and the inclination of markets to shrug off big surprises on earnings and economic data. Expectations for a strong rebound in economic growth and inflation over the intermediate-term sparked a rotation from the growth sectors that had performed well through the crisis toward more value-orientated sectors prospectively positioned to outperform in a period of rising interest rates. This reflation trade thrived from around mid-August until mid-May but began to unravel late in the fiscal year as a result of concerns about the delta Covid-19 variant impeding a full and swift global economic recovery, as well as a hawkish pivot from the Federal Reserve, which reduced the likelihood of higher inflation and interest rates over the longer term. Looking ahead, the major questions investors are grappling with center around the staying power of high levels of inflation, the timeframe over which the Federal Reserve may begin to taper asset purchases, the outlook for fiscal stimulus, and the capability of companies to sustain high enough levels of earnings growth to justify elevated valuations.

### U.S. equity

Up and to the right has been the story for U.S. equity prices over the past year as investors largely looked through the shorter-term impact of pandemic-related shutdowns and bet that fiscal and monetary support would be able to build a bridge to a post-pandemic world. As of June 30, 2020, the S&P 500 Index remained 8.4% beneath its previous high-water mark of 3386. By August 18th, the overall index had reached a fresh all-time high, and would proceed to close at record high levels in 53 of the 218 remaining trading days in the fiscal year, delivering a 40.8% total return along the way. Realized and implied volatility receded to levels more in line with longer-term historical averages. Since making its full recovery in August of 2020, the largest drawdown from prior peak levels suffered by the S&P 500 Index was -9.6%, and between November 4, 2020 and June 30th 2021, the index never closed further than 5% beneath its previous record high.

Corporate revenues began to recover over the year, and higher operating leverage ratios which resulted from a litany of cost-saving initiatives implemented during the pandemic worked to supercharge earnings growth. Per FactSet, the estimated year-over-year earnings growth for the S&P 500 Index as of Q2 2021 is 64.0%. If that rate were to materialize, it would mark the highest year-over-year rate reported by the index since Q4 2009 (109.1%). Despite the massive increase in corporate earnings, increasing prices prevented a material rerating of U.S. equity valuations, which remain at stretched levels relative to recent history. The forward 12-month price-to-earnings ratio of the S&P 500 Index remains at 21.4x -- well above both the five-year (18.1x) and ten-year (16.2x) averages. It is worth noting, however, that forward earnings estimates 12 months ago proved far too pessimistic, as analysts underestimated the strength of profit growth which resulted in an overestimation of valuations.

In terms of size and style, small-cap equities (Russell 2000 Index +62.0%) made back some lost ground relative to large-cap equities (Russell 1000 Index +43.1%) and the value factor (Russell 1000 Value Index +43.7%) narrowly outperformed the growth factor (Russell 1000 Growth Index +42.5). Much of the outperformance of the value factor was driven by the reflation trade which dominated the market narrative from around August when news broke about the successful mRNA vaccines to around mid-May and June when concerns around the delta variant and a hawkish Fed pivot pushed down the long end of the U.S. yield curve. That reflation trade favored sectors more heavily weighted in the value benchmarks, including financials, industrials, and materials, which returned 57.6%, 47.5%, and 46.0% over the fiscal year, respectively.

**International equity**

Global equities largely tracked U.S. equities over the trailing twelve months, and the MSCI ACWI Index returned 39.3% in U.S. dollar terms, with weakness in the U.S. dollar providing a slight boost to returns experienced by unhedged U.S. investors. Emerging market equities delivered a total return of 40.9% in U.S. dollar terms, edging out U.S. equities (S&P 500 Index +40.8%) and outpacing international developed equities (MSCI EAFE +32.4%).

The superior performance of emerging market equities was driven by a rebound in its Latin American contingent broadly, and Brazil and Mexico specifically. The MSCI Brazil Index returned +46.6%, boosted by a 10% appreciation of the Brazilian real relative to the U.S. dollar. In Mexico, stocks advanced 55.9%, as the Mexican peso appreciated 15.4% relative to the dollar. The recovery in crude oil prices from around $41 to $75 per barrel undoubtedly played a huge role in the resurgence, but that recovery also coincided with a material pickup in inflation which led many central banks within the index to begin tightening the reins with regard to monetary policy. Year-over-year inflation in Brazil rose from 2.1% to 8.4%, which led the Brazilian central bank to hike its main rate from 2.50% to 4.25% over the course of the year. The story was largely the same in Mexico, where inflation rose from 3.3% to 5.9%, and policymakers at the Banco de Mexico hiked their target overnight rate in June for the first time since December 2018. There exists some concern that given the general lack of access to quality vaccines in some of these countries, persistently high inflation rates could force monetary policymakers to tighten financial conditions before their respective economies are ready, which could pressure the outlook.

In Asia, Taiwanese (+70.5%) and Korean (+66.2%) equities delivered impressive returns, but Chinese equities returned just 27.4%, materially lagging the global opportunity set. Chinese equities began to sell off in late February, with the initial catalyst being a decision from the People's Bank of China to shift its focus away from ensuring accommodative financial conditions to enable a swift economic recovery and toward limiting the risks of excessive leverage which has been building up in certain segments of the economy, most notably the domestic housing market. This shift in focus from ensuring economic recovery to managing the risks of financial excesses resulted in a marginal tightening of liquidity across the region, which sparked a sell-off in some of the high-flying tech companies that had driven emerging market outperformance in the early days of the pandemic. Losses in China accelerated in the second quarter of 2021 when regulators in China cracked down on some national champions in the IT industry over concerns around the risks of the data gathered by those companies falling into the wrong hands, which could undermine the position of the Communist Party of China. While it appears that both general liquidity conditions have begun to improve and the tech crackdown has showed signs of easing, these issues remain front and center for the broader emerging market equity universe.

In Europe, stocks returned just 26.6% in local terms, but the strong run of the euro relative to the dollar boosted performance for unhedged U.S. investors in European equities to 35.1%. Inflation in Europe has picked up more slowly than in the U.S. or the emerging markets. This, combined with the Eurozone's relative inflexibility with regard to fiscal policy, likely supports the case that the European Central Bank will have the longest runway for continuing to provide monetary accommodation. In the first half of 2021, concerns around the spread of the delta variant pushed ECB policymakers to accelerate the pace of purchases within the Pandemic Emergency Purchase Program to provide additional support over the short-term, with the goal of preserving conditions for a robust recovery. The most recent commentary from ECB President Lagarde reflected a "guardedly optimistic" outlook for the economy but did not mention any expected changes to policy in the near term. Within the international developed complex in Asia, Japanese equities underperformed in both local (+28.4%) and U.S. dollar (+24.8%) terms. The Japanese yen was one of the few currencies which depreciated relative to the dollar over the last year, due in part to the significant increase in U.S. Treasury yields above Japanese government bond yields, which officials at the Bank of Japan have committed to keeping within a relatively narrow range (within 25 basis points of 0.0%).

**Fixed income**

The reflation narrative and debate over the persistence of higher inflation rates largely directed the global fixed income markets over the last year. In the U.S., the 10-year Treasury yield rose from 0.66% to a post-pandemic peak of 1.74% by the end of the first quarter of 2021, before moderating to 1.47% by the end of the fiscal year. Breakeven inflation rates tracked Treasury yields in terms of direction – the ten-year breakeven inflation rate rose from 1.34% to an eight-year high of 2.56% in May before moderating slightly during the last few weeks of the fiscal year. Overall, the Fed has remained steadfast in its view that recent increases in inflation rates have been a byproduct of the broad economic reopening, pandemic-related supply chain disruptions, and low base effects (inflation is a year-over-year calculation which means the depressed prices of early 2020 create the appearance of rising inflation). In other words, their view is that increases in inflation are more likely to be transitory than persistent. An analysis of the drivers of inflation growth on balance appear to support this view - most of the acceleration in price growth of the last year can be attributed increases in gas prices as the energy sector has recovered, and a surge in used car and truck sales. Increases in gas and energy have been highly impacted by the fact that energy prices reached extremely low levels in early 2020, as oil prices actually went negative in the futures market. The price recovery of energy has placed significant upward pressure on inflation because inflation measures 12-month price change. Used car and truck prices were likely pushed higher as a result of two effects: first, a massive surge in new car purchases driven by government stimulus checks and compounded by health concerns relative to public transportation. Second, a global semiconductor shortage which crimped supply of new vehicles. Price movements caused by these effects were likely one-time in nature and will dissipate as stimulus spending slows and supply chains are brought back in order. However, owner's equivalent rent (OER) may be pushing up prices in a more structural way. OER is much slower moving due to the impact of 12-month lease arrangements and the longer time it takes for price increases to flow through to consumers more broadly. Proponents of the persistent inflation argument may point to this category, as well as recent increases in wages as evidence that price growth may prove sustainable. In any case, the Fed appears to be focusing more on the risks to the labor market and economic recovery of pulling back on accommodative policy too early, rather than the risk of runaway inflation. This likely stoked a sizeable steepening in the yield curve and a surge in longer-term interest and breakeven inflation rates. However, at their June meeting, Fed officials signaled that a full labor market recovery was more of a "when" question rather than an "if" question and appeared to be shifting more focus onto inflation over the shorter term, which markets took as hawkish on the margin. Following the release, the market-implied number of fed funds range hikes by the end of 2023 picked up to between two and three, slightly higher than the two hikes implied by the June edition of the Federal Open Market Committee's dot plot. Rising expectations for rate hikes in the shorter-term helped to drive down interest rates on the long-end of the curve, due to the path-dependent nature of longer-term growth and inflation expectations: more restrictive policy in the near-term is likely to reduce the potential for longer-term growth and reduces the likelihood of longer-term inflation. Currently, conversations at the Fed are focused on the optimal time to begin tapering asset purchases. The Fed is still buying $80 billion in Treasuries and $40 billion in mortgage-backed securities per month, and division appears to be forming within the Fed regarding the ideal complexion of the taper. Some members of the committee have pointed to the health of the housing market and argued that mortgage-backed security purchases could perhaps be cut back before Treasuries, while other members are in favor of a proportional unwind over time. We will continue to follow developments.

In terms of performance, global treasuries returned 1.2% in U.S. dollar terms, with U.S. Treasuries underperforming (-3.5%), and longer-duration Treasuries in the U.S. faring the worst (-10.6%). Large increases in breakeven inflation rates helped to buffer Treasury inflation-protected securities from the impact of increasing interest rates, and the Bloomberg Barclays TIPS Index returned 6.5%. Credit spreads compressed to the lowest level since the Global Financial Crisis and default rates fell to below average levels, supporting outperformance of riskier credit. In the U.S., corporates within the Bloomberg Barclays Aggregate Index delivered a return of 3.3%, high-yield credit returned 15.4% as spreads dipped from 6.26% to 2.68%, and bank loans advanced 11.7%. Outside of the U.S., hard-currency denominated emerging markets debt climbed 6.8%, while local-currency emerging market debt returned 6.6%. While emerging market debt spreads have remained at compressed levels, increases in benchmark interest rates pushed forward by central bankers within the complex sent total yields slightly higher, which weighed on performance. The anticipation of further hikes could put pressure on prices.

**Commodities**

The global economic reopening and the coincident pickup in inflation rates increased the demand for input goods and spot assets. These dynamics fueled strong commodities performance. The Bloomberg Commodity Index generated a 45.6% total return, and all major sectors contributed positively to the total return of the overall index. Three sectors in particular drove the advance. The energy sector surged 54.2%, supported by strong returns of both West Texas Intermediate crude oil (+81.6%) and Brent crude oil (+77.4%). Grains advanced 65.3%, boosted by surges in corn (+85.5%) and soybeans (+69.7%) as Chinese purchases increased dramatically and droughts in the crucial Black Sea region impaired supply. Industrial metals advanced broadly, with copper, aluminum, zinc, and nickel all climbing more than 40% over the fiscal year. Broadly, it appears that corporations around the world were far too pessimistic in their assessments for demand over the year, which led commodity producers to cut production. The subsequent quick recovery in demand forecasts, alongside reduced capacity to supply that demand, resulted in a "bullwhip" effect which helped to push commodity prices up across the board. Roll return continued to exert a significant negative impact on commodities total return, but more recent backwardation in specific commodity futures curves may paint a more optimistic picture for roll return moving ahead.

**Currency**

Shifts in foreign exchange rates played a large role in relative performance across countries and regions over the last year. The major story proved to be a downward trend in the U.S. dollar relative to both developed and emerging market pairs. Despite showing some signs of stabilization in both the first quarter and the month of June in 2021, the overall trend was lower. The Bloomberg Dollar Spot Index, a gauge of the strength of the U.S. dollar relative to trade-weighted pairs, declined 6.4%. Within the developed market basket, the pound (+11.5%) and the euro (+5.6%) gained ground on the dollar while the yen (-2.9%) weakened slightly. Oil-linked currencies including the Canadian dollar (+9.5%) and Swedish krona (+9.0%) benefitted from the energy rebound. Emerging market currencies (+5.5%) appreciated broadly, with the largest gains coming from currencies in countries whose economies were more value-orientated, and which were poised to benefit more from a pro-cyclical recovery in economic activity and growth. Overall, the embedded currency portfolio of the MSCI ACWI Index increased returns for unhedged U.S. investors by 2.3%, while the boost from embedded currency worked out to 4.3% and 5.8% for unhedged U.S. investors in the MSCI EAFE Index and MSCI Emerging Markets Index, respectively.

**Outlook**

Risk-on sentiment has driven global financial markets over the last year, with equity benchmarks hitting fresh all-time highs, bond yields rising, credit spreads tightening to their lowest level in over a decade, and the dollar weakening. Investors appear to have priced in an eventual full recovery from the global pandemic, and the expectation for continued support over the intermediate term from developed market central banks appears to have emboldened market participants to continue to take risk. More recently, concerns have built around the spread of the delta variant and its potential to limit the pace of global economic growth moving forward, as well as eventual asset purchase tapering from the Fed which looks less likely to allow inflation to run unchecked. As a result, the reflation trade has slowed down and investors have rotated out of shorter-duration energy stocks toward longer-duration tech stocks, and into bets on a flatter yield curve. Corporate earnings have delivered to some extent on the promise implied by price action last year, but continued price increases this year have kept valuations at historically stretched levels. While it appears possible that risk assets could continue to rally into the next year, the road could well become bumpier from here, given the lack of value apparent across asset classes at present. We retain a cautiously optimistic view, but given the risks prefer a tight position relative to policy, given the uncertainty which continues to shroud the outlook.

*Written by Verus Advisory*

# Investment Objectives

The Board of Retirement (the Board) has adopted Investment Policies and Guidelines, which outline the Tulare County Employees' Retirement Association's (TCERA, the Association, or the Plan) investment goals and objectives. The Investment Policy Statement combines planning and philosophy and contains a Policies and Procedures section, Statement of Investment Goals, and General Investment Goals and Guidelines.

The Plan's general investment goals are broad in nature. The primary objectives are to efficiently allocate and manage the assets in order to satisfy the liabilities of the Plan. The following goals, consistent with the above-described purpose, are adopted:

- The overall goal of TCERA's investments is to provide Plan participants with retirement, disability, and death and survivor benefits, as provided for under the County Employees Retirement Law of 1937. This will be accomplished through a carefully planned and executed long-term investment program.

- The total portfolio over the long-term will be expected to:

    1. Produce a total portfolio, long-term real (above inflation) return commensurate with the target asset allocation (annualized, net of fees, over a full market cycle, normally defined as 3-5 years);
    2. Exceed the assumed actuarial rate of return over rolling five-year periods; and
    3. Exceed a weighted index of the total Plan's asset allocation policy and component benchmark over rolling five-year periods by an appropriate amount (annualized, net of fees, over a full market cycle).

- TCERA's Investment Policy has been designed to produce a total portfolio, long-term real return. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification to meet this goal.

## Asset Allocation

The Board adopts and implements an asset allocation policy that is predicated on a number of factors, including:

- Expected long-term capital market risk and return behavior;
- Projected assets, liabilities, benefit payments, and contributions provided by TCERA's actuary;
- An assessment of future economic conditions, including inflation and interest rate levels; and
- The specific investment objectives set forth by TCERA.

The Plan will be diversified both by asset class (e.g., common stocks, bonds, real estate, other alternatives) and within asset classes (e.g., within common stocks by economic sector, industry, quality, and market capitalization). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total Plan.

The basis of the data presented is fair value as of June 30, 2021 prior to adjustments for accruals and cash positions. Performance reported is based on time-weighted returns based on the market rate of return.

## Target Asset Allocation

As of June 30, 2021

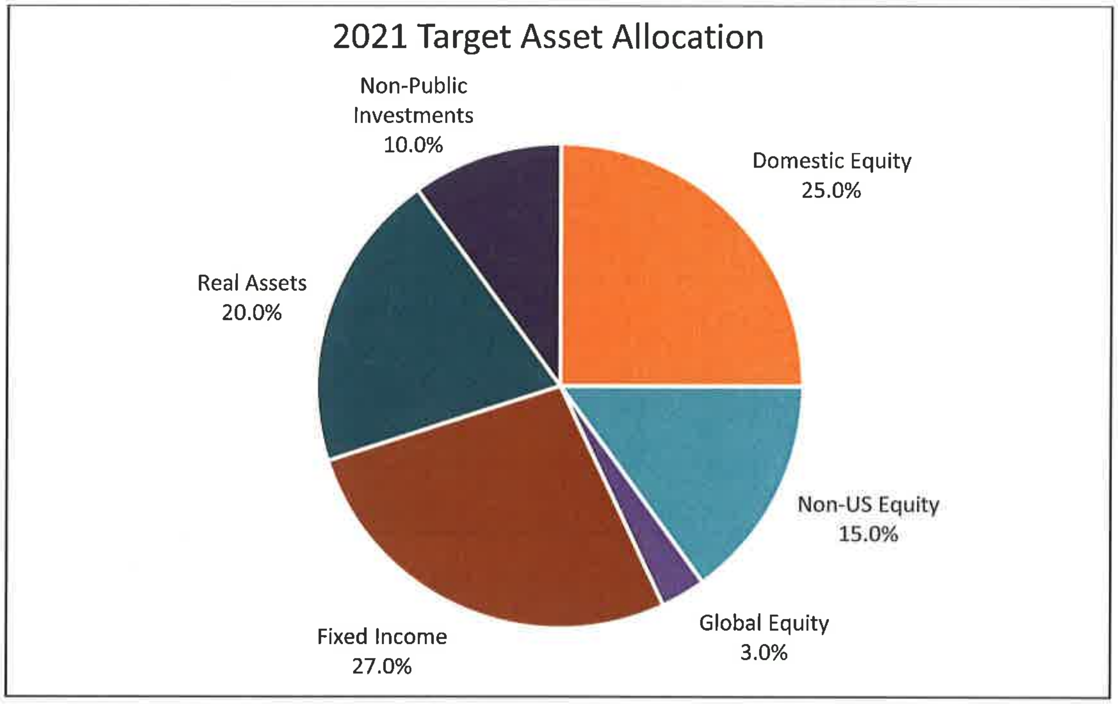
The target asset allocation for the investment portfolio is determined by the Board to facilitate the achievement of the investment program's long-term investment objectives within the established risk parameters. Due to the fact that the allocation of funds between asset classes may be the single most important determinant of the investment performance over the long run, the Plan's assets shall be divided into the following asset classes:

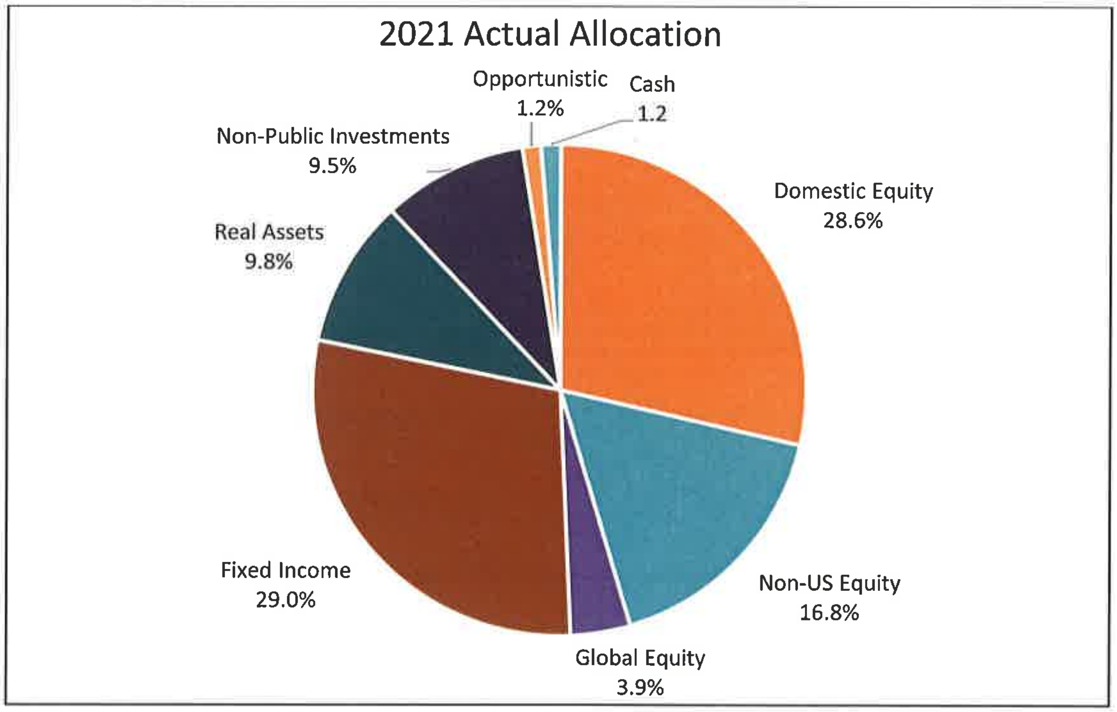
| Asset Class | Minimum Percent | Maximum Percent | Target Percent |
|---|---|---|---|
| **Domestic Equity** | **15%** | **35%** | **25%** |
| *Large Cap* | *10%* | *25%* | *19%* |
| *Small Mid Cap* | *0%* | *10%* | *6%* |
| **Non-U.S. Equity (Developed and Emerging)** | **5%** | **25%** | **15%** |
| **Global Equity** | **0%** | **5%** | **3%** |
| **Fixed Income** | **10%** | **35%** | **27%** |
| *Core-Plus Fixed Income* | *10%* | *30%* | *17%* |
| *Global Fixed Income* | *0%* | *10%* | *5%* |
| *Emerging Market Debt* | *0%* | *10%* | *5%* |
| **Real Assets** | **15%** | **35%** | **20%** |
| *Core Real Estate* | *5%* | *15%* | *10%* |
| *Value-Add Real Estate* | *0%* | *10%* | *5%* |
| *Real Estate Debt* | *0%* | *10%* | *5%* |
| **Alternative Investments** | **0%** | **30%** | **10%** |
| *Private Equity/VC* | *0%* | *10%* | *5%* |
| *Private Credit* | *0%* | *10%* | *5%* |

Formal asset allocation studies will be conducted at least every five years, with annual evaluations of the validity of the adopted asset allocation based on updated return projections. Any change in capital market assumptions or liabilities will require consideration of revision to the asset allocation policy.

# Target Asset vs. Actual Asset Allocation

As of June 30, 2021




Percentages may not equal 100% due to rounding.

# Fair Value of Investments

As of June 30, 2021

| Type of Investments | Fair Value | Percentage of Total Fair Value |
|---|---|---|
| Domestic Corporate Bonds | $142,937,418 | 7.3% |
| MBS | $97,034,317 | 5.0% |
| ABS | $18,684,771 | 1.0% |
| U.S. Government/Agency Instruments | $104,298,784 | 5.3% |
| Municipal Bonds | $929,712 | 0.0% |
| Global Fixed Income Fund | $84,878,566 | 4.4% |
| Emerging Markets Fixed Income | $100,277,669 | 5.1% |
| Other | 11,388,354 | 0.6% |
| **Total Bonds** | **$560,429,591** | **28.7%** |
| Domestic Equity | 553,997,131 | 28.4% |
| Non-U.S. Equity | 326,123,406 | 16.7% |
| Global Equity | 75,520,089 | 3.9% |
| **Total Equity** | **$955,640,626** | **49.0%** |
| **Real Estate** | **$190,048,362** | 9.7% |
| Private Equity | 108,272,772 | 5.6% |
| Private Credit | 86,246,987 | 4.4% |
| **Non-Public Investments** | **$194,519,759** | **10.0%** |
| **Cash** | **$25,908,636** | 1.3% |
| **Other** | **$23,108,944** | **1.2%** |
| **Total Investments** | **$1,949,655,918** | **100.0%** |
| **Plan Adjustments for Payables, Receivables, Cash and Accruals** | **26,529,082** | |
| **Net Investments** | **$1,976,185,000** | |

*Individual Categories for purposes of this report are determined by the Investment Consultant and may not reflect the categories as reported from the custodial bank in the financial statements. Numbers may not add to totals due to rounding.*

# Investment Results

For the Periods Ended June 30, 2021[1]

| Account | Current | Annualized 2 Year | 3 Year | 4 Year | 5 Year |
|---|---|---|---|---|---|
| **Equity** | | | | | |
| SSGA S&P 500 Flagship Fund | 40.8 | 23.0 | 18.7 | 17.6 | 17.7 |
| QMA Large Cap Core | 39.6 | 20.5 | 15.8 | 15.9 | 16.4 |
| *S&P 500* | *40.8* | *23.0* | *18.7* | *17.6* | *17.6* |
| Ivy Large Cap Growth | 38.6 | 29.4 | 24.7 | 25.3 | 24.2 |
| *Russell 1000 Growth* | *42.5* | *32.5* | *25.1* | *24.5* | *23.7* |
| Boston Partners Large Cap Value | 50.2 | 17.2 | 13.0 | 12.4 | 14.1 |
| *Russell 1000 Value* | *43.7* | *14.4* | *12.4* | *11.0* | *11.9* |
| William Blair SMID Cap Growth | 43.6 | 24.0 | 19.5 | 20.8 | 21.4 |
| *Russell 2500 Growth* | *49.6* | *27.8* | *20.1* | *20.5* | *20.7* |
| Lee Munder Small Value | 62.2 | 18.0 | 10.2 | 10.1 | 12.3 |
| *Russell 2000 Value* | *73.3* | *19.6* | *10.3* | *11.0* | *13.6* |
| **Total Domestic Equity** | **44.9** | **23.1** | **17.8** | **17.7** | **18.1** |
| | | | | | |
| SSGA MSCI ACWI Ex US Index Fund | 36.0 | 14.0 | 9.7 | 9.1 | 11.4 |
| *MSCI ACWI ex USA Gross* | *35.7* | *13.7* | *9.4* | *8.9* | *11.1* |
| PIMCO RAE Fundamental Global Ex US Fund | 46.1 | 11.8 | 7.3 | 7.2 | 10.4 |
| *MSCI ACWI ex USA Value Gross* | *37.6* | *8.0* | *5.2* | *5.1* | *8.5* |
| SGA Global Growth | 34.9 | 20.1 | 17.1 | -- | -- |
| *MSCI ACWI ex USA Growth Gross* | *33.7* | *18.9* | *13.2* | *12.4* | *13.4* |
| **Total International Equity** | **51.6** | **21.3** | **14.8** | **13.3** | **14.8** |
| | | | | | |
| Skellig Water Fund (aka KBI) | 51.6 | 21.3 | 14.8 | 13.3 | 14.8 |
| *MSCI ACWI Gross* | *39.3* | *19.3* | *14.6* | *13.6* | *14.6* |
| **Total Global Equity** | **51.6** | **21.3** | **14.8** | **13.3** | **14.8** |
| | | | | | |
| **Fixed Income** | | | | | |
| BlackRock Fixed Income | 0.7 | 5.0 | 6.0 | 4.4 | 3.6 |
| Doubleline Core Plus | 3.2 | 3.8 | 4.9 | 3.8 | 3.4 |
| MacKay Shields Core Plus | 4.1 | 6.5 | 7.0 | 5.2 | 4.7 |
| *BBgBarc US Aggregate TR* | *-0.3* | *4.1* | *5.3* | *3.9* | *3.0* |
| Franklin Templeton Global Bond Plus | -1.8 | -4.7 | -1.1 | -1.1 | 0.8 |
| *JPM GBI Global TR USD* | *0.0* | *2.6* | *3.6* | *3.1* | *1.6* |
| PGIM Emerging Markets Debt | 10.9 | -- | -- | -- | -- |
| *50% JPM EMBI Global Div/50% JPM GBI EM Global Div* | *7.1* | *2.9* | *5.5* | *3.6* | *4.1* |
| **Total Fixed Income** | **3.2** | **3.2** | **4.6** | **3.5** | **3.5** |

## *Investment Results (Cont.)*
For the Periods Ended June 30, 2021[1]

| | | Annualized | | | |
|---|---|---|---|---|---|
| Account | Current | 2 Year | 3 Year | 4 Year | 5 Year |
| **Real Estate** | | | | | |
| RREEF America II | 2.1 | 3.7 | 4.7 | 5.3 | 5.5 |
| *NCREIF-ODCE* | *8.0* | *5.1* | *5.5* | *6.2* | *6.6* |
| American Realty | 3.4 | -- | -- | -- | -- |
| *NCREIF-ODCE* | *8.0* | *5.1* | *5.5* | *6.2* | *6.6* |
| **Total Real Estate** | **2.2** | **3.7** | **4.7** | **5.4** | **5.4** |
| **Private Equity** | | | | | |
| BlackRock Alternative Advisors | -13.7 | -3.4 | 0.5 | 3.4 | 3.2 |
| Ocean Avenue Fund III | 25.2 | 19.3 | 24.5 | 28.9 | 22.5 |
| Ocean Avenue Fund IV | 35.2 | -- | -- | -- | -- |
| Pantheon Ventures | 4.4 | -10.4 | -5.3 | -2.2 | -0.6 |
| Pathway Private Equity Fund Investors 8 | 67.5 | 32.6 | 30.5 | 29.5 | 25.1 |
| Pathway Private Equity Fund Investors 9 | 73.9 | 31.8 | 28.5 | -- | -- |
| Pathway Private Equity Fund Investors 10 | 46.9 | -- | -- | -- | -- |
| Stepstone Secondary Opportunities Fund II | 22.4 | 10.4 | 7.5 | 7.8 | 8.1 |
| **Total Private Equity** | **42.4** | **22.5** | **20.9** | **20.0** | **17.2** |
| **Private Credit** | | | | | |
| Sixth Street Partners DCP (formerly TSSP DCP) | 28.3 | 10.7 | 10.9 | 10.1 | -- |
| **Total Private Credit** | **28.3** | **10.7** | 10.9 | 10.1 | -- |
| **Opportunistic** | | | | | |
| Sixth Street Partners TAO Contingent (formerly TSSP TAO Contingent) | 27.6 | -- | -- | -- | -- |
| PIMCO Bravo | -13.6 | -10.5 | -6.7 | -0.8 | 0.8 |
| KKR Mezzanine Partners | -23.8 | -57.2 | -53.5 | -32.7 | -27.9 |
| **Total Opportunistic** | **15.0** | **3.9** | **0.4** | **6.8** | **6.6** |
| **Total Fund** | **24.0** | **11.8** | **9.9** | **9.4** | **9.9** |
| *Policy Index*** | *22.1* | *12.3* | *10.5* | *9.7* | *10.0* |

1-Time-Weighted Return Based on the Market Rate of Return.
2-Policy Index: 25% Russell 3000, 15% MSCI ACWI ex US, 3% MSCI ACWI, 17% BBgBarc Agg., 5% JPM GBI Global, 5% (50% JPM EMBI Global Div/50% JPM GBI EM Global Div), 20% NCREIF ODCE, 5% actual Private Equity returns, 5% actual Private Credit returns

# List of Largest Stock and Bond Holdings

As of June 30, 2021

***Largest Stock Holdings (by fair value)***

| | Shares | Stock | Fair Value (000) |
|---|---|---|---|
| 1 | 58,433 | MICROSOFT CORP | $15,829,500 |
| 2 | 91,272 | APPLE INC | $12,500,613 |
| 3 | 3,172 | AMAZON.COM INC | $10,912,188 |
| 4 | 3,851 | ALPHABET INC-CL A | $9,403,333 |
| 5 | 22,433 | FACEBOOK INC | $7,800,178 |
| 6 | 15,616 | UNITEDHEALTH GROUP INC | $6,253,271 |
| 7 | 22,977 | VISA INC | $5,372,482 |
| 8 | 27,835 | JOHNSON & JOHNSON | $4,585,538 |
| 9 | 28,830 | JPMORGAN CHASE & CO | $4,484,218 |
| 10 | 7,344 | ADOBE INC | $4,300,940 |

***Largest Bond Holdings (by fair value)***

| | Par (000) | Bond | Fair Value (000) |
|---|---|---|---|
| 1 | 6,827,985 | COMMIT TO PUR FNMA SF MTG 2.500% 08/01/2051 DD 08/01/21 | $7,053,104 |
| 2 | 5,023,000 | U S TREASURY NOTE 1.875% 07/31/2026 DD 07/31/19 | $5,271,990 |
| 3 | 4,900,000 | COMMIT TO PUR FNMA SF MTG 2.000% 09/01/2051 DD 09/01/21 | $4,934,251 |
| 4 | 4,105,000 | U S TREASURY NOTE 0.250% 6/15/2024 DD 6/15/21 | $4,080,288 |
| 5 | 4,100,000 | U S TREASURY NOTE 0.125% 02/15/2024 DD 02/15/21 | $4,073,432 |
| 6 | 3,498,000 | U S TREASURY NOTE 0.125% 02/28/2023 DD 02/28/21 | $3,493,628 |
| 7 | 3,080,000 | U S TREASURY NOTE 0.500% 02/28/2026 DD 02/28/21 | $3,034,632 |
| 8 | 1,870,000 | U S TREASURY BOND 4.375% 02/15/2038 DD 02/15/08 | $2,575,925 |
| 9 | 2,385,153 | COMMIT TO PUR FNMA SF MTG 3.000% 07/01/2051 DD 07/01/21 | $2,486,808 |
| 10 | 1,815,000 | U S TREASURY BOND 3.000% 11/15/2045 DD 11/15/15 | $2,147,163 |

A complete list of portfolio holdings is available upon request.

# Schedule of Investment Management Fees

For the Fiscal Year Ended June 30, 2021
(dollars in thousands)

| | | |
|---|---|---|
| **Domestic Equity** | | |
| Robeco Boston Partners | $ | 315 |
| State Street | | 57 |
| LMCG | | 268 |
| Ivy Investments | | 424 |
| William Blair | | 334 |
| Total Domestic Equity | $ | 1,398 |
| **International** | | |
| State Street | $ | 76 |
| PIMCO RAE | | 486 |
| Kleinwort Benson Investors | | 439 |
| SG Advisers | | 242 |
| Total International | $ | 1,243 |
| **Fixed Income** | | |
| BlackRock | $ | 246 |
| PGIM | | 457 |
| Franklin Templeton | | 350 |
| Mackay Shields | | 295 |
| DoubleLine | | 279 |
| Total Fixed Income | $ | 1,627 |
| **Private Equity** | | |
| KKR Mezzanine Partners | $ | 14 |
| StepStone | | 206 |
| BlackRock Alternative Advisors | | 54 |
| Pathway Capital Mgmt | | 380 |
| Ocean Avenue Capial | | 494 |
| Total Private Equity | $ | 1,148 |
| **Private Credit** | | |
| TPG | $ | 1,271 |
| Total Private Credit | $ | 1,271 |
| **Real Estate** | | |
| DSW RREEF | $ | 1,589 |
| American Realty Advisers | | 125 |
| Total Real Estate | | 1,714 |
| Total Investment Manger Fees | $ | 8,401 |

***Schedule of Investment Management Fees (Cont.)***
For the Fiscal Year Ended June 30, 2021
(dollars in thousands)

| | |
|---|---|
| **Securities Lending Activity** | |
| Management Fee | $ 12 |
| Borrower Rebate | 41 |
| Total Securities Lending Activity | $ 53 |
| | |
| **Other Investment Expenses** | |
| Investment Custodian | $ 319 |
| Investment Consultant | 245 |
| Other | 180 |
| Total Other Investment Expenses | $ 744 |
| | |
| **Total Fees and Other Investment Expenses** | **$ 9,198** |

## Brokerage Policy/Commission Recapture

TCERA charges its investment managers with the optimization of transaction expense, including commissions and execution costs, for the lowest possible transaction cost. TCERA encourages active equity managers to direct a specific percentage of brokerage transactions for Plan assets under their management through designated commission recapture brokers only when best execution can be assured. TCERA also encourages its fixed income managers, on a "best effort" basis, to utilize the services of designated commission recapture brokerage firms. Commission recapture brokerage firms must provide the best price and execution consistent with market conditions, bearing in mind the best interest of the Plan's beneficiaries and considering all relevant factors.

Commissions and Rebates for the Fiscal Year Ended June 30, 2021:
(dollars in thousands)

| | |
|---|---|
| **Commissions** | |
| Base Commissions | $ 173 |
| Base Volume | $ 359,537 |
| Total Shares | 5,993 |
| Commissions/Share | $ - |
| **Commission Recapture Rebates** | $ 3 |

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# *actuarial section*

# Actuary's Certification Letter

CHEIRON Classic Values, Innovative Advice.

***Via Electronic Mail***

October 27, 2021

## Actuarial Certification

This is the Actuary's Certification Letter for the Actuarial Section of the Annual Comprehensive Financial Report (ACFR) for the Tulare County Employees' Retirement Association (the Plan) as of June 30, 2021. This letter includes references to two documents produced by Cheiron for the Plan: the actuarial valuation report as of June 30, 2021 (transmitted October 27, 2021) and the GASB 67/68 report as of June 30, 2021 (transmitted October 27, 2021).

## Actuarial Valuation Report as of June 30, 2021

The purpose of the annual actuarial valuation report as of June 30, 2021 is to determine the actuarial funding status of the Plan on that date and to calculate recommended contribution rates for the participating employers and Plan members for the Fiscal Year 2022-2023. The prior review was conducted as of June 30, 2020 and included recommended contribution rates for the Fiscal Year 2021-2022.

Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the Unfunded Actuarial Liability (UAL). As of the valuation date (June 30, 2021), the amortization policy specifies layered 19-year amortization. The UAL as of June 30, 2015 was amortized over a closed 19-year period and subsequent gains or losses are being amortized over new closed 19-year periods. The Board elected to phase in the impact of the assumption changes included in the June 30, 2020 valuation on the employer contribution rate over a three-year period beginning with the Fiscal Year 2021-2022.

The funding objective of the Plan is to accumulate sufficient assets over each Member's working life to provide for Plan benefits after termination of employment or retirement. 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 spreading all investment gains and losses (returns above or below expected returns) over a period of 10 years, limited by a corridor that restrains the actuarial value to within 30% of the Market Value of Assets. Note that the Actuarial Value of Assets excludes the Supplemental Retiree Benefit Reserve.

The Board of Retirement is responsible for establishing and maintaining the funding policy of the Plan.

We prepared the following schedules, which we understand will be included in the Actuarial Section of the ACFR, based on the June 30, 2021 actuarial valuation. All historical information prior to the June 30, 2015 actuarial valuation shown in these schedules is based on information reported by Buck Consultants.

- Schedule of Retirants and Beneficiaries Added to and Removed from Payroll
- Schedule of Funded Liabilities by Type
- Schedule of Funding Progress
- Schedule of Employer Contributions

The TCERA Board has the authority to select economic and demographic assumptions for the Plan. The assumptions used in this report reflect the results of an experience study performed by Cheiron, covering the period from July 1, 2017 through June 30, 2020, and approved by the Board. Based on this study, the discount rate was lowered from 7.25% to 7.00%, the mortality improvement scale was updated to MP-2019, and a number of other demographic assumptions were updated to reflect recent experience. A full summary of all assumptions used in this report is provided in the actuarial valuation report as of June 30, 2021. The assumptions used in the valuation are intended to produce results that, in the aggregate, reasonably approximate the anticipated future experience of the Plan. The next experience analysis is expected to cover the years through 2023.

We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the requirements of the Actuarial Standards of Practice, including Standards No. 4, 27, 35, and 44. The actuarial cost method and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes, with the exception of the discount rate, which is calculated as prescribed by GASB 67/68.

## GASB 67/68 Report as of June 30, 2021

The purpose of the GASB 67/68 Report as of June 30, 2021, is to provide accounting and financial reporting information under GASB 67 for the Plan and under GASB 68 for the County of Tulare and other participating employers. This report is not appropriate for other purposes, including the measurement of funding requirements for the Plan.

The Total Pension Liability (TPL) at the end of the measurement year, June 30, 2021, is measured as of a valuation date of June 30, 2021. The TPL at the beginning of the measurement year, June 30, 2020, was measured as of a valuation date of June 30, 2020.

Please refer to our GASB 67/68 report as of June 30, 2021, for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the ACFR based on the June 30, 2021, GASB 67/68 report:

- Change in Collective Net Pension Liability
- Sensitivity of Collective Net Pension Liability to Changes in Discount Rate
- Schedule of Changes in Collective Net Pension Liability and Related Ratios
- Schedule of Collective Employer Contributions
- Notes to the Schedule of Employer Contributions

We certify that the report was performed in accordance with generally accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial

Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. In particular, the assumptions and methods used for disclosure purposes have been prepared in accordance with our understanding of generally accepted accounting principles as promulgated by the GASB.

## Disclaimers

In preparing our reports, we relied on information (some oral and some written) supplied by the Tulare County Employees' Retirement Association. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law.

Cheiron utilizes ProVal, an actuarial valuation application leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have reviewed ProVal and have a basic understanding of it and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect our reports.

These reports are for the use of the Plan and the Plan auditor in preparing financial reports in accordance with applicable law and accounting requirements. Any other user of these reports is not an intended user and is considered a third party.

Cheiron's reports were prepared solely for the Plan for the purposes described herein, except that the Plan auditor may rely on these reports solely for the purpose of completing an audit related to the matters herein. They are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein. These reports do not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

Respectfully Submitted,
Cheiron

Graham Schmidt

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# Summary of Actuarial Assumptions and Methods

The Entry Age Normal Actuarial Cost Method was used in conjunction with the following actuarial assumptions. The Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2015 is being amortized over a closed 19-year period as a level percentage of payroll. Subsequent changes in the UAAL due to experience gains and losses, assumption changes, or plan changes will be amortized over new closed 19-year periods.

| | |
|---|---|
| 1. Interest: | 7.00% per annum (6.88% compounded semi-annually). |
| 2. Interest Credited to Employee Accounts: | 7.00% per annum net of investment and administrative expenses (6.88% compounded semi-annually). |
| 3. Inflation: | 2.75% per annum. |
| 4. Asset Valuation: | Smoothed actuarial value (over 10 years) beginning with fiscal year 2009, with 30% corridor around fair value. |
| 5. Salary Scale: | Salary increase assumptions includes a wage inflation component of 3% and a longevity/ promotion component that varies by years of service and division, ranging from 0.5% to 8% for General Members and 1% to 9% for Safety Members. |
| 6. Rates of Termination of Employment: | See "Probability of Occurrence" on page 91. |
| 7. Spouses and Dependents: | 80% of General male, 60% of General female and 85% of Safety male, 65% of Safety female active employees assumed married at Retirement, with spouses of male members assumed to be female and 3 years younger and spouses of female members assumed to be male and 2 years older. |
| 8. Years of Life Expectancy After Retirement: | General - RP-2014 Generational Mortality Table for Males/Females with MP-2019 projection.<br><br>Safety - RP-2014 Generational Mortality Table for Males with blue-collar adjustment and MP-2019 projection.<br><br>General mortality rates are increased by 2.2% for males and 8.0% for females to reflect TCERA experience; Safety mortality rates are increased by 4.5% for males to reflect TCERA experience. |
| 9. Years of Life Expectancy After Disability Retirement: | RP-2014 Generational Disabled Annuitant Mortality Table for Males/Females, with MP2019 projection. |

## Summary of Actuarial Assumptions and Methods (Cont.)

10. Reciprocity Assumption: 60% of General and 65% of Safety members who terminate with a vested benefit are assumed to enter a reciprocal system. Salaries are assumed to increase by 3.5% for General and 4.0% for Safety members per year.

11. Deferral Age for Vested Terminations: Age 60 for General members, age 55 for Safety members.

12. Duty-Related Deaths: Percentages of Safety employee deaths assumed to be duty-related:

| Age | Percentage |
|---|---|
| 20-24 | 37% |
| 25-30 | 42% |
| 31-34 | 45% |
| 35-43 | 50% |
| 44-45 | 52% |
| 46-47 | 54% |
| 48-49 | 56% |
| 50-54 | 58% |
| 55-56 | 60% |
| 57-58 | 62% |
| 59 | 63% |

## Retirants and Beneficiaries Added to and Removed from Payroll

*For the Fiscal Years Ended June 30, 2012 through June 30, 2021*

| Plan Year Ended June 30 | At Beginning of Year | Added During Year | Annual Allowances Added to the Rolls | Removed During Year | Annual Allowances Removed from the Rolls | At End of Year | Annual Retiree Payroll | Percent Increase in Annual Retiree Payroll | Average Annual Allowance |
|---|---|---|---|---|---|---|---|---|---|
| 2012 | 2,313 | 181 | $ 4,736,189 | 70 | $ 985,645 | 2,424 | $ 48,974,812 | 8.29% | $ 20,204 |
| 2013 | 2,424 | 183 | $ 4,745,718 | 65 | $ 483,264 | 2,542 | $ 53,237,266 | 8.70% | $ 20,943 |
| 2014 | 2,542 | 224 | $ 4,198,797 | 75 | $ 659,212 | 2,691 | $ 56,776,851 | 6.65% | $ 21,099 |
| 2015 | 2,691 | 218 | $ 4,360,151 | 88 | $ 1,432,880 | 2,821 | $ 59,960,567 | 5.61% | $ 21,255 |
| 2016 | 2,821 | 185 | $ 4,540,356 | 66 | $ 986,150 | 2,940 | $ 64,292,378 | 7.22% | $ 21,868 |
| 2017 | 2,940 | 191 | $ 4,483,587 | 59 | $ 895,529 | 3,072 | $ 68,669,924 | 6.81% | $ 22,353 |
| 2018 | 3,072 | 178 | $ 5,487,994 | 58 | $ 830,938 | 3,192 | $ 73,731,771 | 7.37% | $ 23,099 |
| 2019 | 3,192 | 174 | $ 4,705,555 | 54 | $ 1,098,384 | 3,312 | $ 78,971,061 | 7.11% | $ 23,844 |
| 2020 | 3,312 | 163 | $ 4,626,973 | 67 | $ 925,421 | 3,408 | $ 84,412,237 | 6.89% | $ 24,769 |
| 2021 | 3,408 | 141 | $ 3,908,186 | 77 | $ 1,434,138 | 3,472 | $ 88,623,368 | 4.99% | $ 25,525 |

## Active Member Valuation Data

*For the Fiscal Years Ended June 30, 2012 through June 30, 2021*

| Valuation Date | Plan Type | Number | Annual Payroll | Monthly Average Pay | Percent Increase in Average Pay* |
|---|---|---|---|---|---|
| 6/30/2012 | General | 3,442 | $ 169,023,548 | $ 4,092 | -1.06% |
| | Safety | 849 | 53,611,080 | 5,262 | -1.05% |
| | Total | 4,291 | $ 222,634,628 | $ 4,324 | -0.94% |
| 6/30/2013 | General | 3,503 | $ 175,385,741 | $ 4,172 | 1.96% |
| | Safety | 880 | 55,569,015 | 5,262 | 0.00% |
| | Total | 4,383 | $ 230,954,756 | $ 4,391 | 1.55% |
| 6/30/2014 | General | 3,514 | $ 177,150,423 | $ 4,201 | 0.70% |
| | Safety | 900 | 57,418,578 | 5,317 | 1.05% |
| | Total | 4,414 | $ 234,569,001 | $ 4,429 | 0.87% |
| 6/30/2015 | General | 3,506 | $ 180,978,576 | $ 4,302 | 2.40% |
| | Safety | 899 | 58,076,191 | 5,383 | 1.24% |
| | Total | 4,405 | $ 239,054,767 | $ 4,522 | 2.10% |
| 6/30/2016 | General | 3,605 | $ 189,379,500 | $ 4,378 | 1.77% |
| | Safety | 891 | 59,134,379 | 5,531 | 2.75% |
| | Total | 4,496 | $ 248,513,879 | $ 4,606 | 1.86% |
| 6/30/2017 | General | 3,660 | $ 195,555,207 | $ 4,453 | 1.71% |
| | Safety | 876 | 59,385,565 | 5,649 | 2.13% |
| | Total | 4,536 | $ 254,940,772 | $ 4,684 | 1.69% |
| 6/30/2018 | General | 3,708 | $ 203,019,596 | $ 4,563 | 2.47% |
| | Safety | 873 | 59,694,221 | 5,698 | 0.87% |
| | Total | 4,581 | $ 262,713,817 | $ 4,779 | 2.03% |
| 6/30/2019 | General | 3,726 | $ 209,592,852 | $ 4,688 | 2.74% |
| | Safety | 893 | 62,822,741 | 5,863 | 2.90% |
| | Total | 4,619 | $ 272,415,593 | $ 4,915 | 2.85% |
| 6/30/2020 | General | 3,736 | $ 218,605,089 | $ 4,876 | 4.01% |
| | Safety | 869 | 65,666,913 | 6,297 | 7.40% |
| | Total | 4,605 | $ 284,272,002 | $ 5,144 | 4.66% |
| 6/30/2021 | General | 3,638 | $ 221,223,225 | $ 5,067 | -19.53% |
| | Safety | 846 | 65,663,142 | 6,468 | 25.74% |
| | Total | 4,484 | $ 286,886,367 | $ 5,332 | 3.65% |

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

# Actuarial Solvency Test

*For the Fiscal Years Ended June 30, 2012 through June 30, 2021*
(dollars in thousands)

| Valuation Date | Active Member Contributions | Retirees and Beneficiaries | Active Members (Employer Financed Portion) | Actuarial Accrued Liabilities |
|---|---|---|---|---|
| 6/30/2012 | $ 231,491 | $ 570,367 | $ 299,598 | $ 1,101,456 |
| 6/30/2013 | $ 238,200 | $ 621,125 | $ 326,732 | $ 1,186,057 |
| 6/30/2014 | $ 252,883 | $ 660,147 | $ 358,802 | $ 1,271,832 |
| 6/30/2015 | $ 264,870 | $ 698,147 | $ 395,418 | $ 1,358,435 |
| 6/30/2016 | $ 272,740 | $ 748,703 | $ 409,993 | $ 1,431,436 |
| 6/30/2017 | $ 278,900 | $ 808,799 | $ 485,707 | $ 1,573,406 |
| 6/30/2018 | $ 287,078 | $ 869,729 | $ 499,550 | $ 1,656,357 |
| 6/30/2019 | $ 301,935 | $ 925,027 | $ 514,321 | $ 1,741,283 |
| 6/30/2020 | $ 319,562 | $ 1,008,432 | $ 547,804 | $ 1,875,797 |
| 6/30/2021 | $ 339,547 | $ 1,050,032 | $ 568,406 | $ 1,957,985 |

| | | Portion of Accrued Liabilities Covered by Valuation Assets For: | | |
|---|---|---|---|---|
| Valuation Date | Actuarial Value of Assets | Active Member Contributions | Retired/ Vested Members | Active Members (Employer Financed Portion) |
| 6/30/2012 | $ 981,946 | 100% | 100% | 60.1% |
| 6/30/2013 | $ 1,048,160 | 100% | 100% | 57.8% |
| 6/30/2014 | $ 1,101,929 | 100% | 100% | 52.6% |
| 6/30/2015 | $ 1,156,587 | 100% | 100% | 49.0% |
| 6/30/2016 | $ 1,192,642 | 100% | 100% | 41.8% |
| 6/30/2017 | $ 1,461,755 | 100% | 100% | 77.0% |
| 6/30/2018 | $ 1,523,030 | 100% | 100% | 73.3% |
| 6/30/2019 | $ 1,598,431 | 100% | 100% | 72.2% |
| 6/30/2020 | $ 1,670,786 | 100% | 100% | 62.6% |
| 6/30/2021 | $ 1,759,025 | 100% | 100% | 65.0% |

***Numbers may not add to totals due to rounding.***

## Actuarial Analysis of Financial Experience

(dollars in thousands)

| Plan Years | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| Prior Valuation Unfunded Actuarial Liability | $102,509 | $119,511 | $137,898 | $169,902 | $201,848 |
| Expected Increase (Decrease) | - | - | - | (3,044) | 1,212 |
| Liability (Gain) Loss | (30,721) | 23,027 | (5,070) | (12,668) | (8,948) |
| Change in Actuary | - | - | - | 33,161 | - |
| Actuarial (Gain) Loss From Asset Sources | - | 31,625 | 10,841 | 10,913 | 33,948 |
| Non-Economic and Economic Assumption Changes | 46,660 | - | - | - | - |
| Change in Actuarial Assumptions | - | - | 24,599 | 3,584 | 9,170 |
| Change due to Contributions | 1,063 | (1,844) | 5,138 | - | 1,564 |
| Change Regarding Contingency Reserve | - | (34,421) | (3,504) | - | - |
| Ending Unfunded Actuarial Accrued Liability | $119,511 | $137,898 | $169,902 | $201,848 | $238,794 |

| Plan Years | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|
| Prior Valuation Unfunded Actuarial Liability | $238,794 | $111,651 | $133,326 | $142,851 | $205,011 |
| Expected Increase (Decrease) | (494) | (2,106) | (2,726) | (3,378) | (4,668) |
| Liability (Gain) Loss | (12,983) | 286 | (161) | 5,587 | (9,840) |
| Change in Actuary | - | - | - | - | - |
| Actuarial (Gain) Loss From Asset Sources | 35,034 | 23,696 | 10,746 | 15,577 | (2,068) |
| Non-Economic and Economic Assumption Changes | - | - | - | - | - |
| Change in Actuarial Assumptions | 82,259 | - | - | 42,435 | - |
| Change due to Contributions | (230,959) | (201) | 1,667 | 1,939 | 10,524 |
| Change Regarding Contingency Reserve | - | - | - | - | - |
| Ending Unfunded Actuarial Accrued Liability | $111,651 | $133,326 | $142,852 | $205,011 | $198,960 |

***Numbers may not add to totals due to rounding.***

## Probability of Occurrence

Probabilities of Separation from Active Service

### Rates of Termination

| | General Members | | | Safety Members | | |
|---|---|---|---|---|---|---|
| Age | Svc < 3 | Svc 3 - 5 | Svc > 5 | Svc < 3 | Svc 3 - 5 | Svc > 5 |
| 20 | 15.00% | 12.00% | 10.00% | 11.00% | 7.00% | 6.00% |
| 25 | 15.00% | 8.00% | 8.00% | 11.00% | 7.00% | 6.00% |
| 30 | 15.00% | 8.00% | 6.00% | 11.00% | 7.00% | 4.50% |
| 35 | 15.00% | 8.00% | 5.00% | 11.00% | 7.00% | 4.00% |
| 40 | 14.25% | 8.00% | 5.00% | 11.00% | 7.00% | 4.00% |
| 45 | 13.50% | 8.00% | 5.00% | 8.00% | 6.00% | 3.50% |
| 50 | 12.75% | 5.00% | 5.00% | 8.00% | 6.00% | 0.00% |
| 55 | 12.00% | 5.00% | 5.00% | 5.00% | 6.00% | 0.00% |
| 60 | 11.25% | 5.00% | 5.00% | 0.00% | 0.00% | 0.00% |
| >=65 | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

### Rates of Disability

| | General Members | | | | Safety Members | |
|---|---|---|---|---|---|---|
| | Males | | Females | | | |
| Age | Ordinary | Service | Ordinary | Service | Ordinary | Service |
| 20 | 0.000% | 0.010% | 0.000% | 0.010% | 0.000% | 0.110% |
| 25 | 0.010% | 0.010% | 0.010% | 0.010% | 0.050% | 0.170% |
| 30 | 0.010% | 0.010% | 0.010% | 0.010% | 0.050% | 0.400% |
| 35 | 0.020% | 0.020% | 0.080% | 0.020% | 0.050% | 0.560% |
| 40 | 0.030% | 0.030% | 0.140% | 0.030% | 0.075% | 0.660% |
| 45 | 0.050% | 0.055% | 0.200% | 0.055% | 0.095% | 0.750% |
| 50 | 0.090% | 0.100% | 0.300% | 0.100% | 0.300% | 1.000% |
| 55 | 0.180% | 0.350% | 0.400% | 0.350% | 0.550% | 2.250% |
| 60 | 0.280% | 0.600% | 0.540% | 0.600% | 0.000% | 0.000% |
| >=65 | 0.000% | 0.000% | 0.000% | 0.000% | 0.000% | 0.000% |

### Rates of Retirement

| | General Members | | Safety Members | |
|---|---|---|---|---|
| Age | Svc < 30 | Svc > 30 | Svc < 30 | Svc > 30 |
| 45 | 0.0% | 0.00% | 7.00% | 7.00% |
| 50 | 5.0% | 10.00% | 7.00% | 7.00% |
| 55 | 6.0% | 10.00% | 10.00% | 18.00% |
| 60 | 15.0% | 20.00% | 20.00% | 40.00% |
| 65 | 35.0% | 35.00% | 40.00% | 75.00% |
| 70 | 35.0% | 35.00% | 100.00% | 100.00% |
| >=75 | 100.0% | 100.00% | 100.00% | 100.00% |

Note: Information compiled from Actuarial Report prepared by Cheiron dated June 30, 2021.

## Schedule of Funding Progress

(dollars in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liabilitly (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Projected Covered Payroll (c) | UAAL as a Percentage of Projected Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 6/30/2012 | $ 981,946 | $ 1,101,456 | $ 119,510 | 89.1% | $ 222,635 | 53.7% |
| 6/30/2013 | $ 1,048,160 | $ 1,186,057 | $ 137,897 | 88.4% | $ 230,955 | 59.7% |
| 6/30/2014 | $ 1,101,929 [1] | $ 1,271,832 | $ 169,902 | 86.6% | $ 234,569 | 72.4% |
| 6/30/2015 | $ 1,156,587 [2] | $ 1,358,435 | $ 201,848 | 85.1% | $ 239,055 | 84.4% |
| 6/30/2016 | $ 1,192,642 [3] | $ 1,431,436 | $ 238,794 | 83.3% | $ 248,514 | 96.1% |
| 6/30/2017 [4] | $ 1,461,755 [5] | $ 1,573,406 | $ 111,651 | 92.9% | $ 254,941 | 43.8% |
| 6/30/2018 [6] | $ 1,523,030 | $ 1,656,357 [7] | $ 133,327 | 92.0% | $ 262,714 | 50.7% |
| 6/30/2019 | $ 1,598,431 | $ 1,741,283 [7] | $ 142,852 | 91.8% | $ 272,416 | 52.4% |
| 6/30/2020 | $ 1,670,786 [8] | $ 1,875,797 | $ 205,011 | 89.1% | $ 284,272 | 72.1% |
| 6/30/2021 | $ 1,759,025 | $ 1,957,985 | $ 198,960 | 89.8% | $ 286,886 | 69.4% |

[1] Reduction in assumed rate of return from 9.9% to 7.85%, inflation from 4.0% to 3.0%.
[2] Reduction in assumed rate of return from 7.85% to 7.65%.
[3] Reduction in assumed rate of return from 7.65% to 7.60%.
[4] Information for June 30, 2017 includes an accrual for Tulare County Pension Obligation Bond proceeds of $250 million.
[5] Reduction in assumed rate of return from 7.60% to 7.25%.
[6] Information for June 30, 2018 includes the receipt of $250 million in Pension Obligation Bond proceeds.
[7] This value reflects the information in the Actuarial Valuation report and is off by one due to rounding.
[8] Reduction in Assumed rate of return from 7.25% to 7.00%, inflation from 3.0% to 2.75%.

# Summary of Major Plan Provisions

**Eligibility**

First pay period following date of employment.

**Final Average Salary**

Highest 12 consecutive months of compensation earnable for Tier 1 members and highest 36 consecutive months of compensation earnable for Tier 2, Tier 3 and Tier 4 members. The compensation for Tier 4 members will be limited to the Social Security Wage Base on January 1, 2013, adjusted based on the annual change in the Consumer Price Index (CPI-U) each January 1 thereafter.

**Service Retirement**

**Early Retirement**

| | |
|---|---|
| **General Tiers 1-3** | Age 50 and 10 years, or 30 years, or age 70 |
| **General Tier 4** | Age 52 and 5 years |
| **Safety Tiers 1-3** | Age 50 and 10 years, or 20 years, or age 70 |
| **Safety Tier 4** | Age 50 and 5 years |

**Benefit - General Members:**

For service prior to July 1, 2005 Tiers 1-3:

Benefits under Section 31676.11 (Tier 1) and Section 31676.1 (Tier 2 and Tier 3): 1/60 of final average salary times years of service times factor in the table on the following page.

For service after June 30, 2005 Tiers 1-3:

Benefits under Section 31676.12 (Tiers 1-3) 1/50 of final average salary times years of service times factor in the table on the following page.

For service for membership after December 31, 2012 Tier 4:

Benefits required by AB340 (Tier 4) of 2% of final average salary times years of service times factor on the following page.

**Benefit - Safety Members:**

For service for membership prior to January 1, 2013 (Tiers 1-3):

Benefits under Section 31664 (Tiers 1-3) of 2% of final average salary times years of service times factor on the following page.

For service for membership after December 31, 2012 (Tier 4):

Benefits required by AB340 (Tier 4) of 2% of final average salary times years of service times factor on the following page.

## *Summary of Major Plan Provisions (Cont.)*

**Benefit Factors:**

| Age | General Tier 1 31676.11 | General Tiers 2 & 3 31676.1 | General Tiers 1-3 31676.12 | General Tier 4 AB340 | Safety Tiers 1-3 31664 | Safety Tier 4 AB340 |
|---|---|---|---|---|---|---|
| 41 | n/a | n/a | n/a | n/a | 0.6258 | n/a |
| 42 | n/a | n/a | n/a | n/a | 0.6625 | n/a |
| 43 | n/a | n/a | n/a | n/a | 0.7004 | n/a |
| 44 | n/a | n/a | n/a | n/a | 0.7397 | n/a |
| 45 | n/a | n/a | n/a | n/a | 0.7805 | n/a |
| 46 | n/a | n/a | n/a | n/a | 0.8226 | n/a |
| 47 | n/a | n/a | n/a | n/a | 0.8678 | n/a |
| 48 | n/a | n/a | n/a | n/a | 0.9085 | n/a |
| 49 | n/a | n/a | n/a | n/a | 0.9522 | n/a |
| 50 | 0.7454 | 0.7091 | 0.6681 | n/a | 1.0000 | 1.0000 |
| 51 | 0.7882 | 0.7457 | 0.7056 | n/a | 1.0516 | 1.0500 |
| 52 | 0.8346 | 0.7816 | 0.7454 | 0.5000 | 1.1078 | 1.1000 |
| 53 | 0.8850 | 0.8181 | 0.7882 | 0.5500 | 1.1692 | 1.1500 |
| 54 | 0.9399 | 0.8556 | 0.8346 | 0.6000 | 1.2366 | 1.2000 |
| 55 | 1.0000 | 0.8954 | 0.8850 | 0.6500 | 1.3099 | 1.2500 |
| 56 | 1.0447 | 0.9382 | 0.9399 | 0.7000 | 1.3099 | 1.3000 |
| 57 | 1.1048 | 0.9846 | 1.0000 | 0.7500 | 1.3099 | 1.3500 |
| 58 | 1.1686 | 1.0350 | 1.0447 | 0.8000 | 1.3099 | 1.3500 |
| 59 | 1.2365 | 1.0899 | 1.1048 | 0.8500 | 1.3099 | 1.3500 |
| 60 | 1.3093 | 1.1500 | 1.1686 | 0.9000 | 1.3099 | 1.3500 |
| 61 | 1.3608 | 1.1947 | 1.2365 | 0.9500 | 1.3099 | 1.3500 |
| 62 | 1.4123 | 1.2548 | 1.3093 | 1.0000 | 1.3099 | 1.3500 |
| 63 | 1.4638 | 1.3186 | 1.3093 | 1.0500 | 1.3099 | 1.3500 |
| 64 | 1.5153 | 1.3865 | 1.3093 | 1.1000 | 1.3099 | 1.3500 |
| 65 | 1.5668 | 1.4593 | 1.3093 | 1.1500 | 1.3099 | 1.3500 |
| 66 | 1.5668 | 1.4593 | 1.3093 | 1.2000 | 1.3099 | 1.3500 |
| 67 | 1.5668 | 1.4593 | 1.3093 | 1.2500 | 1.3099 | 1.3500 |

**Non-Service Connected Disability Retirement**

20% if 5 years of service plus 2% for each of the next ten years or service retirement benefit (if eligible).

**Service Connected Disability Retirement**

Greater of 50% of final average salary or service retirement benefit (if eligible).

**Integration with Social Security**

Tiers 1-3 members are integrated with Social Security. Benefits based on the first $350 of monthly final average salary are reduced by 1/3.

## *Summary of Major Plan Provisions (Cont.)*

| | |
|---|---|
| **Death Before Retirement** | If non-service connected before eligible to retire, this benefit is a refund of contributions plus 1/12 of last year's salary per year of service up to 6 years.<br><br>If eligible for non-service connected disability or service retirement, the benefit is 60% of member's accrued allowance.<br><br>If service connected death, the benefit is 50% of salary. |
| **Death After Retirement** | For service retirement or non-service connected disability, the benefit is 60% of member's allowance payable to an eligible spouse.<br><br>For service connected disability, the benefit is 100% of member's allowance payable to an eligible spouse.<br><br>$5,000 lump sum benefit payable to member's beneficiary. |
| **Vesting** | After five years of service.<br><br>Must leave contributions on deposit. |
| **Contributions** | Member contributions based on entry age. Tiers 1-3 Members with 30 or more years of service do not pay member contributions. |
| **Maximum Benefit** | 100% of final average salary. |
| **Cost of Living Adjustments (COLA)** | Payable April 1. Up to 3% COLA for Tier 1 members, 2% for Tier 2, Tier 3 and Tier 4 members, depending on CPI (Riverside-San Bernardino-Ontario) changes for the prior calendar year. |

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# *statistical section*

# Statistical Section Overview

The Statistical Section of the Comprehensive Annual Financial Report 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, the multi-year trend information for the financial and operating segments of the Plan provided in this section is intended to facilitate understanding of how the organization's financial activities and positions have changed over time. Information in this section is compiled from data in other sections of the Annual Comprehensive Financial Report as well as plan data maintained by TCERA.

Governmental Accounting Standards Board (GASB) Statement No. 44 establishes five categories of information to be provided in the Statistical Section: Financial Trends, Revenue Capacity, Debt Capacity, Demographic and Economic Information, and Operating Information. As a public pension plan engaged in only fiduciary activities, reporting is not applicable in all categories.

**Financial Trends** – Financial trends information is intended to assist users in understanding and assessing how a government's financial position has changed over time. Reports addressing Financial Trends for TCERA include:

- Revenues by Source and Expenses by Type
- Statement of Changes in Fiduciary Net Position
- Benefit and Refund Deductions from Fiduciary Net Position by Type

**Revenue Capacity** – Entities engaged only in fiduciary activities are not required to present revenue capacity schedules.

**Debt Capacity** – The Plan has no long-term debt and therefore does not present debt capacity schedules.

**Demographic and Economic Information** – Entities engaged only in fiduciary activities are not required to present demographic and economic statistics schedules.

**Operating Information** – Operating Information is intended to provide additional details regarding the Plan's retired member benefits and principal participating employers. Reports addressing Operating Information for TCERA include:

- Retired Members by Type of Retirement
- Schedule of Average Benefit Payments
- Participating Employers and Active Members
- Retired Members by Type of Benefit
- Benefit and Refund Deductions from Fiduciary Net Position
- Average Benefit Payment

# Revenues by Source and Expenses by Type

*For the Fiscal Years Ended June 30, 2012 through June 30, 2021*

## Revenues by Source

(dollars in thousands)

| Fiscal Year Ended June 30 | Employee Contributions | Employer Contributions | % of Annual Covered Payroll[1] | Investment Income (Loss) | Other Income | Total |
|---|---|---|---|---|---|---|
| 2012 | $ 16,471 | $ 25,257 | 11.34% | $ (12,155) | $ 55 | $ 29,628 |
| 2013 | $ 18,430 | $ 29,847 | 12.92% | $ 112,289 | $ 57 | $ 160,623 |
| 2014 | $ 18,969 | $ 25,953 | 11.06% | $ 176,828 | $ 56 | $ 221,806 |
| 2015 | $ 18,888 | $ 30,992 | 12.96% | $ 10,877 | $ 166 | $ 60,923 |
| 2016 | $ 16,814 | $ 31,297 | 12.59% | $ (20,474) | $ 166 | $ 27,803 |
| 2017 | $ 18,190 | $ 33,616 | 13.19% | $ 132,699 | $ 166 | $ 184,671 |
| 2018 | $ 18,512 | $ 286,263 | 108.96% | $ 95,670 | $ 187 | $ 400,632 |
| 2019 | $ 22,325 | $ 33,494 | 12.30% | $ 90,590 | $ 189 | $ 146,598 |
| 2020 | $ 23,104 | $ 35,310 | 12.42% | $ 9,327 | $ 188 | $ 67,929 |
| 2021 | $ 23,536 | $ 36,766 | 12.82% | $ 394,891 | $ 188 | $ 455,381 |

## Expenses by Type

(dollars in thousands)

| Fiscal Year Ended June 30 | Administrative Expenses | Refunds | Pension Benefits | Death Benefits | Total Benefits | Total |
|---|---|---|---|---|---|---|
| 2012 | $ 1,720 | $ 4,354 | $ 54,034 | $ 301 | $ 54,335 | $ 60,409 |
| 2013 | $ 1,780 | $ 3,394 | $ 58,114 | $ 416 | $ 58,530 | $ 63,704 |
| 2014 | $ 2,049 | $ 3,300 | $ 62,199 | $ 455 | $ 62,654 | $ 68,003 |
| 2015 | $ 2,408 | $ 3,081 | $ 65,192 | $ 287 | $ 65,479 | $ 70,968 |
| 2016 | $ 2,616 | $ 3,198 | $ 68,166 | $ 968 | $ 69,134 | $ 74,948 |
| 2017 | $ 2,612 | $ 3,519 | $ 72,742 | $ 700 | $ 73,442 | $ 79,573 |
| 2018 | $ 2,666 | $ 3,633 | $ 76,644 | $ 439 | $ 77,083 | $ 83,382 |
| 2019 | $ 2,806 | $ 2,861 | $ 81,715 | $ 521 | $ 82,236 | $ 87,903 |
| 2020 | $ 2,853 | $ 3,534 | $ 87,311 | $ 582 | $ 87,893 | $ 94,280 |
| 2021 | $ 2,740 | $ 3,586 | $ 92,179 | $ 511 | $ 92,690 | $ 99,016 |

[1] Annual Covered Payroll for purposes of this calculation is the actual pensionable compensation for the fiscal year.

## Statement of Changes in Fiduciary Net Position

*For the Fiscal Years Ended June 30, 2012 through June 30, 2021*
*(dollars in thousands)*

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **ADDITIONS** | | | | | |
| Contributions | | | | | |
| Employer Contributions | $ 25,257 | $ 29,847 | $ 25,953 | $ 30,992 | $ 31,297 |
| Plan Member Contributions | 16,471 | 18,430 | 18,969 | 18,887 | 16,815 |
| **Total Contributions** | **41,728** | **48,277** | **44,922** | **49,879** | **48,112** |
| Investment Income (Loss) (net of expense) | (12,155) | 112,289 | 176,828 | 10,877 | (20,474) |
| Other Income | 55 | 57 | 56 | 166 | 165 |
| **TOTAL ADDITIONS (DECLINES) TO FIDUCIARY NET POSITION** | **$ 29,628** | **$160,623** | **$221,806** | **$ 60,922** | **$ 27,803** |
| **DEDUCTIONS** (See Benefit and Refund Deductions from Fiduciary Net Postition by Type) | | | | | |
| Benefits | $ 54,335 | $ 58,530 | $ 62,654 | $ 65,479 | $ 69,134 |
| Refunds of Contributions | 4,354 | 3,394 | 3,300 | 3,081 | 3,198 |
| Administrative Expense | 1,720 | 1,780 | 2,049 | 2,408 | 2,616 |
| **TOTAL DEDUCTIONS FROM FIDUCIARY NET POSITION** | **$ 60,409** | **$ 63,704** | **$ 68,003** | **$ 70,968** | **$ 74,948** |
| **CHANGES IN FIDUCIARY NET POSITION** | **$ (30,781)** | **$ 96,919** | **$153,803** | **$ (10,046)** | **$ (47,145)** |

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| **ADDITIONS** | | | | | |
| Contributions | | | | | |
| Employer Contributions | $ 33,616 | $286,263 | $ 33,494 | $ 35,310 | $ 36,766 |
| Plan Member Contributions | 18,190 | 18,512 | 22,325 | 23,104 | 23,536 |
| **Total Contributions** | **51,806** | **304,775** | **55,819** | **58,414** | **60,302** |
| Investment Income (Loss) (net of expense) | 132,699 | 95,670 | 90,590 | 9,327 | 394,891 |
| Other Income | 166 | 187 | 189 | 188 | 188 |
| **TOTAL ADDITIONS (DECLINES) TO FIDUCIARY NET POSITION** | **$ 184,671** | **$400,632** | **$146,598** | **$ 67,929** | **$455,381** |
| **DEDUCTIONS** (See Benefit and Refund Deductions from Fiduciary Net Position by Type) | | | | | |
| Benefits | $ 73,442 | $ 77,083 | $ 82,236 | $ 87,893 | $ 92,690 |
| Refunds of Contributions | 3,519 | 3,633 | 2,861 | 3,534 | 3,586 |
| Administrative Expense | 2,612 | 2,666 | 2,806 | 2,853 | 2,740 |
| **TOTAL DEDUCTIONS FROM FIDUCIARY NET POSITION** | **$ 79,573** | **$ 83,382** | **$ 87,903** | **$ 94,280** | **$ 99,016** |
| **CHANGES IN FIDUCIARY NET POSITION** | **$ 105,098** | **$317,250** | **$ 58,695** | **$ (26,351)** | **$356,365** |

## Retired Members by Type of Retirement

| | 6/30/2012 | 6/30/2013 | 6/30/2014 | 6/30/2015 | 6/30/2016 |
|---|---|---|---|---|---|
| **Service Retirement** | | | | | |
| General | 1,630 | 1,710 | 1,815 | 1,899 | 1,989 |
| Safety | 225 | 241 | 246 | 262 | 276 |
| **Total** | 1,855 | 1,951 | 2,061 | 2,161 | 2,265 |
| **Ordinary Disability** | | | | | |
| General | 89 | 96 | 99 | 107 | 103 |
| Safety | 9 | 9 | 11 | 12 | 14 |
| **Total** | 98 | 105 | 110 | 119 | 117 |
| **Duty Disability** | | | | | |
| General | 74 | 77 | 78 | 81 | 78 |
| Safety | 81 | 84 | 87 | 94 | 99 |
| **Total** | 155 | 161 | 165 | 175 | 177 |
| **Beneficiaries** | | | | | |
| General | 265 | 273 | 287 | 294 | 303 |
| Safety | 51 | 52 | 68 | 72 | 78 |
| **Total** | 316 | 325 | 355 | 366 | 381 |
| **Total Retirement Members** | | | | | |
| General | 2,058 | 2,156 | 2,279 | 2,381 | 2,473 |
| Safety | 366 | 386 | 412 | 440 | 467 |
| **Total** | 2,424 | 2,542 | 2,691 | 2,821 | 2,940 |

| | 6/30/2017 | 6/30/2018 | 6/30/2019 | 6/30/2020 | 6/30/2021 |
|---|---|---|---|---|---|
| **Service Retirement** | | | | | |
| General | 2,039 | 2,111 | 2,188 | 2,226 | 2,262 |
| Safety | 284 | 311 | 331 | 348 | 357 |
| **Total** | 2,323 | 2,422 | 2,519 | 2,574 | 2,619 |
| **Ordinary Disability** | | | | | |
| General | 111 | 107 | 109 | 105 | 103 |
| Safety | 15 | 17 | 19 | 18 | 18 |
| **Total** | 126 | 124 | 128 | 123 | 121 |
| **Duty Disability** | | | | | |
| General | 94 | 93 | 96 | 102 | 101 |
| Safety | 105 | 113 | 111 | 122 | 120 |
| **Total** | 199 | 206 | 207 | 224 | 221 |
| **Beneficiaries** | | | | | |
| General | 335 | 347 | 356 | 382 | 399 |
| Safety | 89 | 93 | 102 | 105 | 112 |
| **Total** | 424 | 440 | 458 | 487 | 511 |
| **Total Retirement Members** | | | | | |
| General | 2,579 | 2,658 | 2,749 | 2,815 | 2,865 |
| Safety | 493 | 534 | 563 | 593 | 607 |
| **Total** | 3,072 | 3,192 | 3,312 | 3,408 | 3,472 |

# Schedule of Average Benefit Payments

**Includes Retirees and Beneficiaries**

| Valuation Date | Plan Type | Number | Annual Benefits | Annual Average Benefits | Percent Increase in Average Benefits |
|---|---|---|---|---|---|
| 6/30/2012 | General | 2,058 | $37,246,457 | $ 18,096 | 3.57% |
| | Safety | 366 | 11,728,355 | 32,040 | 2.81% |
| | **Total** | 2,424 | $48,974,812 | $ 20,208 | 3.38% |
| 6/30/2013 | General | 2,156 | $40,459,814 | $ 18,768 | 3.71% |
| | Safety | 386 | 12,777,452 | 33,108 | 3.33% |
| | **Total** | 2,542 | $53,237,266 | $ 20,940 | 3.62% |
| 6/30/2014 | General | 2,279 | $43,087,370 | $ 18,912 | 0.77% |
| | Safety | 412 | 13,689,481 | 33,228 | 0.36% |
| | **Total** | 2,691 | $56,776,851 | $ 21,096 | 0.74% |
| 6/30/2015 | General | 2,381 | $45,238,105 | $ 19,000 | 0.47% |
| | Safety | 440 | 14,722,461 | 33,460 | 0.70% |
| | **Total** | 2,821 | $59,960,566 | $ 21,255 | 0.75% |
| 6/30/2016 | General | 2,473 | $48,616,638 | $ 19,659 | 3.47% |
| | Safety | 467 | 15,675,740 | 33,567 | 0.32% |
| | **Total** | 2,940 | $64,292,378 | $ 21,868 | 2.88% |
| 6/30/2017 | General | 2,579 | $51,970,685 | $ 20,151 | 2.50% |
| | Safety | 493 | 16,699,239 | 33,873 | 0.91% |
| | **Total** | 3,072 | $68,669,924 | $ 22,353 | 2.22% |
| 6/30/2018 | General | 2,658 | $55,107,749 | $ 20,733 | 2.89% |
| | Safety | 534 | 18,624,022 | 34,876 | 2.96% |
| | **Total** | 3,192 | $73,731,771 | $ 23,099 | 3.34% |
| 6/30/2019 | General | 2,749 | $59,081,180 | $ 21,492 | 3.66% |
| | Safety | 563 | 19,889,881 | 35,328 | 1.30% |
| | **Total** | 3,312 | $78,971,061 | $ 23,844 | 3.23% |
| 6/30/2020 | General | 2,815 | $62,618,882 | $ 22,245 | 3.50% |
| | Safety | 593 | 21,793,355 | 36,751 | 4.03% |
| | **Total** | 3,408 | $84,412,237 | $ 24,769 | 3.88% |
| 6/30/2021 | General | 2,865 | $65,750,480 | $ 22,950 | 3.17% |
| | Safety | 607 | 22,872,888 | 37,682 | 2.53% |
| | **Total** | 3,472 | $88,623,368 | $ 25,525 | 3.05% |

## Participating Employers and Active Members

As of June 30

| Year | County of Tulare | | Tulare County Superior Court | | Strathmore Public Utility District | | Total Active Membership | |
|---|---|---|---|---|---|---|---|---|
| | Members | Percent | Members | Percent | Members | Percent | Members | Percent |
| 2012 | 4,054 | 94.48% | 234 | 5.45% | 3 | 0.07% | 4,291 | 100% |
| 2013 | 4,163 | 94.98% | 217 | 4.95% | 3 | 0.07% | 4,383 | 100% |
| 2014 | 4,198 | 95.11% | 213 | 4.82% | 3 | 0.07% | 4,414 | 100% |
| 2015 | 4,176 | 94.80% | 226 | 5.13% | 3 | 0.07% | 4,405 | 100% |
| 2016 | 4,261 | 94.77% | 232 | 5.16% | 3 | 0.07% | 4,496 | 100% |
| 2017 | 4,302 | 94.84% | 231 | 5.09% | 3 | 0.07% | 4,536 | 100% |
| 2018 | 4,333 | 94.59% | 245 | 5.35% | 3 | 0.07% | 4,581 | 100% |
| 2019 | 4,367 | 94.54% | 250 | 5.41% | 2 | 0.04% | 4,619 | 100% |
| 2020 | 4,352 | 94.51% | 251 | 5.45% | 2 | 0.04% | 4,605 | 100% |
| 2021 | 4,243 | 94.63% | 238 | 5.31% | 3 | 0.07% | 4,484 | 100% |

# Retired Members by Type of Benefit

As of June 30, 2021

| Amount of Monthly Benefit | Number of Retired Members | Type of Retirement [1] General 1 | General 2 | General 3 | General 4 | General 5 | Safety 1 | Safety 2 | Safety 3 | Safety 4 | Safety 5 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Deferred** | **2,295** | | | | | | | | | | |
| $1 - $250 | 141 | 126 | 1 | 0 | 1 | 0 | 8 | 0 | 5 | 0 | 0 |
| $251 - $500 | 217 | 191 | 5 | 0 | 4 | 2 | 13 | 1 | 1 | 0 | 0 |
| $501 - $750 | 283 | 227 | 14 | 1 | 13 | 0 | 24 | 1 | 0 | 1 | 2 |
| $751 - $1,000 | 300 | 244 | 25 | 0 | 13 | 0 | 12 | 1 | 1 | 2 | 2 |
| $1,001 - $1,250 | 279 | 231 | 15 | 1 | 7 | 0 | 19 | 4 | 1 | 1 | 0 |
| $1,251 - $1,500 | 293 | 233 | 20 | 14 | 4 | 0 | 16 | 2 | 0 | 4 | 0 |
| $1,501 - $1,750 | 243 | 185 | 21 | 17 | 1 | 1 | 14 | 1 | 3 | 0 | 0 |
| $1,751 - $2,000 | 227 | 164 | 14 | 16 | 1 | 1 | 29 | 0 | 1 | 1 | 0 |
| Over $2,000 | 1489 | 959 | 23 | 68 | 1 | 1 | 283 | 11 | 133 | 8 | 2 |
| TOTAL | 3,472 | 2,560 | 138 | 117 | 45 | 5 | 418 | 21 | 145 | 17 | 6 |

| Amount of Monthly Benefit | Number of Retired Members | Option Selected [2] U | 1 | 2 | 3 | 4 | CS |
|---|---|---|---|---|---|---|---|
| $1 - $250 | 141 | 118 | 1 | 19 | 0 | 2 | 1 |
| $251 - $500 | 217 | 180 | 2 | 31 | 2 | 0 | 2 |
| $501 - $750 | 283 | 249 | 2 | 24 | 1 | 0 | 7 |
| $751 - $1,000 | 300 | 263 | 1 | 25 | 1 | 0 | 10 |
| $1,001 - $1,250 | 279 | 244 | 5 | 24 | 0 | 0 | 6 |
| $1,251 - $1,500 | 293 | 255 | 3 | 28 | 1 | 2 | 4 |
| $1,501 - $1,750 | 243 | 229 | 2 | 12 | 0 | 0 | 0 |
| $1,751 - $2,000 | 227 | 204 | 0 | 20 | 0 | 0 | 3 |
| Over $2,000 | 1,489 | 1,375 | 7 | 97 | 0 | 1 | 9 |
| TOTAL | 3,472 | 3,117 | 23 | 280 | 5 | 5 | 42 |

**Notes:**

[1] Type of Retirement:

**1** Service
**2** Non-Service Connected Disability
**3** Service Connected Disability
**4** Beneficiary Payment - Ordinary Death
**5** Beneficiary Payment - Duty Death

[2] Option Selected:

**U** Unmodified: Eligible Surviving Spouse receives 60% continuance
The following options reduce the retired member's monthly benefit.
The Beneficiary receives:
**1** Funds remaining in member's account
**2** 100% continuance of member's reduced monthly benefit
**3** 50% continuance of member's reduced monthly benefit
**4** Continuance for multiple beneficiaries calculated by actuary

## Benefit and Refund Deductions from Fiduciary Net Position

Last Ten Fiscal Years
(dollars in thousands)

| Type of Benefit | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Age and Service Benefits: | | | | | |
| General | $32,283 | $35,060 | $37,612 | $39,877 | $42,356 |
| Safety | 8,605 | 9,364 | 10,134 | 10,760 | 11,310 |
| Disability Benefits - Service: | | | | | |
| General | 1,740 | 1,800 | 1,799 | 1,924 | 1,868 |
| Safety | 2,267 | 2,385 | 2,567 | 2,733 | 3,016 |
| Disability Benefits - Non-Service: | | | | | |
| General | 1,719 | 1,800 | 1,840 | 1,882 | 1,865 |
| Safety | 179 | 164 | 239 | 375 | 371 |
| Death Benefits - Ordinary: | | | | | |
| General | 266 | 281 | 432 | 398 | 404 |
| Safety | 24 | 25 | 250 | 256 | 210 |
| Death Benefits - Duty: | | | | | |
| General | 15 | 15 | 15 | 16 | 16 |
| Safety | 221 | 237 | 355 | 127 | 129 |
| SRBR Benefits | | | | | |
| General | 5,536 | 5,758 | 5,718 | 5,626 | 5,409 |
| Safety | 1,179 | 1,223 | 1,238 | 1,217 | 1,212 |
| Death Benefits | 301 | 417 | 455 | 288 | 968 |
| Total Benefits | $54,335 | $58,529 | $62,654 | $65,479 | $69,134 |
| **Type of Refund** | | | | | |
| Death | 131 | 180 | 145 | 73 | 179 |
| Separation | 4,223 | 3,214 | 3,155 | 3,008 | 3,019 |
| Total Refunds | $4,354 | $3,394 | $3,300 | $3,081 | $3,198 |

## Benefit and Refund Deductions from Fiduciary Net Position (Cont.)

Last Ten Fiscal Years
(dollars in thousands)

| Type of Benefit | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Age and Service Benefits: | | | | | |
| General | $45,711 | $48,774 | $52,010 | $55,515 | $58,776 |
| Safety | 12,139 | 13,121 | 14,497 | 15,786 | 17,038 |
| Disability Benefits - Service: | | | | | |
| General | 2,129 | 2,110 | 2,181 | 2,382 | 2,432 |
| Safety | 3,183 | 3,418 | 3,536 | 3,821 | 3,827 |
| Disability Benefits - Non-Service: | | | | | |
| General | 1,872 | 1,883 | 1,892 | 1,863 | 1,885 |
| Safety | 449 | 512 | 547 | 590 | 583 |
| Death Benefits - Ordinary: | | | | | |
| General | 389 | 395 | 429 | 449 | 469 |
| Safety | 245 | 252 | 258 | 265 | 297 |
| Death Benefits - Duty: | | | | | |
| General | 62 | 51 | 51 | 52 | 54 |
| Safety | 130 | 129 | 125 | 159 | 142 |
| SRBR Benefits | | | | | |
| General | 6,130 | 5,706 | 5,847 | 6,044 | 6,274 |
| Safety | 303 | 293 | 342 | 385 | 402 |
| Death Benefits | 700 | 439 | 521 | 582 | 511 |
| Total Benefits | $73,442 | $77,083 | $82,236 | $87,893 | $92,690 |
| **Type of Refund** | | | | | |
| Death | 557 | 403 | 154 | 125 | 232 |
| Separation | 2,962 | 3,230 | 2,707 | 3,409 | 3,354 |
| Total Refunds | $3,519 | $3,633 | $2,861 | $3,534 | $3,586 |

## Average Benefit Payment

For the Fiscal Years Ended June 30, 2012 through June 30, 2021

| Retirement Effective Dates | Years Credited Service 0-5 | 5-10 | 10-15 | 15-20 | 20-25 | 25-30 | 30+ |
|---|---|---|---|---|---|---|---|
| **Period 7/1/2011 to 6/30/2012** | | | | | | | |
| Average Monthly Benefit | $ 478 | $ 786 | $ 1,342 | $ 2,318 | $ 2,602 | $ 3,839 | $ 5,532 |
| Average Final Salary | $ 6,454 | $ 5,034 | $ 4,400 | $ 5,468 | $ 5,058 | $ 5,528 | $ 6,492 |
| Number of Retired Members | 15 | 15 | 33 | 20 | 15 | 14 | 17 |
| **Period 7/1/2012 to 6/30/2013** | | | | | | | |
| Average Monthly Benefit | $ 353 | $ 1,055 | $ 1,573 | $ 2,325 | $ 2,898 | $ 4,387 | $ 5,682 |
| Average Final Salary | $ 7,620 | $ 6,192 | $ 4,612 | $ 5,216 | $ 4,957 | $ 6,604 | $ 6,299 |
| Number of Retired Members | 13 | 19 | 37 | 23 | 16 | 15 | 21 |
| **Period 7/1/2013 to 6/30/2014** | | | | | | | |
| Average Monthly Benefit | $ 597 | $ 953 | $ 1,381 | $ 1,718 | $ 2,468 | $ 4,029 | $ 4,375 |
| Average Final Salary | $ 7,690 | $ 4,831 | $ 4,555 | $ 4,194 | $ 4,363 | $ 6,250 | $ 5,168 |
| Number of Retired Members | 13 | 26 | 50 | 31 | 27 | 11 | 10 |
| **Period 7/1/2014 to 6/30/2015** | | | | | | | |
| Average Monthly Benefit | $ 424 | $ 825 | $ 1,340 | $ 2,063 | $ 2,377 | $ 3,465 | $ 5,470 |
| Average Final Salary | $ 6,752 | $ 4,916 | $ 4,401 | $ 4,583 | $ 4,217 | $ 5,248 | $ 6,514 |
| Number of Retired Members | 17 | 29 | 60 | 30 | 17 | 14 | 16 |
| **Period 7/1/2015 to 6/30/2016** | | | | | | | |
| Average Monthly Benefit | $ 463 | $ 917 | $ 1,575 | $ 2,053 | $ 2,633 | $ 3,421 | $ 6,764 |
| Average Final Salary | $ 6,520 | $ 5,713 | $ 4,886 | $ 4,662 | $ 5,009 | $ 5,364 | $ 7,578 |
| Number of Retired Members | 15 | 31 | 40 | 34 | 25 | 17 | 14 |
| **Period 7/1/2016 to 6/30/2017** | | | | | | | |
| Average Monthly Benefit | $ 606 | $ 1,113 | $ 1,597 | $ 2,081 | $ 2,537 | $ 2,962 | $ 5,275 |
| Average Final Salary | $ 6,130 | $ 5,337 | $ 5,280 | $ 4,974 | $ 4,318 | $ 5,024 | $ 6,749 |
| Number of Retired Members | 19 | 24 | 38 | 28 | 27 | 16 | 14 |
| **Period 7/1/2017 to 6/30/2018** | | | | | | | |
| Average Monthly Benefit | $ 340 | $ 745 | $ 1,758 | $ 2,462 | $ 2,772 | $ 4,470 | $ 6,504 |
| Average Final Salary | $ 7,312 | $ 4,976 | $ 5,631 | $ 5,297 | $ 5,610 | $ 6,271 | $ 7,555 |
| Number of Retired Members | 19 | 27 | 38 | 29 | 26 | 15 | 17 |
| **Period 7/1/2018 to 6/30/2019** | | | | | | | |
| Average Monthly Benefit | $ 333 | $ 1,030 | $ 1,935 | $ 2,523 | $ 3,826 | $ 4,298 | $ 4,900 |
| Average Final Salary | $ 7,813 | $ 6,401 | $ 6,175 | $ 5,436 | $ 6,985 | $ 6,438 | $ 5,830 |
| Number of Retired Members | 18 | 31 | 32 | 23 | 25 | 12 | 23 |
| **Period 7/1/2019 to 6/30/2020** | | | | | | | |
| Average Monthly Benefit | $ 510 | $ 1,263 | $ 1,838 | $ 2,677 | $ 3,090 | $ 2,945 | $ 6,069 |
| Average Final Salary | $ 9,153 | $ 6,668 | $ 5,925 | $ 6,010 | $ 6,058 | $ 4,611 | $ 7,204 |
| Number of Retired Members | 17 | 20 | 26 | 20 | 25 | 19 | 25 |
| **Period 7/1/2020 to 6/30/2021** | | | | | | | |
| Average Monthly Benefit | $ 234 | $ 1,064 | $ 1,713 | $ 2,458 | $ 3,034 | $ 4,691 | $ 6,435 |
| Average Final Salary | $ 7,776 | $ 6,944 | $ 5,582 | $ 5,472 | $ 5,683 | $ 6,848 | $ 7,720 |
| Number of Retired Members | 15 | 19 | 24 | 24 | 21 | 11 | 19 |

# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance in Accordance with Government Auditing Standards

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Retirement
Tulare County Employees' Retirement Association
Visalia, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Tulare County Employees' Retirement Association (TCERA), a pension trust fund of the County of Tulare, as of and for the fiscal year ended June 30, 2021, and the related notes to the basic financial statements, which collectively comprise TCERA's basic financial statements, and the Schedule of Cost Sharing Employer Allocations of TCERA, and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan totals for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions, specified column totals (other information), as of and for the fiscal year ended June 30, 2021, and have issued our report thereon dated November 29, 2021.

### Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements and other information, we considered TCERA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements and other information, but not for the purpose of expressing an opinion on the effectiveness of TCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of TCERA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of TCERA's basic financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether TCERA's basic financial statements and other information are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the basic financial statements and other information. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of TCERA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TCERA's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 29, 2021