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

AGENDA OF THE BOARD OF RETIREMENT
REGULAR RETIREMENT BOARD MEETING
Wednesday, March 23, 2022 at 8:30 a.m.
TCERA Board Room, 136 N. Akers Street, Visalia, CA 93291

NOTICE TO THE PUBLIC

Documents related to the items on this agenda are available for public inspection at the Retirement Office, 136 N Akers Street, Visalia, CA, during normal business hours. Such documents are also available on TCERA's website, www.tcera.org, subject to staff's ability to post the documents before the meeting.

Persons wishing to listen to the meeting in progress may access a live stream link located on TCERA's website www.tcera.org.

PUBLIC COMMENTS:

Any person addressing the Board will be limited to a maximum of five (5) minutes. A total of 15 minutes will be allotted for the Public Comment period unless otherwise extended by the Board Chair. If you are part of a large group that would like to comment on an agenda item, please consider commenting in writing or sending one spokesperson to speak on behalf of the group. Public comments are limited to any item of interest to the public that is within the subject matter jurisdiction of the Board of Retirement. (Gov't Code Section 54954.3(a).)

In Person: Persons who wish to address the Board of Retirement during public comment or regarding an item that is on the agenda may address the Board of Retirement in person at the meeting.

Zoom: Persons wishing to participate in public comment remotely may call the TCERA Office during regular business hours (Monday through Friday, 8:00 a.m. to 5:00 p.m.) within 48 hours of the meeting at 559-713-2900 for access information. In an effort to assist the Board Secretary in identifying the agenda item relating to your public comment, please indicate the agenda item number in the chat feature.

Email: Members of the public may also submit public comment via U.S. mail or via email to BORPublicComment@tularecounty.ca.gov before the meeting. The comments received via U.S. mail or email before the meeting will be read to the Board of Retirement in open session during the meeting as long as the comments meet the requirements for Public Comments as posted in the agenda.

As a courtesy to those in attendance, all individuals are requested to place cell phones and other electronic devices in the non-audible alert mode.

I. CALL TO ORDER

II. ROLL CALL

III. PLEDGE OF ALLEGIANCE

IV. PUBLIC COMMENT

At this time, members of the public may comment on any item not appearing on the agenda. Under state law, matters presented under this item cannot be discussed or acted upon by the Board at this time. For items appearing on the agenda, the public is invited to make comments at the time the item comes up for Board consideration. Any person addressing the Board will be limited to a maximum of five (5) minutes. Please state your name for the record.

V. X-AGENDA ITEMS

VI. CONSENT CALENDAR

1. Approve Minutes of the following meetings:
   a. Retirement Board Minutes of March 9, 2022.
2. Approve payments to:
   a. Verus – invoice for investment consulting services in the amount of $22,500.00 for the month ended February 28, 2022.
   b. County Counsel – invoice for legal services to the Board of Retirement in the amount of $1,310.70 for the period ending December 31, 2021.
   c. County Counsel – invoice for legal services to the Board of Retirement in the amount of $5,700.80 for the period ending January 31, 2022.
   d. County Counsel – invoice for legal services to the Board of Retirement in the amount of $1,764.90 for the period ending February 28, 2022.

VII. INVESTMENT COMMITTEE REPORT

1. Update by Gary Reed, acting Chair, regarding the Investment Committee meeting of March 9, 2022. Discussion and possible action regarding the following items:
   a. Asset Allocation Status
   b. 2022 Investment Committee Goals and Objectives Timeline and 2022 Education Calendar
   c. Private Markets Documentation – Legal Review Under Verus Discretionary Mandate
   d. Verus TCERA Compliance Evaluation Report
      1) Replacement for BNY Mellon Compliance Service
   e. Investment Mangers
      1) Verus Flash Report – All Managers
      2) Managers of Interest
         a) State Street Global Advisors – Personnel Changes

VIII. INVESTMENTS

1. Discussion and possible action regarding TCERA's strategic investment allocation and investment managers, including performance, contracts, and fees.

IX. NEW BUSINESS

1. Presentation of Actuarial Audit by Rick Roeder, Roeder Financial
2. Presentation of Response to Actuarial Audit by Graham Schmidt, Cheiron Inc.
3. Discussion and possible action regarding Actuarial Audit findings and recommendations.
4. Discussion and possible action regarding Cheiron Pension Alert – Revised Actuarial Standard.
5. Discussion and possible action regarding actuarial issues

X. EDUCATION ITEMS

1. Discussion and possible action regarding available educational events.

XI. COMMUNICATIONS

1. SACRS Legislative Update – March 2022. Discussion and possible action.

XII. UPCOMING MEETINGS

1. Administrative Committee Meeting, March 23, 2022, 10:00 a.m.
2. Board of Retirement Meeting April 13, 2022, 8:30 a.m.
3. Investment Committee Meeting April 13, 2022, 10:00 a.m.
4. Board of Retirement Meeting April 27, 2022, 8:30 a.m.
5. Administrative Committee Meeting April 27, 2022, 10:00 a.m.

XIII. TRUSTEE/STAFF COMMMENTS

Under state law, matters presented under this item cannot be discussed or acted upon by the Board at this time.

XIV. ADJOURNMENT

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Secretary of the Board of Retirement at (559) 713-2900. Notification 48 hours prior to the meeting will help enable staff to make reasonable arrangements to ensure meaningful access. Documents related to the items on this Agenda submitted after distribution of the Agenda packet are available for public inspection at TCERA, 136 N. Akers Street, Visalia, CA. during normal business hours.

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BOARD OF RETIREMENT

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MINUTES OF THE BOARD OF RETIREMENT
REGULAR RETIREMENT BOARD MEETING
Wednesday, March 9, 2022, at 8:30 a.m.
TCERA Board Room, 136 N. Akers Street, Visalia, CA 93291

I. CALL TO ORDER

The meeting was called to order at 8:30 a.m. by Wayne Ross, Chair.

II. ROLL CALL

Voting Trustees Present:	Cass Cook, Wayne Ross, Gary Reed, Dave Kehler, Nathan Polk, Pete Vander Poel (departed 10:12 a.m.), Jim Young, Laura Hernandez and Ty Inman (arrived 8:37 a.m.)
Alternate Trustees Present:	Dave Vasquez, Paul Sampietro
Alternate Trustees Absent:	George Finney
Staff Members Present:	Leanne Malison, Retirement Administrator Mary Warner, Assistant Retirement Administrator, Susie Brown, Secretary
Board Counsel Present:	Aaron Zaheen, Deputy County Counsel

III. PLEDGE OF ALLEGIANCE

IV. PUBLIC COMMENT

At this time, members of the public may comment on any item not appearing on the agenda. Under state law, matters presented under this item cannot be discussed or acted upon by the Board at this time. For items appearing on the agenda, the public is invited to make comments at the time the item comes up for Board consideration. Any person addressing the Board will be limited to a maximum of five (5) minutes. Please state your name for the record.

Ms. Malison reported this was the first livestream meeting for the Board.

V. X-AGENDA ITEMS

None.

VI. CONSENT CALENDAR

1. Approve Minutes of the following meetings:
   a. Retirement Board Minutes of February 23, 2022.
2. Approve payments to:
   a. Nossaman – invoice for legal services to the Board of Retirement in the amount of $16,164.45 for the period ending January 31, 2022
3. Pension Board Reports and Actions

a. Ratify Retirement Administrator actions regarding Retirement Application approvals and Option Selections for the month of February 2022.

b. Approve Reports regarding Retirement Applications, Option Selections and Deceased Pensioners and 30-Year Members for the month of February 2022.

Motion to approve Consent Calendar as presented.

Motion: Vander Poel
Second: Young
Motion passed unanimously.

VII. ADMINISTRATIVE COMMITTEE REPORT

1. Update by Dave Kehler regarding the Administrative Committee meeting of February 23, 2022. Discussion and possible action regarding the following items:

   a. TCERA and TCERA Property, Inc. Preliminary Financial Statements before Interest Posting – December 31, 2021

Ms. Warner addressed questions regarding unused budget dollars rolling to the next fiscal year.

   b. Actuarial Audit by Roeder Financial

Mr. Kehler informed the Board that Rick Roeder of Roeder Financial and Graham Schmidt of Cheiron, Inc. will be in attendance at the March 23, 2022 Board meeting to discuss the recommendations in the audit report.

VIII. INVESTMENTS

1. Presentation from QMA (PGIM) regarding TCERA's allocation to enhanced large cap core equity investments. Discussion and possible action.

Brad Zenz and Steve Courtney of QMA-PGIM presented information regarding the firm, its process, and performance.

2. Presentation from LMCG (Leeward) regarding TCERA's allocation to small cap value equity investments.

Jenna Oliver and Todd Vingers of Leeward presented information regarding the firm, its process, and performance.

3. Discussion and possible action regarding TCERA's strategic investment allocation and investment managers, including performance, contracts, and fees.

Mr. Kehler suggested an educational item on the effects of ESG considerations on pension investments.

Mr. Cook asked about TCERA's exposure to Russian and Ukrainian investments. Ms. Malison reported that she met with TCERA's emerging market debt manager, PGIM, last week. TCERA's Russian and Ukrainian investments with that manager are less than 2% of the allocation. Performance will be affected by the reduction in value of these securities.

The Chair authorized 2 hours of education.

IX. NEW BUSINESS

4. Discussion and possible action regarding adoption of Amendment to Resolution Regarding Pay Codes Included as Pensionable Income – Tulare County Superior Court.

Motion to adopt the Amendment at presented.

Motion: Young
Second: Hernandez
Ayes: Cook, Inman, Hernandez, Ross, Reed, Young, Polk, Kehler
Absent: Vander Poel
Motion passed 8/0.

X. EDUCATION ITEMS

5. Discussion and possible action regarding Summary Education Reports as filed:
   a. Leanne Malison – JP Morgan 1Q22 Guide To China – Webinar, February 15, 2022, 1 hour
   b. Leanne Malison – BlackRock Market Pulse: Navigating Today's Volatility, February 24, 2022, .5 hours.

Motion to accept the education summaries as presented.

Motion: Reed
Second: Kehler
Ayes: Cook, Inman, Hernandez, Ross, Reed, Young, Polk, Kehler
Absent: Vander Poel
Motion passed 8/0.

2. Discussion and possible action regarding available educational events.

Ms. Malison reviewed the available education events, and commented that webinars are a great educational tool.

No action.

XI. COMMUNICATIONS

6. Cheiron Pension Alert – Revised Actuarial Standard

Ms. Malison informed the Board that Mr. Schmidt will be able to provide additional information on this item when he attends the March 23, 2022 Board meeting.

XII. UPCOMING MEETINGS

3. Investment Committee Meeting March 9, 2022, 10:00 a.m.
4. Board of Retirement Meeting, March 23, 2022, 8:30 a.m.
5. Administrative Committee Meeting March 23, 2022, 10:00 a.m.

XIII. TRUSTEE/STAFF COMMMENTS

Under state law, matters presented under this item cannot be discussed or acted upon by the Board at this time.

None.

XIV. ADJOURNMENT

The meeting was adjourned at 10:50 a.m.

____

Wayne Ross, Chair

Invoice

Verus

800 Fifth Avenue, Suite 3900
Seattle, WA 98104
(206) 622-3700 www.verusinvestments.com

Date	Invoice#
2/28/2022	INV031929
Due Date	**Terms**
3/30/2022	Net 30

Bill To

Ms. Mary Warner
Tulare County Employees' Retirement Association
136 N. Akers Street
Visalia, CA 93291

Services Provided to: Tulare County Employees' Retirement Association

Service Dates: February 2022

Services Rendered	Amount
Monthly Billing - Fee Increase 8/1/2021	$22,500.00
SubTotal	$22,500.00
Past Due Balance	$0.00
Total	$22,500.00

We accept wire and EFT payments. Call us to learn more.

Thank you for choosing Verus Advisory, Inc. We sincerely appreciate your business.

Please let us know if you would like to receive a copy of our disclosure brochure Form ADV Part II.

Tax ID Number: 91-1320111

TULARE COUNTY COUNSEL

Meeting the legal and risk management challenges facing the County of Tulare in partnership with you

Invoice No. RET1221

INVOICE

Customer

Name	Board of Retirement
Address	136 North Akers Street
City	Visalia State CA ZIP 93291
Phone	(559) 713-2900

Misc

Date

Exp Cat.

Statement Number	Matter ID	Description	TOTAL
	RETBD-General	12/01/21-12/31/21 Legal Services	$ 408.00
	RETBD-General2	12/01/21-12/31/21 Legal Services	$ 469.20
	RETDIS-General	12/01/21-12/31/21 Legal Services	$ 435.50
Other Expenses:			

Mail payment to:
County Counsel
Attn: Billing Clerk
2900 W. Burrel Ave.
Visalia, CA 93291

SubTotal		$ 1,312.70
Shipping		$ -
Tax Rate(s)	0.00%	$ -
TOTAL		**$ 1,312.70**

Payment Other Journal Voucher

Comments	*Call or e-mail if questions*
Name	Angela Rose
Phone	559-636-4956
E-mail	ARose@co.tulare.ca.us
Deposit to:	001-080-2150-5415

Office Use Only

Invoice No. RET0122

TULARE COUNTY COUNSEL

Meeting the legal and risk management challenges facing the County of Tulare in partnership with you

INVOICE

Customer

Name	Board of Retirement
Address	136 North Akers Street
City	Visalia State CA ZIP 93291
Phone	(559) 713-2900

Misc

Date

Exp Cat.

Statement Number	Matter ID	Description	TOTAL
	RETBD-General	01/01/22-01/31/22 Legal Services	$ 1,609.10
	RETBD-General2	01/01/22-01/31/22 Legal Services	$ 224.40
	RETDIS-General	01/01/22-01/31/22 Legal Services	$ 3,867.30
Other Expenses:			

Mail payment to:
County Counsel
Attn: Billing Clerk
2900 W. Burrel Ave.
Visalia, CA 93291

SubTotal		$ 5,700.80
Shipping		$ -
Tax Rate(s)	0.00%	$ -
TOTAL		**$ 5,700.80**

Payment Other Journal Voucher

Comments	*Call or e-mail if questions*
Name	Angela Rose
Phone	559-636-4956
E-mail	ARose@co.tulare.ca.us
Deposit to:	001-080-2150-5415

Office Use Only

TULARE COUNTY COUNSEL

Meeting the legal and risk management challenges facing the County of Tulare in partnership with you

Invoice No. RET0222

INVOICE

Customer

Name: Board of Retirement
Address: 136 North Akers Street
City: Visalia State CA ZIP 93291
Phone: (559) 713-2900

Misc

Date
Exp Cat.

Statement Number	Matter ID	Description	TOTAL
	RETBD-General	02/01/22-02/28/22 Legal Services	$ 912.60
	RETBD-General2	02/01/22-02/28/22 Legal Services	$ 295.80
	RETDIS-General	02/01/22-02/28/22 Legal Services	$ 556.50
Other Expenses:			

Mail payment to:
County Counsel
Attn: Billing Clerk
2900 W. Burrel Ave.
Visalia, CA 93291

SubTotal		$ 1,764.90
Shipping		$ -
Tax Rate(s)	0.00%	$ -
TOTAL		**$ 1,764.90**

Payment Other Journal Voucher

Comments: *Call or e-mail if questions*
Name: Angela Rose
Phone: 559-636-4956
E-mail: ARose@co.tulare.ca.us
Deposit to: 001-080-2150-5415

Office Use Only

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TCERA Asset Allocation Comparison 2-28-22 - Preliminary Numbers

Manager	Category	Market Value	Actual %	Target %	Value at Target	Difference to Target	Comments
	DOMESTIC EQUITY						
QMA	Large Core Enhanced	71,648,929	3.69%	3.00%	58,205,843	13,443,086	
SSGA S&P 500 Sec Lnd Index Fund	Large Core	215,309,430	11.10%	10.00%	194,019,477	21,289,953	
Boston Partners	Large Value	74,567,066	3.84%	3.50%	67,906,817	6,660,249	
Ivy (Waddell & Reed)	Large Growth	73,969,727	3.81%	0.00%	-	73,969,727	Rebalancing Pending Capital Calls
William Blair	Large Growth	-	0.00%	3.50%	67,906,817	(67,906,817)	
SSGA US Ext Sec Lnd	SMID Core Index	72,937,668	3.76%	3.00%	58,205,843	14,731,825	
LMCG	Small Value	33,495,406	1.73%	1.50%	29,102,922	4,392,484	
William Blair	Smid Growth	29,551,527	1.52%	1.50%	29,102,922	448,605	
	Total	571,479,753	29.45%	26.00%	504,450,639	67,029,113	
	INTERNATIONAL EQUITY						
SGA	International Growth	91,221,425	4.70%	6.00%	116,411,686	(25,190,261)	
PIMCO RAE	International Value	104,104,560	5.37%	4.00%	77,607,791	26,496,770	
SSGA - ACWI Index Fund	International Core	102,931,923	5.31%	6.00%	116,411,686	(13,479,763)	
	Total	298,257,908	15.37%	16.00%	310,431,163	(12,173,254)	
	GLOBAL EQUITY						
Skellig Water Fund (KBI)	Water Related	61,604,273	3.18%	3.00%	58,205,843	3,398,430	
	Total	61,604,273	3.18%	3.00%	58,205,843	3,398,430	
	PRIVATE EQUITY						
Pantheon	Private Equity - F of F	293,953	0.02%				
Stepstone	PE - Secondaries	6,211,096	0.32%				
Ocean Avenue III	Private Equity - F of F	19,781,511	1.02%				
Ocean Avenue IV	Private Equity - F of F	19,574,403	1.01%				Underweight pending new commitments and capital calls. Pantheon, Stepstone and BlackRock in liquidation phase.
Ocean Avenue V	Private Equity - F of F	-	0.00%				
Pathway Fund 8	Private Equity - F of F	32,222,413	1.66%				
Pathway Fund 9	Private Equity - F of F	25,878,400	1.33%				
Pathway Fund 10	Private Equity - F of F	14,315,541	0.74%				
BlackRock Alternatives	Private Equity - F of F	514,486	0.03%				
	Total	118,791,803	6.12%	12.00%	232,823,372	(114,031,569)	
	FIXED INCOME						
BlackRock	Core Plus	128,971,562	6.65%	6.00%	116,411,686	12,559,876	
MacKay Shields	Core Plus	118,467,739	6.11%	5.50%	106,710,712	11,757,027	Rebalancing Pending Capital Calls
DoubleLine	Core Plus	114,568,729	5.91%	5.50%	106,710,712	7,858,017	
PGIM	Emerging Market Debt	53,626,932	2.76%	3.00%	58,205,843	(4,578,911)	

TCERA Asset Allocation Comparison 2-28-22 - Preliminary Numbers

Manager	Category	Market Value	Actual %	Target %	Value at Target	Difference to Target	Comments
	Total	415,634,962	21.42%	20.00%	388,038,953	27,596,009	
	PRIVATE CREDIT						
Sixth Street DCP (TSSP)	Private Credit	86,252,377	4.45%	5.00%	97,009,738	(10,757,361)	Underweight pending capital calls
	Total	86,252,377	4.45%	5.00%	97,009,738	(10,757,361)	
	REAL ASSETS						
Invesco	Real Estate Debt	66,357,795	3.42%	3.00%	58,205,843	8,151,952	Underweight pending IFM Opportunistic RE and American Realty capital calls. RREEF America II overweight pending rebalancing. SSGA REIT - Holding for other capital calls.
American Realty Advisors	Value Add Real Estate	39,472,295	2.03%	4.00%	77,607,791	(38,135,496)	
Opportunistic RE Funds	Opportunistic Real Estate	-	0.00%	4.00%	77,607,791	(77,607,791)	
IFM	Infrastructure	-	0.00%	4.00%	77,607,791	(77,607,791)	
SSGA US REIT	REIT Index Fund	37,968,054	1.96%	0.00%	-	37,968,054	
RREEF America II	Core Commingled	198,423,129	10.23%	3.00%	58,205,843	140,217,286	
	Total	342,221,273	17.64%	18.00%	349,235,058	(7,013,785)	
	OPPORTUNISTIC						
KKR - Mezzanine	Opportunistic	3,950,904	0.20%	n/a	-	3,950,904	Opportunistic outside of Target Allocation. KKR and PIMCO funds in distribution phase.
Sixth Street TAO Contingent (TSSP)	Opportunistic	22,548,676	1.16%	n/a	-	22,548,676	
PIMCO BRAVO - Distressed Debt	Opportunistic	10,324	0.00%	n/a	-	10,324	
	Total	26,509,904	1.37%		-	26,509,904	
	OTHER		1.37%		-	26,509,904	
Cash		19,442,514	1.00%	0.00%	-	19,442,514	Capital Calls and Cash Flow Needs.
	Total	19,442,514	1.00%	0.00%	-	19,442,514	
	Grand Total	**1,940,194,767**	**100.00%**	**100.00%**	**1,940,194,767**		

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TCERA, Board of Retirement
Investment Committee

Agenda Item # IV. 1 c.

Agenda Date: **March 9, 2022**

Subject: **2022 Investment Committee Goals and Objectives Timeline and 2022 Education Calendar**

Requests:

That the Investment Committee:

1. Discuss the Goals and Objectives Timeline and Education Calendar
2. Direct Staff to make revisions as determined by the Committee
3. Make recommendations to the Board of Retirement as necessary

Summary:

The Goals and Objectives Timeline is provided to assist the Committee in monitoring the progress of its goals and objectives for the year. The Education Calendar is provided to ensure that education items related to the Committee's goals and objectives are included in the presentation schedule for the year.

Prepared by: Leanne Malison

TCERA Investment Committee Goals and Objectives Timeline

Revised 3/1/22

2022

January - March

Large Cap Growth Equity Manager Review – Comparative manager information as it relates to the large cap growth equity investment with Ivy was provided by Verus at the October 13th Investment Committee meeting. The Committee recommended identifying Sands Capital and William Blair as finalists for the mandate and the Board approved the recommendation at the October 27th Board meeting. Finalists presented to the Board on January 26th. The Board selected William Blair for the mandate. On site due diligence was waived because William Blair is already an investment manager for TCERA. Contract is pending.

"Dry Powder" Investment -- On October 27th, the Board approved the transfer of funds from Global Fixed Income and Emerging Market Debt to SSGA SMID and REIT index funds pending capital calls for real estate and private equity. The REIT Index Fund has been opened with SSGA. Transfer of funds is complete. -- ***Completed***

Infrastructure – On October 27th, the Board requested a presentation from IFM to the Board of Retirement regarding the firm's infrastructure fund. IFM presented to the Board on November 17th. At that meeting the Board approved IFM as the infrastructure investment manager. Contract is finalized. -- ***Completed***

Private Equity/Opportunistic Real Estate – On October 27th, the Board determined that direct fund investing with the assistance of a consultant will be the implementation strategy for private equity and other similar private markets investments. At the November 17, 2021 Board meeting, the Board authorized Staff to enter into a contract with Verus for private markets consulting. Implementation can begin when the contract is complete. Contract is finalized. Discussion regarding required legal review of investment documents is scheduled for the March 9th Investment Committee meeting.

Small Cap Value Review – In response to the LMCG investment group's formation of a new investment management firm, Leeward Investments, the Investment Committee recommended an exploratory search to compare other top tier managers to LMCG/Leeward. The review is scheduled for the April 13, 2022 Investment Committee meeting with a recommendation to be presented to the Board on April 27th.

Education regarding China – The Board requested that additional education regarding China be provide in 2022. Elliot Hentov, Head of Policy Research, State Street Global Advisors, is scheduled to make an educational presentation to the Board of Retirement on April 27th.

TCERA Board of Retirement
2022 Trustee Education/Presentation Calendar

Month	Meeting Date	Education Topics
January	January 12 January 26	 Large Cap Growth Equity Presentations
February	 February 23	No first meeting due to World Ag Expo 12/31/21 Investment Report – Verus
March	March 9 March 23	QMA (PGIM) LMCG (Leeward) Actuarial Audit Presentation
April	April 13 April 27	Sixth Street Stepstone Small Cap Value Review (Investment Committee) Education Presentation – Investments in China Small Cap Value Review (Recommendation from Investment Committee)
May	SACRS – May 10-13 May 25	 3/31/22 Investment Report – Verus Strategic Asset Allocation Review - Verus
June	June 8 June 22	RREEF Ocean Avenue
July	July 13 July 27	William Blair KBI Private Markets Review – Verus
August	August 10 August 24	PGIM American Realty 6/30/22 Investment Report – Verus Investment Manager Fee Review

September	September 14 September 28	MacKay Shields KKR
October	October 12 October 26	Preliminary Actuarial Analysis - Cheiron
November	November 2 - due to SACRS SACRS Nov 8-11 November 16 - due to Thanksgiving Holiday	Actuarial Valuation Report - Cheiron 9/30/22 Investment Report
December	December 14	Brown Armstrong – Audit Results

Expected 2023 Investment Manager Regular Biennial Presentations:

BlackRock
PIMCO RAE
Boston Partners
SGA
Pathway
DoubleLine
Invesco
SSGA
IFM

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TCERA, Board of Retirement
Investment Committee

Agenda Item # IV. 1 d.

Agenda Date: **March 9, 2022**

Subject: **Private Markets Documentation – Legal Review Under Verus Discretionary Mandate**

Requests:

That the Investment Committee:

1. Discuss the options for legal review of private markets documentation under the discretionary mandate with Verus
2. Make recommendations to the Board of Retirement

Summary:

Staff has received feedback from independent counsel regarding the review of documentation for the Verus discretionary private markets investments. Attached is an article on the topic provided by Nossaman, TCERA's counsel in these matters. Warren Spencer, internal counsel for Verus, will join the meeting remotely to discuss Verus approach to documentation review. The Committee is requested to make a recommendation to the Board of Retirement regarding the required documentation review for these private markets investments. Some options include:

1. Require a full review by TCERA's independent counsel.
2. Rely on the review by Verus internal counsel.
3. Develop a standard side letter approved by TCERA's independent counsel to be used for these investments. Any change to the pre-approved side letter would require approval from TCERA's independent counsel.

Prepared by: Leanne Malison

Whom Does Your Outside Counsel Work For? The Need for Independent Legal Review for Investments

08.17.2012 | By Kurt W. Melchior, Yuliya A. Oryol

Institutional investors have come under intense pressure to find creative solutions to deal with serious funding challenges. Many have taken proactive measures to reduce their administrative budgets and cut expenses; for example, negotiating discounts and fee concessions from third party service providers such as consultants and money managers, reducing the size of their investment staff, restricting investment staff and board members from attending educational seminars, and reducing use of outside legal counsel to review and negotiate fund documents.

To help institutional investors drive down investment related costs and become more competitive on fees in general, in addition to providing recommendations with respect to appropriate levels of allocation to different financial products and conducting due diligence prior to recommending specific investments, some consulting firms package the legal review of fund documents together with their investment management and advisory services. This is particularly attractive to those investors who do not have sufficient legal in-house support or expertise for advising on these investments. Instead of the investor clients hiring their own outside legal counsel to review and negotiate the fund documents, legal review is provided on behalf of an investor client or a group of investor clients to whom the consultant has recommended a particular investment by either using the consultant's own in-house staff counsel to review the investment documents, or by a single outside counsel selected and retained by the consultant to conduct such legal review. It should be noted that this practice is more often seen with private equity investments, such consulting practices are not limited to a particular asset class.

In our view, the use of the consultant's legal counsel presents serious concerns for the institutional investors involved. The institutional investors may not be receiving unbiased legal advice when the counsel is retained by the consultant. In addition, this practice may trigger conflicts of interest issues with respect to the consultant and also the consultant's other investor clients. Although the institutional investor may believe that the counsel represents its interests, the parties may not have an effective attorney-client relationship nor be subject to the attorney-client privilege. Furthermore, often the institutional investor may not even know what they are paying in legal fees.

In most cases where in-house counsel or a single outside counsel is engaged to advise a group of investors, the lawyer negotiates a single form of side letter for the whole group of clients that are making an investment in a particular vehicle irrespective of the fact that the clients may not be similarly situated and may have different legal needs. In fact, in certain circumstances, such investor counsel inevitably finds itself negotiating with fund counsel to address a particular issue perceived to be impacting one but not another client. Often the instructions to counsel come directly from the consultant, not from a specific investor. Regardless of whether the outside counsel is employed directly or indirectly by the consultant, it seems clear to us that the consultant is controlling the legal review process.

The institutional investor clients are not usually aware of the exact amount of fees paid for such legal services because the fees are either packaged into the overall compensation paid to the consultants for their services or invoiced pro rata among the client group. Certainly, there is no legal cost break-out where the review is done with the consultant's own in-house staff counsel who are directly employed and salaried by the consulting firm since the clients are not privy to the employment contract between the consultancy firm and its in-house counsel. Furthermore, there is often no break-out for legal fees paid to an outside counsel retained or paid by the consultant to provide legal services to a group of clients investing in the same investment product or fund.

The use of the consultant's counsel has developed from the practice of many consultants today advising clients as a group in an attempt to reduce third party fees for their clients. There is no denying that for many institutional investors, the group review process has resulted in cheaper consulting fees and lower outside counsel legal fees for each investment. But what has been forgotten in an attempt to save legal fees is that legal vetting, or due diligence, as well as legal advice, involves a review and evaluation of the proposed investment, including its contractual commitments and obligations, from the specific investor's perspective. Every investor faces legal requirements specific to it (no matter how similarly situated a group of investors may seem to be). A lawyer who is retained only by one investor will review the investment from that investor's perspective. If the lawyer is asked to perform the same or related functions for more than one party with respect to a single investment, he or she must look at the engagement from the respective perspectives of each of the separate clients, who may face different legal requirements for permitted investments or may have different economic objectives. However, as the case of *Buehler v. Scarbellati* (1995) 34 Cal. App.4th 1527 explains, it is possible for a single lawyer or firm to represent disparate investors in a single real estate investment; but such lawyer functions essentially as a scrivener and he or she cannot act as advocate for a single client's objectives over those of another. If problems develop downstream, the law firm cannot represent any of its original clients in the matter and the investor must retain new counsel.

Even when outside counsel is used and legal fees are shared pro rata among a group of clients and passed through to each investor client separately from the consultant's advisory fees, such arrangement is still problematic and not conflict-free. There still exists an inherent conflict of interest in allowing the consultant's in-house staff counsel or outside counsel to review and negotiate the investment documents on behalf of the consultant's client or group of clients, whether or not such counsel also reviews the documents on the consultant's behalf. This scenario equally applies in circumstances of investments commonly referred to as "discretionary" or "discretion in a box" in which the consultant recommends to its clients those investment opportunities that meet identified investment criteria and has a certain level of discretion to invest in such funds on behalf of its clients. What may seem as an effective way for the institutional investors to cut down on legal fees may in fact taint the legal review process and potentially jeopardize the investments.

To explain the subject of our concern briefly, the courts have stated that "a conflict of interest is present where the circumstances of a particular case present 'a substantial risk that the lawyer's representation of the client would be materially and adversely affected by the lawyer's own interests or by the lawyer's duties to another current client, a former client, or a third person.'" Vapnek, et al., Professional Responsibility, § 4:1. Although the outside counsel is providing legal review on behalf of the investor clients, it is unclear whom the counsel really represents. This is especially the case with a consultant's in-house staff counsel, but also true in the case of an outside law firm retained by the consultant and paid for by the group of clients separately from the consultant fees. It is still questionable whether the counsel is able to stay impartial vis-à-vis the investment recommendations made by the consultant, given that legal counsel was retained by such consultant to provide the legal services in support of the investment recommendations provided by the consultant's firm. It is questionable whether counsel in that position can recommend against key provisions of the proposed transaction if the consultant, which engaged counsel, favors those terms or perhaps failed to sufficiently address the terms in its recommendation to the clients? We are not aware of any statistics as to what percentage of investments are considered but ultimately not made by an institutional investor group, or by at least some of the investor clients in a group, due to information uncovered by the outside legal counsel, nor of any studies of the ability of such counsel to negotiate terms on behalf of a specific investor, despite the recommendation by the consultant. We would venture to suggest, however, that though there are many examples of a single investor pulling out because of legal concerns, few investments fall through where outside legal counsel, retained in some form or another by the consultant, conduct the review and the negotiation process for a group of investors. In addition, consider when a group of the consultant's clients who are represented by a single outside counsel have conflicting interests or objectives, which illustrates another problem with having the same attorney represent the investor group.

The institutional investor may wrongly believe it is saving the pension system legal fees by using the consultant's counsel, but there are real dangers in this practice. It is questionable whom such counsel represents. Just who are such counsel's clients; and who gives such counsel instructions from the client's perspective? In most cases, the consultant's in-house staff counsel does not have a direct attorney-client relationship with the clients. It is certainly unlikely that such counsel would perform a conflict check prior to commencement of the representation, although it is standard practice, and a requirement under state rules of professional conduct and the American Bar Association (ABA) guidelines, for any attorney to ensure that there is no conflict of interest between the institutional investor clients it represents. Nor does such counsel in the majority of cases obtain conflict waivers for any potentially conflicting representations, as those rules require. At the very least, in order to comply with the ABA requirements as well as the particular state ethics rules governing attorney-client relationships, such counsel acting on behalf of more than one investor, or on behalf of the consultant and one or more investors, needs to obtain conflict waivers from all of the investor group clients, and for each separate investment negotiation, prior to representing them.

In addition, while the attorney client privilege exists in the case of multiple clients, the privilege disappears as to any part of the subject matter if the clients become at odds about the engagement. That may seem a remote issue at the time the due diligence is performed and the investment documents are negotiated; but any one of the clients can disclose privileged material at will, and the material will then lose its privileged status for all. Moreover, an arrangement seems unwise whereby the confidences of any one client can be shared – and under ethical rules for joint representation, must be shared at another client's request – between multiple clients. Moreover, since the consultant is often privy to all of the communications between the investors and the consultant-retained common counsel, the communications between the parties are not subject to the basic confidentiality standards which typically exist between counsel and its client.

Those of us who regularly prepare and review investment documents understand that the investment terms contained in summary form in a term sheet or a private placement memorandum may look different by the time they are written into the investment documents. It is not the consultant's role to carefully review the legal terms contained in the investment documents after the consultant has made the recommendation to invest with a particular manager and, in fact, in many cases the investment agreements have not yet been drafted at the time that the consultant may be performing its due diligence. It is the responsibility of each investor to review the legal terms and confirm that the documents say exactly what the manager or the consultant claims they say, and that they reflect the specific investor's needs. In addition, it is the legal counsel's duty, whether in-house or outside counsel, to not only review and negotiate the investment documents but also check them against the recommendations made by the consultant and, when appropriate, make sure that the terms the consultant has relied upon to make its recommendations are properly documented in the investment documents. In some cases, it may be necessary for legal counsel to question the basis of a consultant's recommendation or the sufficiency of the initial or follow-on due diligence performed by the consultant in connection with a particular investment. We believe that the level of independent review and vigilance in reviewing the consultant's recommendation and the clients' individual needs is compromised when the outside counsel who performs that task has been retained by the consultant – and that this money-saving compromise clearly becomes improper where the same counsel represent both the consultant and the investors.

Many of the consultants we regularly work with understand the inherent conflict of interest and the potential liability to themselves. The more prudent consultants do not package their advisory services together with the legal review, and avoid facilitating the use of their in-house staff counsel or the retention of outside counsel for their clients. In fact, many of these consultants, in an attempt to reduce any liability and remain conflict free, include express language in their written recommendations stating that the investment documents remain subject to independent legal review. Even those consultants who have their in-house staff counsel assist clients with the initial review of the investment documents should still, if they are prudent, encourage their clients to conduct an independent legal review of the investment documents.

Regardless of whether the consultant's in-house staff or outside counsel performs an initial review of the investment documents, and even negotiates a basic side letter on behalf of a group of investors, each investor should ultimately have its own independent counsel review the investment documents. Whether that review is carefully conducted by the city attorney, county counsel, staff attorney, or an outside law firm, such independent review for each and every investment is critical to protecting the investment. Institutional investors who, in an attempt to save on investment related expenses, have come to rely on their consultants for legal review should re-evaluate their practices to ensure that doing so does not compromise the legal advice they are receiving from counsel. Independent outside counsel should be carefully vetted, selected and retained directly by the institutional investors themselves, not their consultants. The attorney-client relationship and the investment document review process are too important to be compromised. There is simply too much at stake for the investors and their beneficiaries.

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

TCERA, Board of Retirement
Investment Committee

Agenda Item # IV. 1 e.

Agenda Date: **March 9, 2022**

Subject: **Verus TCERA Compliance Evaluation Report**

Requests:

That the Investment Committee:

1. Discuss the Compliance Evaluation Report provided by Verus
2. Consider whether this report can replace the BNY Mellon compliance monitoring service
3. Make recommendations to the Board of Retirement

Summary:

Under the new investment consulting contract, Verus is required to monitor investment manager compliance with TCERA guidelines. Attached is the first report prepared by Verus to meet this requirement. TCERA also contracts with BNY Mellon for compliance monitoring with a fee of $20 thousand per year. The Committee is asked to confirm that Verus is meeting its responsibilities regarding compliance monitoring with quarterly reports similar to the one provided for review. The Committee is also asked to determine if this monitoring can replace the service currently provided by BNY Mellon.

Prepared by: Leanne Malison

Verus

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

FOURTH QUARTER 2021

TCERA Compliance Evaluation Report

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484
PITTSBURGH 412-784-6739

Table of contents

Executive Summary
4th Quarter 2021

The purpose of this report is to summarize the results of the investment guideline compliance monitoring activities conducted by Verus on behalf of the Tulare County Employees' Retirement Association ("TCERA").

TCERA's portfolio is comprised of both commingled vehicles and separately managed account ("SMAs"). Each SMA has specific guidelines the manager must follow when managing TCERA's investments. In order to obtain assurance that the assets held in SMAs are managed in accordance with their respective guidelines, Verus obtains quarterly certification from the compliance department of each investment manager. Enclosed are copies of the required certification letters for the past quarter.

Investments held in commingled vehicles are typically governed by a single document for all investors in the fund, e.g., a prospectus or partnership agreement. Investment guideline compliance within these vehicles is independently verified by third party accounting firms that report the results of their work in annual reports. Verus' undertakes no additional monitoring activity for commingled investments.

For the quarter ending December 31, 2021, all separate account managers reported compliance with their respective investment guidelines.

Scott Whalen, CFA, CAIA
Executive Managing Director & Senior Consultant

<u>Disclaimer</u>
Verus has exercised all reasonable professional care in the evaluation of each investment manager's compliance to the Investment Policy and Guidelines of the Association as of the report date. This report is provided to the Board of Trustees in conjunction with our responsibilities under the investment consulting agreement. Our professionals necessarily relied on data provided by third parties to perform our evaluation. Verus makes no claims as to the accuracy of the data used in this evaluation and shall not be held liable for damages caused by errors or omissions in content, except to the extent arising from our sole gross negligence.

STRATEGY SUMMARY

Investment Manager	Strategy	Investment Vehicle	Public Mkt Asset Class	Enforcable Guidelines
Equity				
SSGA	S&P index	CF	Equity	No
QMA	Large cap core	SMA	Equity	Yes
Ivy	Large cap growth	SMA	Equity	Yes
Boston Partners	Large cap value	SMA	Equity	Yes
SSGA	US extended mkt index	CF	Equity	No
William Blair	SMID cap growth	SMA	Equity	Yes
Lee Munder	Small cap value	SMA	Equity	Yes
SSGA	MSCI ACWI ex-US index	CF	Equity	No
PIMCO RAE	Global ex-US	CF	Equity	No
SGA	Global growth	CF	Equity	No
Skellig KBI	Water fund	CF	Equity	No
Fixed Income				
BlackRock	Core fixed income	SMA	Fixed Income	Yes
DoubleLine	Core plus fixed income	CF	Fixed Income	No
MacKay Shields	Core plus fixed income	CF	Fixed Income	No
Franklin Templeton	Global bond plus	CF	Fixed Income	No
PGIM	Emerging markets debt	CF	Fixed Income	No

SMA: Separately Managed Account
CF: Commingled Account

DAWN PALLITTO
Chief Compliance Officer
PGIM Quantitative Solutions

T: 973-802-3675
E: dawn.pallitto@pgim.com
Two Gateway Center, Newark, NJ, 07102

FOR PUBLIC MARKET STRATEGY

INVESTMENT GUIDELINES COMPLIANCE AFFIRMATION
For quarter ending: December 31, 2021

Investment manager name & strategy: PGIM Quantitative Solutions

Account name: Tulare County Employees' Retirement Association (TCERA)

This is to confirm that, to the best of our knowledge, all of PGIM Quantitative Solutions' investment activity during the quarter noted above, on behalf of TCERA US Core Equity Account has been consistent with the investment policies and restrictions set forth in the Investment Advisory agreement, Investment Guidelines and Investment Policy Statement and that the portfolio is in compliance with those policies and restrictions below:

Guidelines	In Compliance	Exception
Benchmark Weight: At time of rebalance, the fund may not invest more than +/- 1.50% per issue relative to the benchmark (S&P 500) weighting for that issue, at market value. (Tested at issuer level).	☒	
Benchmark Weight: At time of rebalance, the fund may not invest more than +/- 5% in any individual industry relative to the benchmark (S&P 500) weighting for that industry.	☒	
Benchmark Weight: At time of rebalance, the fund may not invest more than +/- 5% of a sector relative to the benchmark (S&P 500) weighting for that sector.	☒	
Cash: The intent is to be fully invested and the allocation to cash should be less than 5%; however cash balances may occasionally exceed this level as the consequence of contributions and withdrawals' of funds.	☒	
Diversification: The portfolio will be invested primarily in equities and equity-related securities.	☒	
Exchange: The portfolio will be primarily invested in a diversified portfolio of common stocks that are traded on U.S. securities markets (including NASDAQ). However, it may also invest in stocks not traded on U.S. markets.	☒	

PGIM QUANTITATIVE SOLUTIONS

DAWN PALLITTO
Chief Compliance Officer
PGIM Quantitative Solutions

T: 973-802-3675
E: dawn.pallitto@pgim.com
Two Gateway Center, Newark, NJ, 07102

Financial futures and other derivatives, as well as ETFs may be utilized to assist in managing risk, managing transactions costs, or maintaining desired market exposure.	☒	
Market Cap: At time of rebalance the fund may not have market capitalization equal to the S&P 500 +/- 5% in any capitalization grouping.	☒	
Non-benchmark %: Most of the portfolio will be invested in constituents in the benchmark (S&P 500), however up to 10% of the portfolio may be held in non-benchmark securities.	☒	
Where financial futures are utilized, treasury securities and other cash equivalents may be purchased as collateral for these instruments.	☒	

Sincerely,

Dawn Pallitto

Digitally signed by Dawn Pallitto
Date: 2022.01.24 17:55:50 -05'00'

Dawn Pallitto, Chief Compliance Officer
PGIM Quantitative Solutions, LLC

Ivy INVESTMENTS®

Confirmation of Portfolio Compliance

The table below represents a summary of the daily portfolio compliance testing for the Tulare County Employees' Retirement Association account managed by Ivy Investment Management Company for the most recent quarter ending December 31, 2021. Any exceptions to these noted guidelines are explained further below the table, as needed.

Investment Guidelines	In Compliance	Exception
Restriction the Concentration or Item Count		
Max Issuer Limit – 10% or +2% greater than R1000G security weighting	☒	☐
Max Convertible Securities – 10%	☒	☐
Max Foreign Securities – 25%	☒	☐
Max Cash & Cash Equivalents – 5%	☒	☐
Max of Issuer's Total Outstanding Shares – 5%	☒	☐
Min number of securities held – 30	☒	☐
Permitted Transactions	☒	☐
Security Types – Common Stock, Preferred Stock, US Convertibles and ADRs	☒	☐
Exchanges – Trading only on US Exchanges or OTC	☒	☐
Prohibited/Restricted	☒	☐
NO Foreign Denominated Securities (non-USD)	☒	☐
NO Lettered, Legend or otherwise Restricted Securities	☒	☐
NO Commodities or Commodity Contracts	☒	☐
NO Real Estate	☒	☐
NO Derivatives	☒	☐
NO Financial Margin (Leverage)	☒	☐
NO Securities Lending	☒	☐
NO Short Sales	☒	☐
NO Cross Trades	☒	☐

Explanation of exceptions:

NONE

INVESTMENTS®

By: David Kurth
Signature

Name: David Kurth

Title: Compliance Officer

Date: January 20, 2022

BostonPartners

One Beacon Street, 30th Floor
Boston, MA 02108
www.boston-partners.com

T 617 832-8200

FOR PUBLIC MARKET STRATEGY

INVESTMENT GUIDELINES COMPLIANCE AFFIRMATION
For quarter ending: December 31, 2021

Investment manager name & strategy: Boston Partners Global Investors Inc., LCV Strategy

Account name: Tulare County Employees' Retirement Association (TCERA)

This is to confirm that, to the best of our knowledge, all of Boston Partners Global Investors Inc.'s investment activity during the quarter noted above, on behalf of TCERA LCV account has been consistent with the investment policies and restrictions set forth in the Investment Advisory agreement, Investment Guidelines and Investment Policy Statement and that the portfolio is in compliance with those policies and restrictions below.

Guidelines:	In Compliance	Exception
At least 80% of the portfolio will be invested in companies with market capitalizations within the range of the Russell 1000 Value Index.	☑	
Number of Holdings: 75-100	☑	
Account holdings in any one issuer shall not exceed the greater of the Benchmark weight plus 1 percentage point or 5% of the Account, measured at market value, in either case, determined at the time of purchase.	☑	
Maximum Cash Allocation 5%	☑	
No individual economic sector shall represent more than 35% of the portfolio.	☑	
No more than 15% invested in foreign securities	☑	

By: K Lengieza

Name: Kenneth Lengieza

Title: Chief Compliance Officer

Date: January 14, 2022

William Blair

Tulare County Employees' Retirement Association (TCERA)
Q4 2021 Compliance Report

Investment Guideline Compliance Checklist

Investment Guideline	Compliant during Quarter (Y/N)
The portfolio shall remain fully invested at all times. Fully invested is defined as 5% or less of the market value of the portfolio in cash equivalents. Any cash position in excess of this level for 30 days shall require the manager to notify the System of the position and provide the action taken to rectify it.	Y
No purchase shall exceed 5% of the market value of the portfolio at time of purchase.	Y
No holding shall ever constitute more than 7% of the market value of the portfolio.	Y
No investment in letter stock.	Y
No margin purchases.	Y
No short sales	Y
No derivatives.	Y
No options, financial futures, or forwards.	Y
No foreign securities except ADRs traded on a U.S. exchange.	Y
No more than 10% of the portfolio in U.S. convertible securities.	Y
No more than 5% investment of the outstanding voting securities of any corporation.	Y
Securities must be traded on a regulated stock exchange or listed on the NASDAQ or a compatible foreign market operation.	Y
No private placements.	Y
The portfolio typically will hold between 65-80 securities.	Y
Details of Investment Guideline Violations (if any): None	

Reported by:

Name: Walter R. Randall, Jr.
Title: Chief Compliance Officer – Investment Management
Date:

+1 312 236 1600 tel
The William Blair Building
150 North Riverside Plaza
Chicago, Illinois 60606

LMCG
INVESTMENTS

INVESTMENT GUIDELINES COMPLIANCE AFFIRMATION
For Quarter Ending December 31, 2021

Investment Manager Name: LMCG Investments, LLC
Strategy: Small Cap Value
Account Name: Tulare County Employees' Retirement Association (TCERA)

This is to confirm that, to the best of our knowledge, all of LMCG's investment activity during the quarter above on behalf of the TCERA portfolio has been consistent with the investment policies & restrictions set forth in the Investment Advisory Agreement, Investment Guidelines, and Investment Policy Statement and that the portfolio is in compliance with the policies and restrictions below.

Guideline	In Compliance	Exception
The market capitalization range of the portfolio shall approximate that of the Russell 2000 Value Index. Generally, at the time of purchase, the market cap of stocks will be less than the largest market capitalization stock in the Russell 2000 Value Index.	☑	
Max cash allocation: 10%	☑	
No individual security shall exceed 5% of the market value of the portfolio at the time of purchase. No holding shall ever constitute more than 10% of the market value of the portfolio.	☑	
Investment in 5% or more of the voting securities of any one issuer is prohibited	☑	
No IPOs	☑	
No private placements without prior approval of TCERA	☑	
No options	☑	
No derivatives	☑	

By: Joseph F Tower III

Joseph F. Tower, III
Chief Compliance Officer

Date: January 20, 2022

BLACKROCK

January 7, 2022

Tulare County Employees' Retirement Association

RE: Tulare County Employees' Retirement Association (TCERA), (the "Portfolio")

This letter confirms that, unless otherwise noted below, as of December 31, 2021, the Portfolio has been in compliance, in all material respects, with the investment guidelines applicable to the Portfolio.

BlackRock
By:

Spencer Fleming
Managing Director

55 E. 52nd Street
New York, NY 10055
Tel 212.810.5300
www.blackrock.com

BlackRock.

Tulare County Employees' Retirement Association (TCERA)

Guidelines:	In Compliance:	Exception:	Comments:
CLOs are permitted, but shall comprise no more than 10% of the portfolio market value.	☒	☐	
CMBS are permitted, but shall comprise no more than 15% of the portfolio market value.	☒	☐	
Except for US Government and Agency issues, no more than 5% of the portfolio will be invested in the securities of a single issuer.	☒	☐	
Minimum Issue Credit Rating: ABS and MBS must be rated at least B.	☒	☐	
Non-USD denominated securities are permitted, but shall comprise no more than 30% of the portfolio market value, of which no more than 5% of the portfolio may be exposed to non-USD currencies.	☒	☐	
No more than 10% of the portfolio may be grade rated Issues below BBB rated issues.	☒	☐	
Duration of cash securities must be less than one year.	☒	☐	
Corporate and Mortgage-Backed Securities will each be subject to a maximum limit of 65%.	☒	☐	
Minimum Issue Credit Rating: Long-term corporate debt must be rated at least B.	☒	☐	
If bonds are downgraded below the minimum credit quality allowable in the guidelines at time of purchase, the Manager is allowed to hold up to 2% in aggregate market value of these securities.	☒	☐	
Portfolio Duration +/- 20% of the benchmark.	☒	☐	
Corporate and Mortgage-Backed Securities will each be subject to a maximum limit of 65%.	☒	☐	
Investments in mortgage interest only (IO) and principal only (PO) securities or their derivations are prohibited.	☒	☐	
Commercial paper must be rated at least A2-, P-2, or F-2.	☒	☐	
CLO's must be rated A2/A.	☒	☐	
Foreign Government and Agencies (non-US) must be rated at least B2/B.	☒	☐	Positions held in Argentinian bonds since 2020. Client provided authorization to hold.
US Government issues will comprise a minimum of 10% of the portfolio market.	☒	☐	
Average Portfolio Credit Quality A- or better.	☒	☐	
Private placements are permitted but shall comprise no more than 25% of the portfolio market value.	☒	☐	
Non-USD denominated securities are permitted, but shall comprise no more than 30% of the portfolio market value, of which no more than 5% of the portfolio may be exposed to non-USD currencies.	☒	☐	

BlackRock.

Eligible Investments: MBS (Agency/non-Agency and CMBS), BA, CDs, CapSec, Conv, CoCo, Pref, BTP, Repos, CP, Corporates, US & Foreign Govt/Agcy, Munis, ABS, STIF, Futures, Options, Swaps, Private Placements, benchmark securities, USD Sovereigns, CLO, & ETF	☒	☐	

View in browser

A message from our Chairman and CEO of State Street Corporation.

STATE STREET GLOBAL ADVISORS

Dear Investor,

By now you may have learned the news that after more than six years at State Street Global Advisors (Global Advisors) — including the past four years as president and chief executive officer — Cyrus Taraporevala has decided to retire in 2022.

To ensure seamless services to and performance for our clients, Cyrus will remain as leader of Global Advisors through the selection of, and transition to, his successor. Our search for Cyrus's successor will include both external and internal candidates, given the depth of Global Advisors' leadership team. We anticipate appointing a new head of Global Advisors by the second half of this year. In the meantime, Cyrus will lead the firm and continue to execute its investment and growth strategy.

While we will all miss Cyrus, he will be leaving Global Advisors in a very good position — as a trusted investment partner of choice to clients globally. Under Cyrus's leadership, Global Advisors has strengthened and deepened its capabilities and delivered innovative and distinct solutions that help achieve better investment outcomes for our clients. For example, during the COVID crisis, Global Advisors helped clients navigate extreme market volatility, and the market looked to SPDR ETFs to provide an essential source of liquidity and price discovery when the primary fixed income markets were not functioning properly. Under Cyrus's leadership, Global Advisors introduced an innovative retirement income solution, incorporated into target-date funds, to help ensure that people do not outlive their savings. He has also been a strong voice on environmental, social and governance (ESG) stewardship and policy, and helped secure Global Advisors' position as an ESG leader and solutions provider.

As a result, State Street Global Advisors' clients have entrusted the firm with more of their capital. In sum, Cyrus led the firm to become a more forward-looking, high-performing, and client-centric organization. It is this legacy that benefits our clients and upon which the firm will continue to build.

For me, Cyrus's decision is bittersweet. He and I have worked together off and on for over 25 years, and I know this decision is part of his long-term life plan. He has been a truly great leader, constantly driving forward on behalf of our clients and people. I will miss his wisdom, counsel, and grace. At the same time, I have no doubt that we will identify a worthy successor and continue to serve you exceptionally well.

Thank you for your continued partnership and trust. We look forward to working together and serving you in 2022. I will keep you informed about Cyrus's successor and the transition as and when I have news.

Though Cyrus will continue to lead Global Advisors for much of this year, please join me in recognizing Cyrus for his many contributions, and wishing him the very best on his retirement and next chapter.

Regards,
Ron

Ronald O'Hanley
Chairman and Chief Executive Officer
State Street Corporation

Preferences Unsubscribe Privacy Policy Contact Us ssga.com

Important Risk Information

Marketing Communication

Investing involves risk including the risk of loss of principal.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

The views expressed in this material are the views of Ron O'Hanley through the period ended January 19, 2022 and are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

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ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns.

There can be no assurance that a liquid market will be maintained for ETF shares.

Diversification does not ensure a profit or guarantee against loss.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

The returns on a portfolio of securities which exclude companies that do not meet the portfolio's specified ESG criteria may trail the returns on a portfolio of securities which include such companies. A portfolio's ESG criteria may result in the portfolio investing in industry sectors or securities which underperform the market as a whole.

State Street Global Advisors, One Iron Street, Boston, MA 02210-1641

4206128.1.1.GBL.RTL
Expiration Date: 1/31/2023

State Street Global Advisors Worldwide Entities

	Market Value	% of Portfolio	1 Mo	Fiscal YTD	Fiscal 2021	Fiscal 2020	Fiscal 2019	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs
Total Fund	**1,979,184,561**	**100.0**	**-3.1**	**0.9**	**23.6**	**0.6**	**6.0**	**8.6**	**9.7**	**8.4**	**7.6**	**5.3**	**6.4**
Policy Index			*-3.5*	*1.9*	*21.9*	*3.0*	*6.9*	*9.0*	*10.5*	*9.1*	*7.8*	*6.0*	*6.9*
Total Domestic Equity	**583,236,899**	**29.5**	**-5.7**	**2.3**	**44.5**	**4.2**	**7.6**	**19.6**	**18.9**	**15.6**	**14.8**	**9.9**	**9.4**
Russell 3000 Index			*-5.9*	*2.7*	*44.2*	*6.5*	*9.0*	*18.8*	*19.9*	*16.1*	*15.0*	*10.0*	*9.5*
SSGA S&P 500 Flagship Fund	221,958,569	11.2	-5.2	5.9	40.8	7.5	10.4	23.2	20.7	16.8	15.4	-	-
S&P 500 Index			*-5.2*	*5.9*	*40.8*	*7.5*	*10.4*	*23.3*	*20.7*	*16.8*	*15.4*	-	-
QMA Large Cap Core	73,282,202	3.7	-3.6	6.4	39.6	3.8	6.6	24.7	18.5	15.1	15.0	-	-
S&P 500 Index			*-5.2*	*5.9*	*40.8*	*7.5*	*10.4*	*23.3*	*20.7*	*16.8*	*15.4*	-	-
Ivy Large Cap Growth	78,019,222	3.9	-7.8	4.2	38.0	20.2	15.1	22.9	25.7	22.3	17.8	-	-
Russell 1000 Growth Index			*-8.6*	*3.2*	*42.5*	*23.3*	*11.6*	*17.5*	*26.4*	*22.3*	*18.0*	-	-
Boston Partners Large Cap Value	75,145,956	3.8	0.0	7.6	49.6	-8.8	4.5	31.6	15.3	12.4	13.1	9.0	9.2
Russell 1000 Value Index			*-2.3*	*4.4*	*43.7*	*-8.8*	*8.5*	*23.4*	*13.8*	*10.5*	*12.3*	*7.2*	*8.2*
SSGA US Extended Market Index	72,933,638	3.7	-10.0	-12.3	-	-	-	-	-	-	-	-	-
Dow Jones U.S. Completion Total Stock Market Indx			*-10.1*	*-12.5*	-	-	-	-	-	-	-	-	-
William Blair SMID Cap Growth	28,932,035	1.5	-12.5	-12.2	42.3	6.1	10.1	-6.1	14.6	15.4	14.5	11.6	-
Russell 2500 Growth Index			*-13.2*	*-16.1*	*49.6*	*9.2*	*6.1*	*-11.3*	*14.9*	*13.8*	*13.3*	*10.0*	-
Lee Munder Small Value	32,965,278	1.7	-3.7	2.9	61.1	-14.9	-4.7	25.8	14.0	8.3	10.7	-	-
Russell 2000 Value Index			*-5.8*	*-4.7*	*73.3*	*-17.5*	*-6.2*	*14.8*	*11.7*	*7.9*	*10.6*	-	-
Total International Equity	**301,876,204**	**15.3**	**-3.6**	**-4.5**	**38.3**	**-4.0**	**3.5**	**6.0**	**11.0**	**8.9**	**6.7**	**2.6**	**6.4**
MSCI AC World ex USA Index			*-3.7*	*-4.7*	*36.3*	*-4.4*	*1.8*	*4.1*	*9.6*	*8.5*	*6.7*	*4.0*	*7.3*
SSGA MSCI ACWI Ex US Index Fund	105,185,795	5.3	-3.7	-4.8	35.9	-4.5	1.5	3.8	9.3	8.3	6.4	-	-
MSCI AC World ex USA (Net)			*-3.7*	*-4.9*	*35.7*	*-4.8*	*1.3*	*3.6*	*9.1*	*8.0*	*6.2*	-	-
PIMCO RAE Fundamental Global Ex US Fund	104,104,560	5.3	0.7	-1.4	45.3	-14.9	-1.5	12.1	7.5	6.4	-	-	-
MSCI AC World ex USA Value (Net)			*0.9*	*-0.2*	*37.6*	*-15.3*	*-0.1*	*11.6*	*6.0*	*5.5*	-	-	-
SGA Global Growth	92,585,848	4.7	-7.9	-7.3	34.3	6.5	10.7	2.8	15.2	-	-	-	-
MSCI AC World ex USA Growth (Net)			*-8.1*	*-9.3*	*33.7*	*5.8*	*2.6*	*-4.0*	*11.8*	-	-	-	-

Interim Policy Index (10/1/2021): 26% Russell 3000, 16% MSCI ACWI ex US, 3% MSCI ACWI, 17% Bloomberg US Aggregate, 3% JPM GBI Global, 13.4% NCREIF-ODCE, 5% Russell 2000, 4.6% MSCI REIT Index, 7% Private Equity Returns, 5% Private Credit Returns. SSGA Russell Small Cap Completeness Index transitioned to SSGA US Extended Market Index on 6/10/21. Invesco Commercial MIF funded 9/1/21. Franklin Templeton Global Bond Plus liquidates 12/9/2021. SSGA US REIT Index funded 12/10/2021. All data is preliminary.

Executive Summary (Net of Fees) - Preliminary

Period Ending: January 31, 2022

	Market Value	% of Portfolio	1 Mo	Fiscal YTD	Fiscal 2021	Fiscal 2020	Fiscal 2019	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs
Total Global Equity	**63,375,738**	**3.2**	**-8.6**	**0.9**	**50.4**	**-3.6**	**1.9**	**16.4**	**15.3**	**12.5**	**-**	**-**	**-**
MSCI AC World Index			*-4.9*	*0.6*	*39.9*	*2.6*	*6.3*	*13.7*	*16.0*	*13.2*	-	-	-
Skellig Water Fund (aka KBI)	63,375,738	3.2	-8.6	0.9	50.4	-3.6	1.9	16.4	15.3	12.5	-	-	-
MSCI AC World Index (Net)			*-4.9*	*0.4*	*39.3*	*2.1*	*5.7*	*13.2*	*15.4*	*12.6*	-	-	-
Total Fixed Income	**423,821,778**	**21.4**	**-1.9**	**-2.8**	**2.8**	**2.9**	**7.2**	**-3.4**	**2.3**	**2.4**	**2.5**	**4.0**	**4.3**
Blmbg. U.S. Aggregate Index			*-2.2*	*-2.1*	*-0.3*	*8.7*	*7.9*	*-3.0*	*3.7*	*3.1*	*2.6*	*3.9*	*4.2*
Total Domestic Fixed Income	**367,217,784**	**18.6**	**-2.0**	**-2.0**	**2.3**	**7.3**	**7.6**	**-2.2**	**4.2**	**3.4**	**3.0**	**-**	**-**
Blmbg. U.S. Aggregate Index			*-2.2*	*-2.1*	*-0.3*	*8.7*	*7.9*	*-3.0*	*3.7*	*3.1*	*2.6*	*3.9*	-
BlackRock Fixed Income	130,943,731	6.6	-2.2	-2.1	0.5	9.1	8.0	-2.8	4.1	3.3	2.9	4.2	4.5
Blmbg. U.S. Aggregate Index			*-2.2*	*-2.1*	*-0.3*	*8.7*	*7.9*	*-3.0*	*3.7*	*3.1*	*2.6*	*3.9*	*4.2*
Doubleline Core Plus	115,862,627	5.9	-1.6	-1.5	2.9	4.1	7.0	-1.7	3.4	2.9	-	-	-
Blmbg. U.S. Aggregate Index			*-2.2*	*-2.1*	*-0.3*	*8.7*	*7.9*	*-3.0*	*3.7*	*3.1*	-	-	-
MacKay Shields Core Plus	120,411,426	6.1	-2.3	-2.2	3.7	8.5	7.4	-1.9	5.0	3.9	-	-	-
Blmbg. U.S. Aggregate Index			*-2.2*	*-2.1*	*-0.3*	*8.7*	*7.9*	*-3.0*	*3.7*	*3.1*	-	-	-
Total Emerging Markets Fixed Income	**56,603,994**	**2.9**	**-1.4**	**-4.6**	**10.3**	**-2.4**	**-**	**-5.5**	**-**	**-**	**-**	**-**	**-**
50% JPM EMBI Global Div/50% JPM GBI EM Global Div			*-1.4*	*-4.7*	*7.1*	*-1.1*	-	*-5.6*	-	-	-	-	-
PGIM Emerging Markets Debt	56,603,994	2.9	-1.4	-4.6	10.3	-	-	-5.5	-	-	-	-	-
50% JPM EMBI Global Div/50% JPM GBI EM Global Div			*-1.4*	*-4.7*	*7.1*	-	-	*-5.6*	-	-	-	-	-
Total Real Estate	**325,015,000**	**16.4**			**2.2**	**5.3**	**6.7**	**11.0**	**5.9**	**6.3**	**8.6**	**4.9**	**7.3**
NCREIF ODCE					*7.1*	*1.3*	*5.5*	*21.0*	*8.2*	*7.7*	*9.4*	*5.8*	*7.3*
RREEF America II	180,697,807	9.1			2.1	5.3	6.6	12.0	6.2	6.5	9.7	5.9	-
NCREIF ODCE					*7.1*	*1.3*	*5.5*	*21.0*	*8.2*	*7.7*	*9.4*	*5.8*	-
American Realty	37,834,746	1.9			3.4	-	-	10.5	-	-	-	-	-
NCREIF ODCE					*7.1*	-	-	*21.0*	-	-	-	-	-
Invesco Commercial Mortgage Income Fund	67,123,595	3.4			-	-	-	-	-	-	-	-	-
NCREIF ODCE					-	-	-	-	-	-	-	-	-
SSGA US REIT Index Non-Lending Fund	39,358,852	2.0			-	-	-	-	-	-	-	-	-
NCREIF ODCE					-	-	-	-	-	-	-	-	-

Interim Policy Index (10/1/2021): 26% Russell 3000, 16% MSCI ACWI ex US, 3% MSCI ACWI, 17% Bloomberg US Aggregate, 3% JPM GBI Global, 13.4% NCREIF-ODCE, 5% Russell 2000, 4.6% MSCI REIT Index, 7% Private Equity Returns, 5% Private Credit Returns. SSGA Russell Small Cap Completeness Index transitioned to SSGA US Extended Market Index on 6/10/21. Invesco Commercial MIF funded 9/1/21. Franklin Templeton Global Bond Plus liquidates 12/9/2021. SSGA US REIT Index funded 12/10/2021. All data is preliminary.

	Market Value	% of Portfolio	1 Mo	Fiscal YTD	Fiscal 2021	Fiscal 2020	Fiscal 2019	1 Yr	3 Yrs	5 Yrs	10 Yrs	15 Yrs	20 Yrs
Total Private Equity	**117,789,041**	**6.0**			**42.8**	**5.4**	**17.8**	**18.2**	**19.4**	**18.4**	**14.9**	**-**	**-**
Private Equity Benchmark					*42.8*	*5.4*	*17.8*	*18.2*	*19.4*	*18.4*	*15.4*	-	-
BlackRock Alternative Advisors	514,486	0.0			-13.7	8.1	8.8	-35.4	-4.4	1.6	5.0	-	-
Ocean Avenue Fund III	19,428,499	1.0			25.2	13.7	35.4	41.0	24.1	28.0	-	-	-
Ocean Avenue Fund IV	20,601,057	1.0			35.2	-	-	12.5	-	-	-	-	-
Pantheon Ventures	420,959	0.0			4.4	-23.1	5.6	-6.7	-7.8	-2.4	2.7	3.6	-
Pathway Private Equity Fund Investors 8	33,854,318	1.7			67.5	4.9	26.4	35.6	31.8	29.0	-	-	-
Pathway Private Equity Fund Investors 9	24,383,776	1.2			73.9	0.0	22.0	29.4	25.9	-	-	-	-
Pathway Private Equity Fund Investors 10	12,374,850	0.6			46.9	-	-	24.9	-	-	-	-	-
Stepstone Secondary Opportunities Fund II	6,211,096	0.3			22.4	-0.5	2.1	3.6	6.9	7.1	-	-	-
Total Private Credit	**84,635,665**	**4.3**			**28.3**	**-4.5**	**11.2**	**7.0**	**9.3**	**9.1**	**-**	**-**	**-**
Private Credit Benchmark					*28.3*	*-4.5*	*11.2*	*7.0*	*9.3*	*9.1*	-	-	-
Sixth Street DCP (frmrly TSSP DCP)	84,635,665	4.3			28.3	-4.5	11.2	7.0	9.3	9.1	-	-	-
Total Opportunistic	**27,502,405**	**1.4**			**15.0**	**-6.2**	**-6.2**	**9.1**	**4.5**	**7.8**	**12.6**	**-**	**-**
Sixth Street TAO Contingent (frmrly TSSP TAO Contingent)	23,587,526	1.2			27.6	-	-	8.7	-	-	-	-	-
KKR Mezzanine Partners I	3,904,517	0.2			-13.6	-7.3	1.5	10.0	-5.5	1.6	7.2	-	-
PIMCO Bravo	10,362	0.0			-23.8	-76.0	-45.1	-41.0	-47.2	-29.2	-8.0	-	-

Interim Policy Index (10/1/2021): 26% Russell 3000, 16% MSCI ACWI ex US, 3% MSCI ACWI, 17% Bloomberg US Aggregate, 3% JPM GBI Global, 13.4% NCREIF-ODCE, 5% Russell 2000, 4.6% MSCI REIT Index, 7% Private Equity Returns, 5% Private Credit Returns. SSGA Russell Small Cap Completeness Index transitioned to SSGA US Extended Market Index on 6/10/21. Invesco Commercial MIF funded 9/1/21. Franklin Templeton Global Bond Plus liquidates 12/9/2021. SSGA US REIT Index funded 12/10/2021. All data is preliminary.

TULARE COUNTY EMPLOYEES' RETIREMENT SYSTEM

ACTUARIAL AUDIT

January 2022

ROEDER FINANCIAL

TULARE COUNTY EMPLOYEES' RETIREMENT SYSTEM

January 14, 2022

AUDIT SCOPE

TCERA asked us to complete what we would term a "Level 2" audit. This is not a parallel valuation nor a check on data quality but offers the next highest level of review. We asked the system actuary, Cheiron, to provide us with selected "sample life" data. The lives were selected to represent different demographics and different valuation groups.

We performed the following tasks in our review:

1) We reviewed each of the last four actuarial valuations
2) We reviewed Cheiron's 2020 experience investigation report
3) We reviewed the member data files used for the June 30, 2021 valuation
4) We posed numerous questions of both Leanne Malison and Cheiron staff
5) We calculated present values and normal costs for selected active employees in each Tier, Safety and non-Safety
6) We reviewed and checked present value calculations for 3 current retirants, both as to the non-SRBR and SRBR components
7) We reviewed and checked the present values for 3 deferred vested participants, two of whom were reciprocal
8) We calculated four sample employee contribution rates

While this analysis is not designed to produce an audit as rigorous as if parallel valuations were completed, the scope of our audit did provide enough insight to provide some suggestions for alternate treatment when we felt merited. The audit also gives us the opportunity to affirm the numerous areas where the System is currently being well served.

The time frame for completing this audit was lengthy. We reviewed the 2018-2020 valuations and experience investigation report last spring. We had considerable dialogue with both Cheiron and Leanne Malison prior to Cheiron's completion of their June 30, 2021 valuation. We went "dark" for 5+ months until the 2021 report was issued. Cheiron was extremely cooperative in providing requested numbers. Extensive "back and forth" dialogue and "number swapping" ensued. We did not disclose our calculated numbers until we were provided with requested data.

If we calculated a number which was within 96%-104% of the same number calculated by Cheiron, we were satisfied. If not, we asked for and/or were provided further data. From Cheiron's standpoint, the process required a lot of patience as TCERA's benefit structure is complex (as is the case for all the 1937 Act Systems).

ACTUARIAL FUNDING

No defined benefit ("DB") plan can know with certainty the associated costs in a given year. An estimate is done through an actuarial valuation.

The most significant objective that actuarial funding can hope to achieve in a DB plan is to calculate long-term contribution estimates that do not produce intergenerational subsidies among different eras of taxpayers. However, "level" does not generally mean a level dollar payment from year-to-year but level in terms of ability of a system to make payments. The usual measure of "level" is to compare computed contributions as a percentage of active member payroll. Since payroll is expected to rise with inflation, nominal dollar contributions will also be expected to increase in a level-cost system.

Social Security would be the most prominent example of a pension program that violates this principle due to its extremely low level of trust assets to pay future promised benefits. This principle would also be violated if "excessive" contributions were received in an early period of plan operation such that long-term contribution rates would be permanently lower. This can happen if actuarial assumptions are too conservative. For example, if a system continually earns a greater return on trust assets than anticipated, well intended conservatism can conflict with this principle of level funding. In California, level funding also conflicts with Proposition 162. Fiduciaries have a secondary obligation to reasonably minimize contributions charged to both employer and employees.

It is absolutely impossible to accurately estimate the wide variety of factors that are used to determine contribution rates and liabilities in a relatively short time frame. One of the key elements to any viable funding program is to have a logical, clearly defined manner as to how to handle the inevitable differences between assumed and actual experience. In any accepted funding method, such differences are reflected as actuarial gains or losses and systematically reflected in adjusting future contribution rates.

Invested assets are a byproduct of level-cost funding and not the objective. Investment income, in effect, becomes an additional contributor to a system.

Definition of some terms is important:

Normal Cost: The actuarial present value of retirement system benefits allocated to the current year by the actuarial funding method employed.

Actuarial Funding Method: A mathematical budgeting process for allocating the dollar amount of the accrued present value of retirement system benefits between future normal costs and actuarial accrued liability.

Actuarial Accrued Liability: The difference between the actuarial present value of system benefits and the actuarial value of future normal costs.

Actuarial Present Value: The amount of funds currently required to provide a payment or series of payments at predetermined rates of interest and by probabilities of payment.

Actuarial Equivalent: A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.

Accrued Service: Credited system service rendered prior to the actuarial valuation date.

Amortization: Paying off an unfunded Actuarial Accrued Liability with periodic payments of interest and principal.

Unfunded Actuarial Accrued Liability: The difference between Actuarial Accrued Liability and valuation assets.

The Need For a Long-Term View

Regardless of the funding method selected, the results of one valuation are relatively inconclusive. The long-term nature of plan liability is illustrated by a new hire at age 21 possibly receiving benefits in 2090! Since there is no high degree of "ultimate actuarial truth" in any single valuation , it is only through a series of actuarial valuations over a period of 5+ years that increasing credibility can emerge. A pattern of both contribution rates and actuarial gains (losses) will likely emerge. If the selected actuarial assumptions are reasonable, such gains and losses will tend to offset each other over a period of time. If there are recurring actuarial gains, this indicates that selected assumptions are overly "conservative." Conservative means that current contribution levels are higher than the long-term contributions needed to support plan benefits. Conversely, if there are ongoing actuarial losses, selected assumptions may be overly "aggressive" in that long-term contributions will need to be higher than current contributions for a system to be financially sound.

A big note of caution: The inflation assumption and the real rate of investment return are usually the two most significant factors in determining contribution rates for a given set of benefits. These elements are the two most difficult factors to predict in a valuation.

The economic cycles in both bear and bull markets tend to be lengthy.

There have been four sustained market cycles over the past five decades:

1973-1982 BEAR

1983-2000 BULL

2001-2008 BEAR

2009-2021 BULL

In the actuarial valuation report, there should be enough historical information over the past ten years to give the reader a more appropriate long-term perspective. The need for a long-term view also argues strongly against changing actuarial assumptions too frequently. Frequent changes obscure reasonable comparisons of recent actuarial valuations and are inconsistent with the long-term nature of pension funding. If assumptions are changed more frequently than once every three years, a plan's decision makers should reflect whether undue micromanagement is occurring. Frequent assumption changes also open a political Pandora's box. Once this precedent is set, politicians or others with short-term agendas may find it easier to lobby for a set of assumption changes which produces a desired result.

The following indices should be provided in a valuation report over a period of 5-10 years to give the reader added perspective:

- Contribution rates
- Funded ratio (Actuarial Value of Assets *divided by* Actuarial Value of Liabilities)
- Unfunded liability
- Ratio of unfunded liability to active member payroll (This ratio should be declining over a period of years in absence of benefit enhancements)
- Overall actuarial gain (loss)
- Ratio of actuarial gain (loss) to Actuarial Value of Liabilities

Comparative schedules should be footnoted when an "apples to apples" comparison does not exist. This could occur when assumptions, benefits or funding methods are changed. When such changes are made, historical schedules should reflect both "before" and "after" status. The GASB disclosures in the valuation report do a good job of summarizing funded ratios, unfunded liabilities and employer contributions over the past decade.

The Cheiron report does a good job disclosing historical schedules. The Cheiron 2021 valuation report does an excellent job of showing certain historical schedules on pages 16, 36-38 and page 51 of their report. Helpful historical information is also provided on age 29, pages 46-48 and page 61 of the Cheiron report.

We were pleased to see that Cheiron well addressed a recommendation in our previous audit. On page 16 of their report, there is a 9-year schedule that shows both changes in the Unfunded Accrued Liability ("UAL") and the components of such change. Despite the issuance of a $250 million Pension Obligation Bond, the total UAL increased by $96 million over such period. Such schedule gives much important information as to the reasons for the increase in the UAL.

Five times in the past 8 valuations, assumptions have been made more conservative, resulting in an increase in $157 million in liabilities. We strongly endorse Cheiron's bifurcation of actuarial gains/losses between investment and non-investment elements. In the short term, the actuarial process can see large swings between assumed investment income and actual investment income: such is the nature of markets. However, our hope would be that the non-investment portion of actuarial gains and losses would be relatively small as non-investment elements of the County's liabilities should be able to be predicted with a greater degree of accuracy. During this 9-year period, the schedule shows that actual investment income has lagged behind anticipated investment income by $219 million. Fortunately, the robust returns for FYE 2021 will help address potential investment returns in future years due to your 10-year period of smoothing actual investment returns.

Selecting An Actuarial Funding Method

TCERA currently uses the most popular funding method of acceptable actuarial funding methods for both funding and expensing, Entry Age Normal. In the most recent Funding Ranking Survey by Roeder Financial, all 36 surveyed California systems use Entry Age Normal.

Under Entry Age Normal, the present value of projected benefits for each active member is spread as a level percent of an active member's compensation for each year from the member's entry age to the member's anticipated exit from active membership. If a member's anticipated compensation, five years after entering a plan, is 30% higher than at entry age, then the dollar normal cost for such year will also be 30% higher. The normal cost for the group is the sum of the normal costs for each active member of the group.

Selecting An Assumed Investment Return

TCERA's current investment assumption of 7% is mainstream. In Roeder Financial's most recent survey of 36 California public Systems, the mean assumption is 6.94%. We would also note that SRBR benefits for TCERA distinguish the System from most others. Other factors equal, one might expect TCERA's discount rate to be slightly lower than the mainstream due to the siphoning of "excess earnings" into the SRBR reserve during the "good years."

One impact of the pandemic was unprecedented fiscal stimulus. Long-term effects, if any, from this stimulus are uncertain. Pre-pandemic, we wondered if TCERA's 7% assumption was slightly high.

Two comments from Cheiron's 2020 Experience Investigation: First, on Page 6, "we believe reasonable long-term price inflation is between 2% and 2.75%." If so, then the difference between the 7% and such price inflation will range between 4.25% and 5%. Such "real rate of return" is optimistic and somewhat higher than the mainstream. Any concerns we might have as to assumed investment returns have been abated in the near-term with the stellar equity performance for FYE 2021 and the first half of FYE 2022.

Inflation will continue to defy accurate long-term prediction, in no small part due to governmental actions. Inflation during calendar year 2021 was the highest in 40 years due to unprecedented stimulus, high unemployment benefits and expansive monetary policy of the Federal Reserve. The duration of this period of high inflation is uncertain.

The second area that gives us pause is a chart on page 12 of their Experience Investigation. The report cites three sources which average to a 6.14% long-term return (net of 0.20% for administrative expenses). Both these cites from the Cheiron Experience Investigation report could be viewed as being consistent with an assumed rate of return slightly lower than 7%. Again, the pandemic-related actions in Washington D.C. have cast into question the validity of pre-pandemic analysis.

We offer one additional observation: The trailing rates of return for Systems over the period from 2000-2020 have been less than projected *(The most recent California Funding Ranking Survey at roederfinancial.com offers data in this regard)*. In 2000, equity markets were at the tail end of the longest bull market in history. Regardless, projections of ongoing market returns at that time were consistent with the thought of a never-ending bull market. In retrospect, an error.

Since 2010, equity markets have been in an 11-year bull cycle. As Systems painfully learned in 2001, bull markets do not last forever – particularly if the recent incidence of higher inflation proves to be more than transitory.

In past years, TCERA's assumed investment return probably should have been slightly less than its peers, other factors equal. Since TCERA is one of the few SRBR Counties, some of the earnings during the good years are siphoned off into SRBR Reserves and, thus, are unavailable to fill "the gaps" during the down years. In fact, our Funding Ranking Survey has indicated that TCERA's discount rate has generally tended to be slightly above the average among California public entities.

However, the impact of SRBR on selection of the assumed investment return should lessen over the work horizon of existing Tier 4 employees. Tier 4 employees are not eligible to receive SRBR benefits. Because the Tier 4 percentage of the work force will increase with each passing year, the impact of SRBR will eventually decline.

With added recent economic uncertainty, we feel comfortable with retention of the 7% investment assumption for the time being, particularly given the amount of activity by the Board and its advisors in this analysis. In part due to the two cited observations from Cheiron's Experience Investigation, the Board will wish to revisit this assumption after the inevitable end of the current bull market occurs.

Selection of an Asset Valuation Method

Why not use market value of assets at valuation date? If a system does, its pattern of contribution rates will likely prove to be volatile. The short-term vagaries of the market can be inconsistent with the intrinsic value of equities owned and are inconsistent with the long-term nature of pension funding. Was a plan's domestic equity portfolio intrinsically 13% less valuable in **one** trading day as occurred on March 15, 2020? No. A subsequent market rebound of almost 50% in the Dow Jones Industrial Average affirmed that.

The current method of developing the actuarial value of assets spreads unexpected changes in market value over 10 years. GASB states that the actuarial value of assets should be market-related. We view your 10-year asset smoothing period is higher than we would view as optimal. However, two other factors limit any concern.

First, the existence of a 30% funding "corridor" limits the divergence between market and actuarial value. In practice, the variance between market value of assets in the 2021 valuation exceeds the actuarial value of assets by $108.7 million, thanks in part to robust returns for fiscal year 2021.

Treatment of Actuarial Gains and Losses

Why should an actuary be very humble? Because we know that our calculations will inevitably be somewhat off target. Sometimes, regarding assumed investment returns, way off target! In some years, such as your 2008-09 fiscal year that was in the throes of the equity meltdown, actuaries will be way off. To the extent that actuarial experience differs from assumed, a fund needs to make a rational adjustment in future contribution levels. Under Entry Age Normal, actuarial gains (losses) directly impact the unfunded liability. Other factors equal, actuarial losses lead to higher plan contributions; gains result in lower contributions.

Amortization of Unfunded Accrued Liabilities

The amortization period for actuarial gains (losses) is 19 years. While we have a preference for a shorter period that aligns more closely to the average future service of the County's active members, 19 years is within professional norms.

Allocation of Financing of Unfunded Liabilities Among Tiers

Three truths:

PEPRA significantly reduced benefits for General members.

Benefit reductions are not fully reflected in overall Tier 4 contribution rates

With hindsight, the cost of Tier 2-3 benefits were underpriced

For General members, the UAL amortization is a uniform percent of payroll, irrespective of Tier. The same is true for Safety members. On page 37 of the 2021 valuation, 4.58% is the uniform contribution for UAL amortization for County General members. For County Safety members, the uniform contribution for UAL amortization is 7.79%.

In terms of comparing costs between Tiers, this application creates an anomaly since the large bulk of the unfunded liability predates the creation of Tier 4. From a standpoint of ease of actuarial application standpoint, we understand how such "uniform" approach is attractive. However, we see an issue from the standpoint of understanding the true long-term savings due to Tier 4. This uniform approach significantly understates the long-term savings associated with Tier 4. In overstating the costs of Tier 4 pension benefits, there may be unintended repercussions *(ie, future pay increases granted to Tier 4 employees given that fringe benefit levels often play a role in pay negotiations).* We offer two alternatives that we believe would be an improvement.

ALTERNATIVE 1: Developing a more equitable approach to differentiate amortization costs among Tiers.

Each new hire enters TCERA with no unfunded liability. When Tier 4 was initially created, there should have been **ZERO** unfunded liabilities allocated to Tier 4 upon inception of PEPRA. Thus, we do not believe that Tier 4 should "share" an equal burden of financing unfunded liabilities that largely are not associated with Tier 4.

Last Spring, we offered one alternative approach using the 2020 valuation as a model. Our understanding was that accrued liabilities in the 2020 valuation were apportioned as follows:

Tier 1:	20%
Tiers 2-3:	76%
Tier 4:	4%

The UAL amortization rate for General members was 5.09% of payroll in the 2020 valuation. Using the above liability allocation, we believe a better reflection of plan history would be to have determined General UAL amortization as follows:

8.6%	Tiers 2-3
0.6%	Tier 4

Tier 1 has no active members. Using the above reallocation among Tiers, the **total** amortization contribution for the County would have remained unchanged. **Thus, from an OVERALL System standpoint, the equity issue we raise is not major as total funding need not be impacted.**

Roeder Financial recommends a revised approach which attempts to equitably assign unfunded accrued liability to the various Tiers. For those who wish to go "deeper in the weeds" on this issue, attached is a copy of a response we wrote last year to address potential objections to our proposed approach. Cheiron had asked how we would propose to implement our recommendation. Two proposed approaches are in the following article – a fable involving a newborn - "Are the Actuaries Being Unfair to the California Legislature?" *(available at roederfinancial.com)*. We had some spirited discussions with Cheiron in this regard. Graham Schmidt expressed some strong reservations to our proposed approach. One of the "pushbacks" to our proposal was that the Tier 4 benefits are not "that much different" from Tier 3. While we would agree with this sentiment for Safety employees, we would not for General employees, given the following comparisons:

Yearly Benefit Accrual

<u>Retirement Age</u>	<u>Tier 3</u>	<u>Tier 4</u>	<u>Reduction</u>
55	1.77%	1.30%	27%
62	2.62%	2.00%	24%
65	2.62%	2.30%	12%
67	2.62%	2.50%	5%

At retirement ages less than age 67, we view the General Tier 4 benefit reductions as significant.

<u>ALTERNATIVE #2:</u> If Cheiron and/or the County is not comfortable with such revision, our secondary recommendation would be to eliminate showing their total contribution breakdown among Tiers since we believe the relatively small contribution differences to be misleading. The different normal costs would still be differentiated by Tier but the UAL amortization would be shown as one total.

<u>Data Analysis</u>

There are slightly more than 26 biweekly pay periods in a year. Cheiron annualizes valuation pay by multiplying by a factor of 26.6825. On the surface, this factor appears slightly too high since there are 26.073 biweekly periods in a 365-day year. However, Cheiron assumes that, on average, a "half-year" pay increase will occur at mid year. Thus, we find their approach to be reasonable.

The number counts in the data file provided us for the 2021 valuation are consistent with the number counts shown in the Cheiron report.

In Cheiron's most recent experience study, initially, we could not tie in number counts on a consistent basis with number counts in the valuations. There was an excellent reason! Cheiron used experience from the previous 6 years in developing experience. We have no problem with this approach **if** the experience from the years 2014 to 2017 is still deemed fully credible to predict future anticipated behavior. When queried, staff felt comfortable with the 6-year approach. We would suggest that in Cheiron's next experience study that this approach be highlighted. Initially, we had no clue as to their 6-year approach as this methodology was disclosed on the last paragraph of page 16 of their Investigation report.

Analysis of Active Member Sample Lives

We selected an active member from each classification and Tier, and asked Cheiron to develop the entry age accrued liability, total employer normal, employer normal cost for service retirement pensions only and the present value of future assumed compensation. We were satisfied with the relationships between the Cheiron results and our figures.

By coincidence, the General Tier 4 sample life was a return-to-work member who had previously retired as a General Tier 3 member. Only two such members were return-to-work among June 30, 2021 actives. Technically, this return-to-work situation was complicated but Cheiron handled it quite well.

One technical point came up in our analysis of such General Tier 4 employee. The present value of employee contributions was only 39% of the present value of future normal cost. Since such percent was pretty far from 50%, we made an inquiry. Cheiron indicated that, **in aggregate**, that the present value of Tier 4 employee contributions would be 50% of the present value of future normal cost. We believe this approach is reasonable.

Analysis of Vested Deferred Members

We analyzed the present values of benefits for three deferred vested members of their choosing. Cheiron provided us with present value of benefits for the following:

Mr. Harmon	Reciprocal General Tier 2
Ms. Gonzalez	Non-reciprocal General Tier 3
Mr. Dow	Reciprocal Safety Tier 3

In each case, our figures closely reconciled.

Analysis of Retirants and Beneficiaries

We asked Cheiron to derive present values for a Safety Tier 1 retirant a General Tier 2 retirant and a General Tier 3 retirant.

Coincidentally, one of the retirants we selected was a 61-year-old retirant who had elected a higher benefit for the pre-age 62 portion of her retirement. Cheiron handled this well, as it would have been easy to not handle the COLA component accurately, given how the County's data file is structured.

We did verify that the calculated Tier 1 COLA appears to be calculated correctly as the COLA for other Tiers is capped at 2% per year.

Cheiron has made a distinction between wage inflation and the post-retirement, cost-of-living for the older retirees whose annual COLA adjustment cap is 3%. Even though Cheiron's CPI increase assumption is 2.75%, we do not have an issue with Cheiron using a lower 2.6% assumed adjustment in the COLA cap for Tier 1 retirees. Their rationale is that Cheiron projected near-term inflation to be lower than their 2.75% assumption *(a very reasonable assumption even though pandemic-induced inflation caught all actuaries off guard)*. They could have used explicit, lower near-term assumptions but their approach is quite reasonable.

Analysis of Other Assumptions

Pay Increase Assumptions:

Assumed pay increases appear quite reasonable. Promotional increases are greatest in early years of employment as would be expected. The promotional component grades to 1.0% in Year 8 of employment for all actives and further grades down to 0.5% for General members for Years 15+. The promotional component is in addition to a COLA-related 3% increase each year.

Use of Marital Assumptions

Their percentage of assumed marrieds appears reasonable. This assumption is relevant because the unmodified 60% survivor allowance (100% in the case of duty disability) is a cost fully borne by the County for Tiers 1-3 and is shared equally for Tier 4 employees. As we always see, the assumed percentage of marrieds at retirement is higher for males than females.

Deferred Vested Elections

Cheiron's assumptions appear to reasonably match experience in the most recent experience investigation.

Rates of Employee Turnover

Cheiron has changed its methodology in assumed termination rates in recent years. They employ three tiers of rates at a particular attained age, depending on years of service. The rationale is that employees with longer service are assumed to be less likely to terminate in any given year than a shorter-tenured employee with the same age. This addresses a concern we had in our previous audit. In our previous audit, TCERA assumed termination rates were much higher than for the adjacent 1937 Act Counties, Kern and Fresno. Now, General termination rates for those with 10+ years of employment are much more in line with other, comparable entities. We believe this refinement is a significant improvement.

There are still some termination rates which remain high compared to adjacent 1937 Act Counties. For example, the termination rates for Safety members with 5+ years of service at ages 35-44 is 4%. Such rate is significantly higher than assumed for Safety members with 10+ years of service for KCERA (2.2%) or FCERA (2%). We do wonder why this rate is significantly higher. Higher termination rates result in lower liabilities. Such termination rates should be closely monitored in the next Experience Investigation.

Cheiron handles eligibility to receive a benefit with probability decrements very well. When an employee becomes eligible to service retire, the decrements of vesting and terminations are "turned off." Otherwise, you would potentially be undervaluing a potential service retirement benefit if the actuarial process allowed a service retirement-eligible employee to take a refund and thereby forfeit a significant pension. We whole heartedly agree with this approach.

Mortality Rates

Cheiron uses the RP-2014 mortality table, with generational improvements, and then adjusts rates upward to reflect their analysis that mortality of TCERA retirants is higher than average. The amount of the upward adjustments is:

General Males	2.2%
General Females	8.0%
Safety	4.5%

We would note that the "upward adjustment" for General Males was 12.1% in our previous audit.
The rates used for TCERA are still significantly higher than those used by CalPERS. However, the large reduction in the General Male load and four additional years of assumed mortality improvements have lowered the difference compared to our previous audit . Some sample rate comparisons follow. The CalPERS Mortality rates are based on their 2021 Experience Study.

Age	Sex	TCERA	CalPERS	% Difference
65	Male	1.11%	0.86%	29%
65	Female	0.79%	0.61%	30%
75	Male	2.58%	2.40%	7.5%
75	Female	1.95%	1.78%	10%

Because we do not fully understand the rationale for the mortality of TCERA retirants to be significantly higher than for retirants statewide, we would feel more comfortable with lower mortality rates. Higher mortality rates are "non-conservative" since they translate into shorter lifetimes.

On page 87 of Cheiron's actuarial valuation, 2 of the 3 "mortality loads" were referenced but no mention was made of the 2.2% mortality load for General Males. Cheiron has assured us that such load was used and that the omission was inadvertent. This is confirmed by the mention of the 2.2% Male load on page 89.

Retirement Assumptions

We like the structure Cheiron uses in setting retirement assumptions. For longer service actives, Cheiron assumes that retirement in the near term is more likely. Their valuation differentiates between General members with 30+ years of Service and Safety members with 20+ years of service. Common sense suggests that those with high benefits will be more likely to retire in the near term. Well done.

We recommend Cheiron extend this philosophy to General, Tier 4 retirants. Since benefits are reduced for Tier 4, relative to previous Tiers, consistency in approach suggests that those retirements are more likely to occur at later ages. Currently, there is no distinction between Tier 4 retirement assumptions and those in other Tiers. Cheiron does not wish to differentiate due to lack of data. We believe Cheiron's approach is reasonable for Safety employees due to the fact that Safety retirements, in our opinion, are not overly sensitive to relatively small changes in benefits.

Actuaries make many assumptions! For example, the actuarial process projects inflation and assumed investment returns 50 years from now. Thus, we do not believe that a lack of data should preclude Cheiron from making a reasonable estimate as to the impact of Tier 4 on the timing of General retirements. Compared to the daunting tasks of projecting investment returns and future inflation, such estimate would be considerably easier to make in our opinion.

We asked Leanne Malison to weigh in as to what staff has seen since PEPRA's implementation. Her comment was that retirement incidence for Tier 4 employees *(obviously, all are relatively short service with less than 10 years of service)* seemed higher than anticipated. If such trend proves to also be true for PEPRA members who will retire with longer service down the road, that would certainly negate our recommendation. We believe that the activities of shorter-term employees, who will not have a large TCERA pension, would not likely be a proxy for retirement elections of long-term PEPRA employees in the coming decades.

We do recommend that Cheiron make their best estimate as to future Tier 4 service retirements. Lower benefits logically would translate to later retirement ages for Tier 4 members.

Employee Contributions

Pages 87-95 indicate that the calculations are based, in part, on a 3% salary scale, without any reference to additional assumed pay increases used in their calculations. We were unable to replicate using 3% annual pay increases. We were subsequently told that merit and promotional increases were also used. We have seen situations where the merit and promotion elements were not incorporated in the calculations. When we completed the calculations on the basis used by Cheiron, we were about to closely replicate the Present Value of Future Pension Compensation calculated by Cheiron. We believe the Cheiron approach to be reasonable and permissible. We would recommend that, in the future, Board input be sought out as the impact of different methodologies will have a direct impact on employee paychecks.

We view the derivation of employee contribution rates as more important than other elements in one sense. For actuarial assumptions, to the extent an assumption is off the mark, the amortization of gains and losses provides a mechanism to adjust to reality. However, with employee contributions, there is no parallel mechanism to correct for past "missteps." If the mortality rates used are too high, the employee contributions will be too low, since overly high mortality rates translate into shorter lifetimes.

Tulare County has used a permissive section of California Government Code Section 31625.3 which permits the cessation of contributions for members with 30+ years of service. Such cessation does not apply to Tier 4 members. In our analysis for non-Tier 4 actives, Cheiron confirmed their correct application of this distinction.

COMMUNICATIONS IN VALUATION REPORT

An actuarial report should be completed in a manner to be understood by a layperson. We believe there are two important elements in which the computed employer rate does not tell the whole story.

PEPRA legislation was passed to address escalating pension costs. In spite of PEPRA and the issuance of a $250 million Pension Obligation Bond in 2018, TCERA's contribution rates have trended higher in the past decade. *(Thankfully, such increase abated in the 2021 valuation as the overall County rate decreased from 15.68% to 15.65% of pay before any consideration of contribution phase-ins).* We continue to believe that the stakeholders are well served if the distinction between costs for PEPRA members and "classic" members is fully differentiated. Such differentiation is not recognized in the report as to the financing of unfunded liabilities ("UAL"). As we recommended in our 2017 audit, we believe a higher UAL amortization rate for "classic" members and a lower UAL rate for PEPRA members would help educate the public as to the real cost savings associated with TCERA's Tier 4 PEPRA cohort.

With the County's issuance of the POB, comparing post-POB contribution rates to pre-POB contribution rates is like comparing apples to oranges. The reader would benefit if the total cost of the plan was readily available to the reader. This could be accomplished by either an explicit reference in the actuarial report or a reference to the relevant portion of the County's financial statement. Otherwise, a layperson reading the valuation report might significantly underestimate the total cost of the pension program.

With one exception, the actuarial assumptions used are shown in great detail. We recommend that there be samples as to the mortality rates used in the valuation. We do understand that employed mortality rates are a "moving target" due to generational improvements. However, given the multiple adjustments due to such improvements and "mortality loads" specific to TCERA, providing sample mortality rates would be useful to the reader.

RECOMMENDED CHANGES

We believe that the report should better illustrate the impact of PEPRA and the County's PBO issuance.

In our opinion, the UAL allocation attributed to Tier 4 is overstated. We offer two alternatives to remedy such overstatement.

We would feel more comfortable if the assumed retirement rates for General Tier 4 members would be lower at earlier retirement ages than for their Tier 2-3 counterparts due to the lower benefit levels for Tier 4. Refining retirement assumptions for Tier 4 members is important since such refinement may have some impact on the employee contribution rates for Tier 4 members.

We have also specified some minor changes to future valuation reports.

OVERVIEW

Overall, we believe Cheiron has done a very professional job. Based on this audit, we believe their numbers to be credible. We were pleased that some of the issues we raised in our previous audit were addressed in a positive way. For example, in our 2017 audit, we pointed out that both mortality rates and termination rates used in the valuations were significantly above such rates used by certain peer entities. Those areas had contributed to the trend of increasing rates over the past decade. While both mortality rates and, to a lesser degree, termination rates still are relatively high, both sets of rates are closer to what we see for other public entities.

We again want to point out the patience and professionalism of both Cheiron and Leanne Malison in handling a zillion queries. Being audited is probably more enjoyable than going to the dentist office – but not by much.

Prior to issuing this report, we provided both Cheiron and Leanne an opportunity to review a draft of this report and comment. Their comments, subsequent to our first draft, were invaluable. The audit work was primarily done and completed by the undersigned party.

Sincerely,

Rick Roeder, FSA, MAAA

Attachment: POST-PEPRA UAL COST ALLOCATION

When Tier 4 was implemented in 2013, TCERA had a significant unfunded liability (UAL). The amount was roughly $120 million. Much of this unfunded liability was attributable to Tiers 2 and 3.

Under the current Cheiron approach to assigning costs to Tiers, Tier 4 is subsidizing the underpricing of benefits prior to PEPRA. We cannot see a strong technical rationale for Tier 4 "paying" for such underpricing .

Tiers 2 and 3 cover all hires from 1980-2012 – an extended 33-year period.

In a mature plan in a perfect world, there would be no unfunded liabilities. Each year's normal cost would cover the increase in liability for active members and the benefits for retirants would be fully funded. For TCERA and virtually all other public Systems, nirvana has not occurred over the past 20 years. Unfunded liabilities have significantly increased. Why did the UAL increase? Simply , with the benefit of hindsight, the benefits valued were underpriced.

For purpose of illustration , let's assume that half of TCERA's 2012 unfunded liability was attributed to active members and half was attributed to retirees. The $60 million for actives is 100% attributable to Tiers 2-3. A significant portion of the retirant liability is also attributable to Tiers 2-3. As of December 31, 2012, it is a solid assumption that the majority of retirants were Tier 1. However, the liabilities would have been skewed toward the Tier 2-3 retirants because they are younger (thus much longer remaining life expectancy) and their benefits are larger. Merely for sake of discussion, let's assume that 60% of the retirant liabilities as of December 31, 2012 were attributable to Tier 1 with the other 40% attributable to Tiers 2-3. This distinction is important in the analysis. In this illustration $84 million dollars*(60 + 40% of another 60)* , would be attributable to Tiers 2-3.

We believe there should be a methodology developed where Tier 4 does not have to pay for more than its fair share for the underpricing, **both** prior to 2013 and in subsequent years. A methodology could be developed to do so. However, because Tiers 2-3 are closed, such methodology would be more complicated than the current methodology .

Cheiron's current approach to UAL amortization has the advantage of ease. One calculates the UAL amortization and spreads it evenly over active member payroll.

We would like to be devil's advocate and point out some of the objections raise to our proposed approach (with our responses):

OBJECTION #1: Very few Systems in California current use such approach.

RESPONSE: Very true. There are some technical challenges in allocating UAL costs when there are closed Tiers. An across-the-board, level-percent-of-pay amortization simply does not work because of the declining payroll in the closed Tiers. However, the partially closed , City of San Diego system *(another Cheiron client)* has come up with a very satisfactory manner to deal with closed Tiers.

I would also add that the precedent of history may have made all of us a touch lazy. Amortization allocation among different Tiers is not a new issue. I remember bringing up the same issue to a client 30 years ago. However, times were different in 1991. We were in the midst of an unprecedented bull market where contribution rates were dropping each year. With dropping rates, such academic issues did not seem very important.

30 years later, times have dramatically changed. Despite being in a decade-long bull market, TCERA and other Systems continue to be dealing with increase after increase in rates. Current contribution rates for many entities are at rates unimaginable 20 years ago.

OBJECTION #2: It is easier to use a level-percent-of payroll approach for amortization.

RESPONSE: Definitely true. However, we think the distinction in rates for different Tiers in an increasingly political environment, where contribution rates have escalated as much as they have, is a worthwhile endeavor.

OBJECTION #3: The benefit levels for TCERA are not that different between Tier 3 and Tier 4 so there is not a strong need to differentiate costs.

RESPONSE: Part of our recommendation has **nothing** to do with benefit levels of either Tier. 20/20 hindsight tells us that the pricing of benefits has been significantly too low. How do we know that? Not only had the UAL increased to $120 million by 2012, such underpricing has continued unabated through the 2020 valuation. If not for the $250 million Pension Obligation Bond, the UAL in your 2020 valuation would be roughly $450 million – certainly a strong indication as to how massive such mispricing has been.

Assume that a PEPRA hire has exactly the same characteristics as a Classic active 10 years ago: The same projected benefits, the same age the same demographics. Because assumptions have changed, the current normal cost for the PEPRA hire will be greater than for the parallel Classic active - simply because the assumptions during the past decade have become more conservative for every System, including TCERA.

OBJECTION #4: Tier 4 should pay its fair share for the UAL attributed to current retirants.

RESPONSE: For the Tier 1 retirants, we would agree. For the Tier 2-3 retirants, we would **strongly** disagree. The Tier 4's simply should not have the burden of financing the underpricing for Tiers 2 and 3.

In our hypothetical illustration, not only should Tier 2-3 be responsible for 70% (84/120) of the UAL as of January 1, 2013 but a significant portion of the increase in UAL thereafter. A basic truism: Every new

Tier 4 member enters the System with a UAL of **ZERO**. Even for several years after hire, the accrued liabilities for a Tier 4 active member are quite small relative to their Tier 3 counterparts.

Assumptions for have become more conservative this decade to try to address the large experience losses. Cheiron has determined that the expensive to fund a $1 of projected benefit is more expensive than for the Tier 2-3 actives of a decade ago.

However, such adjustments do not address the significant underpricing in the past. Our proposal will address that and give all stakeholders a better grasp as to the real cost savings due to PEPRA. Such distinction may become more important if future TCERA contribution rates rise – a distinct possibility if we soon hit a bear market. PEPRA was introduced by the Legislature because of the general sentiment that pension costs had become unmanageable. As actuaries, it should be our job to provide an equitable cost allocation for post-PEPRA tiers so that decision makers can make informed policy decisions going forward.

Via Electronic Mail

January 24, 2022

Ms. Leanne Malison, Retirement Administrator
Tulare County Employees' Retirement Association
136 N. Akers Street
Visalia, CA 93291

Re: ***Actuarial Audit***

Dear Leanne:

We would like to thank Roeder Financial and Rick Roeder in particular for a thorough review of our 2021 actuarial valuation and its assumptions. We believe the findings and constructive criticism provided as part of the audit process will help improve our work product and give you and the Board additional confidence in our results.

The audit report includes Recommended Changes on page 16. We'd like to take this opportunity to respond to those recommendations as follows:

1. **Pension Obligation Bond (POB) disclosure.** As we've discussed, there is POB language in our actuarial report; however, we agree that the language should be expanded and we will do so as you suggested.

2. **PEPRA Unfunded Actuarial Liability (UAL).** We disagree with the basic conclusion presented in the audit report – that the determination of a separate UAL rate for the Tier 4 members is appropriate and would provide additional value – for reasons listed in the appendix of the audit report and others. If the Board would like to have a thorough discussion of the issue we'd be happy to do so.

We note that Alternative #2 in the audit report suggests just using a single UAL total amortization rate. This is essentially what is done in the actuarial valuation, except that the rate is split between General/Safety and adjustments are made for the Social Security integration for the non-PEPRA tiers, which is important so that the correct dollar amounts to fund the UAL get collected.

3. **PEPRA Retirement Rates.** We appreciate the suggestion regarding PEPRA retirement rates. The next experience study should begin to have more PEPRA retirement experience, so we should be able to start determining whether different retirement rates are appropriate. We note that as we have communicated earlier, later assumed retirement ages won't necessarily result in a lower normal cost rate for the PEPRA members.

4. **Minor Changes.** We will take the other minor suggestions for the next valuation under advisement and make modifications where we believe appropriate (such as disclosing sample retiree mortality rates).

In preparing this letter, we have relied on information (some oral and some written) supplied by the TCERA staff. This information includes, but is not limited to, the plan provisions.

This letter and its contents have been prepared in accordance with generally recognized and 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. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter was prepared exclusively for TCERA for the purpose of responding to suggestions included in the Roeder Financial Actuarial Audit report dated January 14, 2022. This letter is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Please call if you have any questions.

Sincerely,

Cheiron

Graham A. Schmidt, ASA, EA, FCA, MAAA
Consulting Actuary

Steven M. Hastings, FSA, EA, FCA, MAAA
Consulting Actuary

EDUCATIONAL EVENTS - Board of Retirement

2022

1. **CAL***A*PRS, Advanced Principles of Pension Governance for Trustees, March 30 to April 1, 2022, Los Angeles, 5:30 p.m.- 1:30 p.m.

2. **DWS**, Americas Real Estate Client Conference, April 26-28, Balboa Bay Resort, Newport Beach, CA. Topics: Key trends impacting real estate investing through a series of panels from their research, transactions and portfolio mgmt. teams.
   Agenda in binder

3. **SACRS**, Spring Conference, May 10-13, Omni Rancho Las Palmas Resort & Spa, Rancho Mirage, CA. Agenda in Binder

4. **Sixth Street,** Annual Investors Meeting, Oct 25-27, St. Regis San Francisco.
   Only Save-the-Date currently.

5. **SACRS**, Fall Conference, November 8-11, Hyatt Regency Long Beach, Long Beach, CA.

6. **Invesco Real Estate**, Global Conference, Nov 15-17, The Lodge at Torrey Pines, San Diego.
   Only a Save-the-Date currently.

Edelstein Gilbert Robson & Smith LLC

Donald B. Gilbert Michael R. Robson Trent E. Smith Jason D. Ikerd Associate Bridget E. McGowan Associate

March 3, 2022

TO: State Association of County Retirement Systems

FROM: Edelstein Gilbert Robson & Smith, LLC

RE: Legislative Update – March 2022

General Update

The Legislature passed a critical deadline on the legislative calendar on February 18 - the bill introduction deadline. Over 2,000 bills were introduced since the Legislature reconvened in January. Many of these bills were introduced as "spot" or "intent" bills that do not have any substantive language and will need to be amended further before being heard in committee.

Legislative rules require that all bills be in print for 30 days before being heard in policy committee. However, the Senate waived this rule for all Senate bills introduced this year, so we could start to see policy committee hearings in March.

In the meantime, budget subcommittees are beginning to meet and review the Governor's proposed 2022-23 January budget and legislative proposals.

SACRS Sponsored Bills

As discussed in previous reports, the various policy proposals to amend the CERL that were approved by the SACRS membership were amended into the two bills below.

AB 1824 (Committee on Public Employment and Retirement) – Committee Cleanup Bill. This bill was introduced on February 7 and was referred to policy committee but has not yet been set for hearing.

AB 1971 (Cooper) – CERL Policy Bill. This bill was introduced on February 10, and like AB 1824, has been referred to policy committee but has not yet been set for a hearing.

We will continue to keep SACRS updated as these two bills move through the legislative process.

Other Bills of Interest

Compensation Earnable Bills – Last session, two bills were introduced relating to compensation earnable - **AB 498 (Quirk-Silva) and AB 826 (Irwin).** As reported in previous updates, AB 826 was gutted and amended in June of 2021with the CERL provisions currently contained in the bill. The bill was placed on the Senate Inactive File in September, where it remains. AB 498 (Quirk Silva) was similarly amended at the end of session last year in September. We have reached out to these offices to inquire about whether these bills will be further amended or brought up for votes later this year. Neither office had any updates at this time. We will periodically check back for further updates.

AB 1944 (Lee) – Public Meetings. This bill would eliminate the requirement to post each board member address on public agendas for remote meetings. For public meetings that elect to use teleconferencing, the legislative body would be required to provide a video stream accessible to members of the public and an option for members of the public to address the legislative body remotely during public comment through a video or call-in option.

AB 2449 (Rubio) – Public Meetings. This bill would allow a local agency to use teleconferencing for a public meeting if at least a quorum of members of the legislative body participate in person from a single location that is identified on the agenda and is open to the public within the local agency's jurisdiction, among other requirements.