# Combined Strengths

Financial Section

Twisting fibers into strings and combining the strings by weaving creates a fabric that is strong yet flexible. Similarly, LACERA's boards, executives, and staff members bring individual strengths and specialized skills to the job and are bound by their dedication to service and cohesive focus on achieving our mission for our members.

The strongest natural textile in the world, silk is made from the cocoons of *Bombyx mori* moth larvae, which feed solely on the leaves of white mulberry trees. Silkworms create a cocoon during their development that can be harvested, heated, and unraveled to reveal a single silk thread. The threads are so fine that several must be twisted together to be thick enough to weave into fabric.

plante moran

**Plante & Moran, PLLC.**
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517-332-6200
Fax: 517-332-8502
plantemoran.com

To the Board of Retirement and Board of Investments
Los Angeles County Employees Retirement Association

## Report on the Financial Statements

We have audited the accompanying financial statements of Los Angeles County Employees Retirement Association (LACERA) as of and for the years ended June 30, 2021 and 2020 and the related notes to the financial statements, which collectively comprise LACERA's basic financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of Los Angeles County Employees Retirement Association as of June 30, 2021 and 2020 and the changes in fiduciary net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As explained in Note P, the financial statements include investments valued at $19,818,800,000 (26 percent of net position) at June 30, 2021 and $14,671,562,000 (24 percent of net position) at June 30, 2020 whose fair values have been estimated by management in the absence of readily determinable market values. Given that publicly listed prices are not available, management uses alternative sources of information, including audited financial statements, unaudited interim reports, independent appraisals, and other similar sources of information, to determine the fair value of investments. Our opinion is not modified with respect to this matter.

## *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Los Angeles County Employees Retirement Association's basic financial statements. The other supplementary information, as identified in the table of contents, and the introductory, investment, actuarial, and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

## *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2021 on our consideration of Los Angeles County Employees Retirement Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Los Angeles County Employees Retirement Association's internal control over financial reporting and compliance.

October 13, 2021

Plante & Moran, PLLC

## INTRODUCTION

Management is pleased to provide this discussion and analysis (MD&A) of the financial activities of the Los Angeles County Employees Retirement Association (LACERA) for the year ended June 30, 2021. Readers are encouraged to consider the information presented here in conjunction with the information included in the Letter of Transmittal found in the Introductory Section of this Annual Comprehensive Financial Report (ACFR).

**Theodore Granger**
Interim Chief Financial Officer

## FINANCIAL HIGHLIGHTS

### Pension Plan

- Fiduciary Net Position Restricted for Benefits, as reported in the June 30, 2021 Statement of Fiduciary Net Position, totaled $73.0 billion, an increase of $14.5 billion or 24.8 percent from June 30, 2020.
- Total additions, as reflected in the Statement of Changes in Fiduciary Net Position, were $18.4 billion resulting from investment earnings and employer and member contributions. Total additions increased in 2021, equal to $14.5 billion or 371.0 percent more than the amounts realized in 2020, primarily due to higher investment activity income.
- Total deductions, as reflected in the Statement of Changes in Fiduciary Net Position, totaled $3.9 billion, an increase of $213 million or 5.8 percent from the prior year. The increase was primarily attributable to an increase in pension benefits paid to retired members.
- Milliman, LACERA's independent consulting actuary, completed the latest actuarial valuation as of June 30, 2020, which is used in preparing this ACFR, and determined the funded status of the Pension Plan (the ratio of actuarial value of assets to actuarial accrued liabilities) to be 76.3 percent versus 77.2 percent as of June 30, 2019. The decrease in funded ratio was primarily due to the recognition of current and prior year actuarial asset losses, which caused a 0.9 percent decrease.
- The Net Pension Liability, provided in accordance with Governmental Accounting Standards Board Statement Number 67 (GASB 67), was $7.3 billion for the fiscal year ended June 30, 2021. This represents a decrease of $10.8 billion from June 30, 2020, when the liability was $18.1 billion. The significant decrease was caused by an increase in investment activity income. As of June 30, 2021, the most recent measurement date, the Pension Plan's Fiduciary Net Position was 90.9 percent of the Total Pension Liability, an increase from 76.4 percent as measured for the previous fiscal year ended 2020. This increase was due to the significant growth in the Pension Plan's Fiduciary Net Position.

### Other Post-Employment Benefits (OPEB) Program

- The OPEB Custodial Fund balance at June 30, 2021 increased to approximately $166 million from the prior year, when the balance was $148 million for the fiscal year ended 2020. The increase of 12.2 percent in funds held on behalf of plan sponsors, after funding pay-as-you-go benefit costs, was $18 million.
- The OPEB Trust Fiduciary Net Position increased by $0.8 billion, primarily due to contributions received from participating employers and investment earnings. The balance available to fund future OPEB liabilities at June 30, 2021 increased by 54.5 percent, totaling $2.3 billion as compared to $1.5 billion for the prior year at June 30, 2020.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction to the *LACERA Basic Financial Statements*, which include the following primary components: the Statement of Fiduciary Net Position; the Statement of Changes in Fiduciary Net Position; and the

Notes to the Basic Financial Statements. The Basic Financial Statements are prepared in compliance with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB), utilizing the accrual basis of accounting as prescribed by Generally Accepted Accounting Principles of the United States (U.S. GAAP). Separate statements are provided for the Pension Plan, OPEB Custodial Fund, and OPEB Trust, which are distinct from each other and report the results of the annual financial activities within their respective presentations.

The *Statement of Fiduciary Net Position* is a snapshot of account balances at fiscal year-end. This statement reflects assets available for future payments to retirees and their beneficiaries, reduced by any current liabilities owed as of the report date. The Fiduciary Net Position Restricted for Benefits amount, which is the assets less the liabilities, or net position, reflects the funds available for future use to pay benefits.

The *Statement of Changes in Fiduciary Net Position* reflects all the financial transactions that occurred during the fiscal year and the impact those additions and deductions had on the Fiduciary Net Position Restricted for Benefits. The additions versus deductions trend indicates the financial condition over time for, separately, the Pension Plan, OPEB Custodial Fund, and OPEB Trust.

The *Notes to the Basic Financial Statements* (Notes) are an integral part of the financial statements. These Notes provide detailed discussions of key policies, programs, and activities that occurred during the year.

Other information to supplement LACERA's Basic Financial Statements is provided as follows:

> *Required Supplementary Information* (RSI) presents historical trend information to satisfy GASB 67 disclosures and contributes to understanding the historical changes in the participating employers' Net Pension Liability. There is some limited information provided regarding the OPEB Program investment returns to support compliance with GASB Statement Number 74 requirements under an agent plan structure.
>
> *Other Supplementary Information* (OSI) includes the schedules of Administrative Expenses, Investment Expenses, and Payments to Consultants. The OSI is presented immediately following the RSI section of this ACFR.

## Pension Plan

Under the California Constitution, the County Employees Retirement Law of 1937 (CERL), and the California Public Employees' Pension Reform Act of 2013 (PEPRA), LACERA administers a cost-sharing multiple employer defined benefit retirement plan (Pension Plan) for the employees of the County of Los Angeles (County), the Los Angeles Superior Court (Court), and four Outside Districts (i.e., Little Lake Cemetery District, Local Agency Formation Commission for the County of Los Angeles, Los Angeles County Office of Education, and South Coast Air Quality Management District). The Pension Plan is presented separately in the Statement of Fiduciary Net Position as an irrevocable trust fund. LACERA collects contributions from employers and active members and earns income on invested assets so the Pension Plan balances accumulate over the long term, such that promised benefits can be paid to retirees now and in future years.

## Retiree Healthcare Benefits Program

In April 1982, the County adopted an ordinance pursuant to the County Employees Retirement Law of 1937 (CERL) that provided for a Retiree Healthcare Benefits Program (RHCBP) which is also referred to as the Other Post-Employment Benefits Program (OPEB Program) that offers a variety of medical and dental/vision healthcare plans for retired members and their eligible dependents. In that same year, the County and LACERA entered into an Agreement whereby LACERA would administer the RHCBP subject to the terms and conditions of the Agreement. In 1994, the County amended the Agreement to ensure that the RHCBP will continue even if there are changes to or termination of the active employee insurance programs.

In June 2014, the LACERA Board of Retirement approved the County's request to modify the agreement, which created a new retiree healthcare benefits tier for certain new employees in order to lower its costs. Structurally, the

County segregated all the then-current retirees and employees into the LACERA-administered RHCBP (Tier 1) and placed all employees hired after June 30, 2014 into the newly established Los Angeles County RHCBP (Tier 2).

Employees are eligible for RHCBP if they are members of LACERA and retire from the County of Los Angeles, LACERA, the Superior Court, or a participating Outside District. The RCHBP offers members an extensive choice of medical plans as well as two dental/vision plans. The medical plans are either HMOs or indemnity plans, and some are designed to work with Medicare benefits. Program benefits are provided through third-party insurance carriers with the participant's cost for medical and dental/vision insurance varying according to the years of retirement service credit with LACERA, the plan selected, and the number of persons covered.

## OPEB Custodial Fund

The OPEB Custodial Fund reflects the annual financial activity of the RHCBP/OPEB Program for all participating employers (i.e., County, Court, and LACERA), including those that have not yet established any advanced funding in the OPEB Trust (i.e., Outside Districts). Plan sponsors and members provide monthly funding using a "pay-as-you-go" methodology, which is used to pay healthcare premiums including administrative fees, as well as other healthcare benefits provided by the OPEB Program. Retirees may qualify for employer-paid medical/dental insurance subsidies from 40 percent of the selected plan or benchmark plan premium up to 100 percent, depending upon the member's years of service credit. LACERA bills the healthcare premiums to the participating employers and members and receives reimbursement on a monthly basis. Plan members are required to pay the difference between the employer-paid subsidy and the actual premium cost. LACERA acts as a custodian for these funds on behalf of the plan sponsors and participants.

## OPEB Trust

Pursuant to the California Government Code, Los Angeles County established an irrevocable, tax-exempt OPEB Trust for the purpose of holding and investing assets prefunding a portion of the cost of the OPEB Program (or the Retiree Healthcare Benefits Program), which LACERA administers.

In May 2012, the County negotiated a trust and investment services agreement with the LACERA Board of Investments to manage and invest the OPEB Trust assets. The participating employers provide quarterly contributions, and the administrative costs incurred by LACERA are deducted from the County OPEB Trust. There are two participating employers in the County OPEB Trust: the County and LACERA. The Fiduciary Net Position Restricted for Benefits of the OPEB Trust is reported separately and legally distinct from that of the Pension Plan. Assets held in the Pension Plan are not used to finance benefits provided for under the OPEB Program.

The Superior Court (Court) decided to begin prefunding its OPEB obligations through a Court OPEB trust to be effective and initially funded as of June 30, 2016. After discussions and negotiations between the County, LACERA, and the Court, it was determined that a separate irrevocable OPEB trust would be established for the Court. A trust and investment services agreement was negotiated between LACERA and the Court setting forth the terms under which the LACERA Board of Investments serves as Trustee of the Court OPEB Trust. The Court Agreement was submitted and approved by the Court's Judicial Council in April 2016 and executed in June 2016. Contributions are made by the Court on a discretionary basis at fiscal year-end.

An OPEB master trust was created to facilitate investment strategies for the County, LACERA, and the Court, and does not include funding from the four Outside Districts. The purpose of this fund is for plan sponsors to set aside assets to offset a portion of the OPEB, or retiree healthcare benefits liability. The OPEB Trust is presented separately in the Statement of Fiduciary Net Position. The LACERA Board of Investments manages the OPEB Trust for the County, LACERA, and the Court, and utilizes an investment policy statement to diversify investments based on the agencies' future obligations. The OPEB Trust's Fiduciary Net Position Restricted for Benefits at year-end serves to measure the effort in pre-funding future expenses associated with other post-employment benefits such as those provided through the OPEB Program. The OPEB Trust income and expenses are also presented separately in the OPEB Trust's Statement of Changes in Fiduciary Net Position.

# FINANCIAL ANALYSIS — PENSION PLAN
## Net Position Restricted for Benefits

The Pension Plan's Total Fiduciary Net Position Restricted for Benefits represents the available fund balance of member and employer contributions, once investment activity, benefit payments, refunds, and administrative expenses are accounted for, that is available for retirement benefits. As of June 30, 2021, LACERA had Total Assets of $75.4 billion, which exceeded Total Liabilities of $2.4 billion, resulting in a Fiduciary Net Position Restricted for Benefits of $73.0 billion. This amount reflects an increase of $14.5 billion or 24.8 percent from the prior year, due primarily to robust investment market performance. As of the prior year June 30, 2020, LACERA had $61.4 billion of Total Assets, which was greater than $2.9 billion in Total Liabilities, resulting in $58.5 billion in Fiduciary Net Position Restricted for Benefits.

### Net Position Restricted for Benefits — Pension Plan

*As of June 30, 2021, 2020, and 2019*

(Dollars in Millions)

| | 2021 | 2020 | 2019 | 2021-2020 % Change | 2020-2019 % Change |
|---|---|---|---|---|---|
| Investments | **$70,298** | $56,574 | $57,976 | 24.3% | (2.4)% |
| Other Assets | **5,066** | 4,787 | 3,380 | 5.8% | 41.6% |
| Total Assets | **$75,364** | $61,361 | $61,356 | 22.8% | 0.0% |
| Total Liabilities | **(2,352)** | (2,851) | (3,061) | (17.5)% | (6.9)% |
| **Net Position Restricted for Benefits** | **$73,012** | **$58,510** | **$58,295** | **24.8%** | **0.4%** |

## Additions and Deductions to Net Position Restricted for Benefits

The primary sources that finance the promised pension benefits LACERA provides to members and their beneficiaries are the collection of employer and member retirement contributions and realized investment income. For fiscal years ended 2021 and 2020, Total Additions amounted to $18.4 billion and $3.9 billion, respectively, and were due primarily to LACERA's diverse investment strategy producing positive investment performance.

The net investment gain for fiscal year 2021 was $15.6 billion, an increase of $14.2 billion from the 2020 fiscal year when the net investment gain was $1.4 billion. This fiscal year's time-weighted investment returns of 25.2 percent (net of fees) is greater than the actuarial assumed investment earnings rate of 7.0 percent primarily due to strong returns produced by global equity and private equity assets. These two asset classes accounted for 50 percent of the Pension Fund's total assets as of June 30, 2021. The investment gains and losses experienced will continue to impact the actuarial funded ratio over time as they are recognized in the future through the actuarial asset-smoothing process.

To finance employer contributions that are due to LACERA, the County and the Outside Districts made cash payments monthly or semi-monthly contributions to coincide with the employee payroll cycle. For the fiscal years ended June 30, 2021 and 2020, the required employer contributions due to LACERA were paid in full.

The primary uses of LACERA's assets include the payment of promised benefits to members and their beneficiaries, refunds of contributions to terminated employees, and costs of administering the Pension Plan. These deductions totaled $3.9 billion for fiscal year 2021, an increase of $213 million or 5.8 percent from the prior year. The increase in deductions is partly attributable to an increase in the number of LACERA retirees and related increase in pension payments, including cost-of-living adjustments, for the fiscal year ended June 30, 2021. Administrative and miscellaneous expenses also increased 5.8 percent from the fiscal year ended 2020 to 2021 primarily due to equipment and services to strengthen LACERA's information technology systems, and scheduled salary increases. Investments in information technology and staffing resources will allow LACERA to continue to serve the needs of its membership now and into the future.

For the fiscal years ended June 30, 2021 and 2020, the net increase to the Fiduciary Net Position Restricted for Benefits was $14.5 billion and $0.2 billion, respectively. These amounts represent the annual change in net position made available for additional investments, benefit payments, and LACERA's cost of operations.

## Additions and Deductions in Fiduciary Net Position — Pension Plan

*For the Fiscal Years Ended June 30, 2021, 2020, and 2019*

(Dollars in Millions)

| | | | | 2021-2020 | | 2020-2019 | |
|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2019 | Difference | % Change | Difference | % Change |
| Contributions | **$2,774** | $2,459 | $2,304 | $315 | 12.8% | $155 | 6.7% |
| Net Investment Income/(Loss) | **15,633** | 1,448 | 3,181 | 14,185 | 979.6% | (1,733) | (54.5)% |
| **Total Additions/ (Declines)** | **$18,407** | **$3,907** | **$5,485** | **$14,500** | **371.1%** | **($1,578)** | **(28.8)%** |
| Benefits and Refunds | **($3,814)** | ($3,606) | ($3,407) | ($208) | 5.8% | ($199) | 5.8% |
| Administrative Expenses and Miscellaneous | **(91)** | (86) | (83) | (5) | 5.8% | (3) | 3.6% |
| **Total Deductions** | **($3,905)** | **($3,692)** | **($3,490)** | **($213)** | **5.8%** | **($202)** | **5.8%** |
| Net Increase/(Decrease) | **$14,502** | $215 | $1,995 | $14,287 | 6,645.1% | ($1,780) | (89.2)% |
| Fiduciary Net Position at Beginning of Year | **58,510** | 58,295 | 56,300 | 215 | 0.4% | 1,995 | 3.5% |
| **Fiduciary Net Position at End of Year** | **$73,012** | **$58,510** | **$58,295** | **$14,502** | **24.8%** | **$215** | **0.4%** |

## Asset Allocation

Meketa Investment Group (Meketa), LACERA's general investment consultant, reviews the existing asset allocation structure every three to five years to recommend an appropriate allocation consistent with the economic environment, considering model assumptions and constraints. In March 2018, the LACERA Board of Investments approved Meketa's functional asset category structure creating new asset allocation models that had more attractive return/risk quotients than the current portfolio structure at that time, and reflected greater diversification, potentially resulting in higher market performance throughout a full market cycle. The functional framework provides for a broader group of Pension Trust investments. The traditional asset classes were reassigned and expanded in these new functional asset categories, labeled as Growth, Credit, Real Assets and Inflation Hedges, and Risk Reduction and Mitigation.

In fiscal year 2020, LACERA implemented a cash overlay program for the Pension Plan designed to further rebalance the portfolio toward its functional category strategic weights using the portfolio's excess cash.

During fiscal year 2021, Meketa completed a strategic asset allocation review for LACERA's Pension Plan and OPEB Trust investments. The Board approved revised target asset allocation weights for the Pension Plan in May 2021 and for the OPEB Trust in June 2021. Implementation of the new asset allocations within the functional framework for both portfolios will begin in the upcoming fiscal year.

## Pension Liabilities

As GASB Statement Number 67 (GASB 67) requires, LACERA reports the Total Pension Liability and the Net Pension Liability as calculated by LACERA's actuary. The Total Pension Liability is the portion of actuarial present value of projected benefit payments that is attributable to past periods of member service using the entry age normal cost method, based on the requirements of GASB 67. The Net Pension Liability is the Total Pension Liability minus the plan's net assets or fiduciary net position. These liabilities, which are the employers' responsibility, are solely calculated under the guidance of GASB 67 for financial statement reporting purposes.

The Actuarial Valuation of Retirement Benefits Report (funding valuation) provides information about the employers' funding of such liabilities, including the Pension Plan required contributions and funded status. In addition, the funding valuation serves as a basis for providing the information required for accounting and reporting disclosures (under GASB standards). The Total Pension Liability as of June 30, 2021 was $80.3 billion, or an increase of 4.9 percent from the Total Pension Liability of $76.6 billion as of June 30, 2020. The Net Pension Liability as of June 30, 2021 was $7.3 billion, representing a decrease of 59.6 percent from the Net Pension Liability of $18.1 billion as of June 30, 2020, primarily due to strong investment returns in the fiscal year ended June 30, 2021. The Net Pension Liability decreased by $10.8 billion because LACERA experienced a $14.5 billion increase in the Fiduciary Net Position, which offsets the $3.7 billion increase in Total Pension Liability.

GASB 67 requires the presentation of the Fiduciary Net Position as a percentage of the Total Pension Liability. For the fiscal years ended June 30, 2021 and 2020, the Fiduciary Net Position as a percentage of the Total Pension Liability is reported as 90.9 percent and 76.4 percent, respectively. The increase for the fiscal year ended June 30, 2021 represents additional funds available to offset the present value of projected benefit payments and is due to the growth in the Total Pension Liability of $3.7 billion compared to a much larger increase in LACERA's Fiduciary Net Position of $14.5 billion, netted against the liability. The Total Pension Liability increased as generally expected from year to year and is consistent with prior experience over time. Contributing factors include the cost of benefits earned over the period, interest on the Total Pension Liability, and benefit payments.

## Net Pension Liability

*As of June 30, 2021 , 2020, and 2019*

(Dollars in Millions)

| | | | | 2021-2020 | | 2020-2019 | |
|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2019 | $ Change | % Change | $ Change | % Change |
| Total Pension Liability | **$80,304** | $76,580 | $70,309 | $3,724 | 4.9% | $6,271 | 8.9% |
| Less: Fiduciary Net Position | **(73,012)** | (58,510) | (58,295) | (14,502) | 24.8% | (215) | 0.4% |
| **Net Pension Liability** | **$7,292** | **$18,070** | **$12,014** | **($10,778)** | **(59.6)%** | **$6,056** | **50.4%** |
| **Fiduciary Net Position as a Percentage of Total Pension Liability** | **90.9%** | **76.4%** | **82.9%** | **N/A** | **N/A** | **N/A** | **N/A** |

## OPEB PROGRAM FINANCIAL REPORTING

There are two financial sources provided by plan sponsor employers used to fund the OPEB Program. One is the OPEB Custodial Fund used to pay premium costs on a current and ongoing basis. The other is the OPEB Trust containing contributions set aside by certain participating employers to pay certain other current administrative costs and future costs.

### Financial Analysis — OPEB Custodial Fund

The OPEB Custodial Fund is used to pay benefit costs as incurred on a "pay-as-you-go" ongoing basis. As of June 30, 2021, the OPEB Custodial Fund's total assets exceeded total liabilities, resulting in a positive Fiduciary Net Position Restricted for Benefits of approximately $166 million. This balance, where total assets of $233 million exceeded total liabilities of $67 million, represents funds provided by plan sponsor employers in excess of benefits paid during the period, held at LACERA on behalf of the employers. As of the end of the fiscal year, June 30, 2020, the Fiduciary Net Position Restricted for Benefits was $148 million as a result of total assets, reported at $252 million, exceeding total liabilities of $104 million.

As required under GASB 84, LACERA's Statement of Changes in Fiduciary Net Position includes the financial activity of the OPEB Custodial Fund. For the fiscal years ended June 30, 2021 and 2020, total additions were $770 million and approximately $732 million, as total deductions amounted to $752 million and $716 million, respectively. This caused an $18 million and $16 million increase in the Fiduciary Net Position Restricted for Benefits over the last two fiscal years. Contributions from employers and members exceeded the total of benefit costs and administrative expenses during the year. Balances held in the OPEB Custodial Fund not used to pay benefits are invested by LACERA's Board of Investments. For the fiscal years 2021 and 2020, net investment income was $0.2 million and $5.7 million, respectively.

## Financial Analysis — OPEB Trust

As reflected in the OPEB Trust's Statement of Changes in Fiduciary Net Position, OPEB Trust additions included net investment income of $452.1 million, which was significantly more as compared to the prior year due to higher investment performance. Deductions included $0.6 million for total administrative expenses. The OPEB Trust's Fiduciary Net Position Restricted for Benefits as of the fiscal year ended June 30, 2021 was $2.3 billion. As of June 30, 2020, the total OPEB Trust Fiduciary Net Position Restricted for Benefits was $1.5 billion, after earning $6.2 million in net investment income and deducting $0.2 million for total administrative expenses.

Employers provided OPEB Trust prefunding contributions of $363 million for fiscal year 2021, a 46.4 percent increase from $248 million for fiscal year 2020, which represents a portion of the total contributions presented in this statement. The OPEB Trust holds funding set aside by certain participating employers to pay current administrative costs and provide future benefits. GASB standards require, for financial statement presentation, the Statement of Changes in Fiduciary Net Position for the OPEB Trust to include an adjustment for pay-as-you-go additions to Fiduciary Net Position as OPEB payments become due that would not be reimbursed to the employers using OPEB Trust assets. Correspondingly, Service Benefits deductions were increased to reflect all benefit payments made by employers as OPEB benefits became due. Total OPEB Trust contributions including this adjustment were $1.1 billion for fiscal year 2021 and $908 million for fiscal year 2020. Actual amounts LACERA paid to provide benefits and reimbursed to LACERA by employers and members are included within the OPEB Custodial Fund held on behalf of employers.

## OPEB Trust Investment Structure

In June 2016, the LACERA Board of Investments approved the use of a unitized fund structure for the OPEB Trust funds. The OPEB Master Trust structure allows for unitization of investments at the asset composite level while retaining individual net asset values for each participating employer. The OPEB Master Trust accommodates commingling and co-investing of the County, LACERA, and Court OPEB Trust funds. The "OPEB Master Trust" as described within the Investment Section, which is commonly referred to as the "OPEB Trust" throughout this ACFR, includes the County, LACERA, and Court OPEB Trust investments. In June 2021, the LACERA Board of Investments adopted a revised asset allocation model including new asset classes such as private equity and real estate within the functional asset category structure. This diversified investment strategy will be implemented beginning in the upcoming fiscal year.

Information related to the OPEB Trust is included in the Financial Section, Note Q — OPEB Trust and other ACFR sections, such as Note N — OPEB Program which describes program benefits, to meet financial reporting requirements. Due to the OPEB Program's change from a cost-sharing to an agent plan structure in July 2018, LACERA's financial statements, as the OPEB Program administrator, were updated to report only information as required in accordance with GASB Statement Number 74.

## PLAN ADMINISTRATION
## LACERA Membership

The following table provides comparative LACERA membership data for the last two fiscal years. Active members declined by 50 as of June 30, 2021, while there was an increase of 1,536 or 2.3 percent in retirees when comparing the two fiscal years ended June 30, 2021 and 2020.

## LACERA Membership

*As of June 30, 2021 and 2020*

| | | | 2021-2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | Difference | % Change |
| Active Members[1] | **116,239** | 116,289 | (50) | —% |
| Retired Members | **69,524** | 67,988 | 1,536 | 2.3% |
| **Total Membership** | **185,763** | **184,277** | **1,486** | **0.8%** |

[1]Effective fiscal year ended June 30, 2019 and going forward, active member counts include terminated members, and both vested (deferred) and non-vested (inactive) members.

# ADMINISTRATIVE EXPENSES

The LACERA Boards of Retirement and Investments jointly approve the Operating Budget, which becomes effective at the beginning of the fiscal year. During the fiscal year ended 2020-2021, LACERA adopted an annual operating budget amendment process to address staffing changes and urgent operating needs. The Operating Budget information presented in these financial statements represents the original budget amounts for the fiscal year 2020 and amended budget amounts for the fiscal year 2021. LACERA's annual budget plan controls administrative expenses and represents approximately 0.12 percent of the allowable basis for the budget calculation for each of the fiscal years ended June 30, 2021 and 2020. The actual administrative expenses were $91 million for 2021 compared to $85 million for 2020, resulting in a 7.1 percent increase. The primary factors contributing to the rise were the organization's plan to fill vacant positions, the addition of new staffing positions, scheduled salary increases, and purchases of information technology services and equipment.

The CERL governing the LACERA Pension Plan requires that the annual budget for administrative expenses may not exceed 0.21 percent of the Actuarial Accrued Liability (AAL) as of the prior fiscal year. CERL provides allowances for other administrative costs such as legal representation and expenditures for information technology projects; LACERA includes such costs in the administrative expense allocation.

The following table provides a comparison of the actual administrative expenses for the fiscal years ended 2021 and 2020. The AAL was used to calculate the statutory budget amount. For both years, LACERA's administrative expenditures were well below the limit imposed by law.

## Analysis of Administrative Expenses

*As of June 30, 2021 and 2020*
(Dollars in Thousands)

| | 2021 | 2020 |
|---|---|---|
| Total Statutory Budget Appropriation | $156,735 | $143,907 |
| Basis for Budget Calculation (Actuarial Accrued Liability) | 74,635,840 | 68,527,354 |
| **Limit per CERL** | **0.21%** | **0.21%** |
| Administrative Expenses | $90,586 | $85,384 |
| Basis for Budget Calculation (Actuarial Accrued Liability) | 74,635,840 | 68,527,354 |
| **Administrative Expenses as a Percentage of the Basis for Budget Calculation** | **0.12%** | **0.12%** |
| Total Statutory Budget Appropriation | $156,735 | $143,907 |
| Operating Budget Request | (100,291) | (94,600) |
| **Underexpended Statutory Budget Appropriation** | **$56,444** | **$49,307** |
| Operating Budget Request | $100,291 | $94,600 |
| Administrative Expenses | (90,586) | (85,384) |
| **Underexpended Operating Budget** | **$9,705** | **$9,216** |

## ACTUARIAL FUNDING VALUATIONS

In order to determine whether the Fiduciary Net Position Restricted for Benefits will be sufficient to meet the Pension Plan's future obligations, the actuarial funded status needs to be calculated. An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of promised benefits are appraised. These assets are compared with the actuarial liabilities, which represent the actuarial present value of all future benefits expected to be paid for each member. The purpose of the valuation is to determine future contributions amounts needed by the employers (plan sponsors) and the employees (members) to provide all promised future benefits. A valuation is performed each year. An experience study is performed every three years to review the assumptions and methods applied in preparing the annual valuations.

### Board Policy

In December 2009, the LACERA Board of Investments adopted a revised Retirement Benefit Funding Policy (Funding Policy). In February 2013, the Funding Policy was further amended to conform to the new PEPRA provisions. In addition, beginning with the June 30, 2009 valuation and on a prospective basis, the LACERA Board of Investments approved inclusion of the Supplemental Targeted Adjustment for Retirees (STAR) Reserve balance in valuation assets. As such, the actuary includes the STAR Reserve as part of actuarial assets available for funding retirement benefits. Consistent with the 2013 Funding Policy, an asset smoothing method is applied to actuarial investment gains and losses. Variances between the actuarially expected market value of assets (computed based on investment performance at the actuarial assumed rate of return) and the actual market value of assets are calculated and then recognized, or smoothed over a five-year period. This actuarial smoothing process recognizes a portion of each year's actuarial investment gains and losses (in relation to the actuarially assumed return) in order to minimize substantial variations in the employer contribution rates and funded ratios.

### Actuarial Liabilities

The consulting actuary calculates contributions required to fund the Pension Plan. The difference between the present value of all future obligations and the present value of future normal cost contributions is referred to as the Actuarial Accrued Liability (AAL), which totaled $78.3 billion as of June 30, 2020. The $59.8 billion of market value of net assets reported for fiscal year-end 2020 is used to offset the AAL, and the difference is referred to as the June 30, 2020 Unfunded Actuarial Accrued Liability (UAAL), which was reported at $18.5 billion.

The Funding Policy provides an approach for managing the UAAL. LACERA applies an amortization method including multiple layers amortized over closed periods. For each fiscal year, gains or losses on the UAAL are calculated and then amortized over the period defined, which was changed from 30 years to 20 years. For existing layers with amortization periods longer than 22 years, these layers were reset to a term no longer than 22 years. New layers added each year are amortized over 20 years. This process establishes a payoff schedule of the UAAL and helps dampen volatility in required amortization payments which, in turn, is designed to provide stability in employer contribution rates. The LACERA Board of Investments updated the amortization method based on the results of the 2019 investigation of experience report prepared by the consulting actuary.

### Actuarial Assumptions

In January 2020, as a result of the most recent experience and assumption study completed as of June 30, 2019, the LACERA Board of Investments adopted a decrease in the investment return assumption. The investment return assumption was reduced from 7.25 to 7.00 percent for the June 30, 2019 actuarial valuation due to projected challenges in the years ahead to achieving a higher rate of return. There were no changes approved by the LACERA Board of Investments to the corresponding price and wage inflation assumptions. Contribution rates were increased for the fiscal year beginning July 1, 2020, with employee rates set to change while increases in the employer contribution rate were scheduled to be phased in over the next three years (fiscal years beginning July 1, 2020 through July 1, 2022), softening the immediate impact to plan sponsors.

The funded ratio is a measurement of the funded status of the Pension Plan. It is calculated by dividing the Valuation Assets by the AAL. Valuation Assets are the value of cash, investments, and other assets belonging to the Pension

Plan, as used by the actuary for the purpose of preparing the actuarial valuation. Investment returns, which have varied over the last three years, cause fluctuations in Valuation Assets. In 2019, the LACERA Board of Investments reduced the assumed investment rate of return (as described above and in the Actuarial Section of this ACFR).

## FUNDED RATIO, RATES OF RETURN, AND FAIR VALUE

LACERA's independent consulting actuary, Milliman, performed the latest actuarial valuation as of June 30, 2020 and determined that the Pension Plan's Funded Ratio of the actuarial assets to the AAL decreased to 76.3 percent as of that date, as compared to 77.2 percent as of the June 30, 2019 valuation.

The investment return on a market basis for 2020, which was below the actuarial assumed investment earnings rate, resulted in a 0.9 percent decrease in the Funded Ratio when applying the five-year actuarial asset smoothing method. For the 2020 and 2019 fiscal year-end actuarial valuations, respectively, the Pension Plan investment portfolio returned 1.8 percent and 6.4 percent (both net of fees), on a time-weighted market basis, which were both less than 7 percent investment return assumption effective for both years. When compared to the assumed rate of return, in total, there was a $2.7 billion loss on market assets. Under the actuarial asset smoothing method, which recognizes investment gains and losses over a five-year period, the return on actuarial assets was 5.8 percent, equivalent to a loss of $701 million relative to the assumed return of 7 percent.

The following table provides a three-year history of investment and actuarial returns and the actuarial funded ratios. As required by GASB Statement Numbers 67 and 74, the money-weighted rate of return is presented as an expression of investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the fiscal year ended June 30, 2021, the annual money-weighted rate of return on Pension Plan investments was 25.2 percent (net of fees), the same as the time-weighted return for the same period. The annual 2021 Pension Plan valuation report is not available as of this ACFR's publication.

### Total Investment Rates of Return — Pension Plan

*For the Last Three Fiscal Years Ended June 30*
(Dollars in Thousands)

| Fiscal Year End | Total Investment Portfolio Fair Value | Total Fund Time-Weighted Return (net of fees)[1] | Total Fund Money-Weighted Return (net of fees)[1] | Return on Smoothed Valuation Assets (net of fees)[1,2] | Actuarial Assumed Rate of Return | Actuarial Funded Ratio |
|---|---|---|---|---|---|---|
| 2019 | $57,976,436 | 6.4% | 5.5% | 6.5% | 7.0% | 77.2% |
| 2020 | $56,574,410 | 1.8% | 1.4% | 5.8% | 7.0% | 76.3% |
| **2021[3]** | **$70,297,718** | **25.2%** | **25.2%** | – | – | – |

[1]The returns are presented net of investment management fees.

[2]Returns calculated using the money-weighted rate of return method.

[3]Investment information including total investment portfolio fair value, time-weighted and money-weighted returns are available, however, the actuarial valuation report for June 30, 2021 is not available at ACFR publication.

The annual time-weighted rate of return on OPEB Trust investments, net of OPEB Trust investment expenses as of the fiscal years ended June 30, 2021 and 2020, were 28.4 percent and (0.1) percent, respectively. As determined for the July 1, 2020 OPEB valuation, the OPEB Program's Funded Ratio of the actuarial assets to the AAL increased to 7 percent, as compared to 6 percent reported in the July 1, 2019 valuation. The County, LACERA, and the Superior Court continued to provide OPEB Trust contributions, which increased prefunding assets and offset the AAL. The annual 2021 OPEB Program valuation report is not available as of this ACFR's publication.

## LACERA OPERATIONS

The LACERA Boards, executives, and management team took proactive steps to address the COVID-19 pandemic from its outset. Health and safety were immediate concerns, with a primary focus on several factors that included maintaining financial stability, enhancing operations to adjust to the current environment, and focusing on the well-being of LACERA staff and the organization's ability to provide service and benefits to LACERA's members.

The Executive Office developed plans, and management executed them diligently. The Call Center served as the centralized virtual customer service outlet and, as of the end of the fiscal year 2021, there were plans to reopen the Member Service Center for in-person appointments. LACERA continued to pay member benefits without exception, and received contributions from plan sponsors as scheduled, including those for both the Pension Plan and the OPEB Trust. The Investment Office monitored market volatility, maintained LACERA's cash position, and generated substantial returns from the investment portfolio. The Board approved additional administrative funding to address emergency costs, primarily for information technology expenditures, which provided LACERA staff with the infrastructure to continue to work remotely effectively. For additional information regarding the COVID-19 pandemic, please refer to Note L — Administrative Expenses, Note R — Global Pandemic, and the Investment Section.

## UPCOMING ACCOUNTING AND FINANCIAL REPORTING STANDARDS

### Leases

GASB issued Statement Number 87, Leases, to increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. The new information will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This statement will also enhance the decision-usefulness of the information provided to financial statement users by requiring notes to the financial statements including the timing, significance, and purpose of a government's leasing arrangements. For LACERA's financial statements, these requirements, which were postponed by GASB for one year due to the COVID-19 pandemic, are now effective for the fiscal year ending June 30, 2022.

### Subscription Based Information Technology Arrangements

In June 2020, the GASB issued Statement Number 96 (GASB 96), Subscription Based Information Technology Arrangements (SBITAs), to establish SBITAs as intangible assets with a corresponding subscription liability for contracts that convey control of the right to use another party's information technology software. GASB 96 also establishes uniform accounting and financial report requirements for SBITAs aligning the information with that of GASB 87, Leases. Should LACERA adopt GASB 87, management will evaluate this standard, GASB 96, and determine its applicability. The provisions of this statement are effective for LACERA's fiscal year ending June 30, 2023.

## REQUESTS FOR INFORMATION

This comprehensive financial report is designed to provide the LACERA Boards of Retirement and Investments, our membership, and interested third parties with a general overview of LACERA's finances and to show accountability for the funds it receives and its management of the Pension Plan and OPEB Program.

Address questions regarding this report and/or requests for additional financial information to:

Interim Chief Financial Officer
LACERA
300 N. Lake Avenue, Suite 650
Pasadena, CA 91101

Respectfully submitted,

*Theodore Granger*

Theodore Granger
Interim Chief Financial Officer

## Statement of Fiduciary Net Position

*As of June 30, 2021 and 2020*

(Dollars in Thousands)

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Pension Plan | OPEB Trust | OPEB Custodial Fund | Pension Plan | OPEB Trust | OPEB Custodial Fund |
| **ASSETS** | | | | | | |
| **Cash & Cash Equivalents** | | | | | | |
| Cash and Short-Term Investments | **$3,134,716** | **$49,723** | **$32,511** | $2,668,515 | $24,783 | $63,112 |
| Cash Collateral on Loaned Securities | **1,198,528** | **–** | **–** | 1,177,374 | – | – |
| **Total Cash & Cash Equivalents** | **$4,333,244** | **$49,723** | **$32,511** | **$3,845,889** | **$24,783** | **$63,112** |
| **Receivables** | | | | | | |
| Contribution Receivable | **$114,102** | **$–** | **$–** | $101,731 | $– | $– |
| Accounts Receivable - Sale of Investment | **439,841** | **114** | **–** | 697,420 | – | – |
| Accrued Interest and Dividends | **169,925** | **1** | **432** | 133,935 | 5 | 498 |
| Accounts Receivable - Other | **9,139** | **–** | **60,344** | 7,587 | – | 58,909 |
| **Total Receivables** | **$733,007** | **$115** | **$60,776** | **$940,673** | **$5** | **$59,407** |
| **Investments at Fair Value** | | | | | | |
| Equity | **$29,705,843** | **$1,145,218** | **$–** | $23,332,239 | $755,005 | $– |
| Fixed Income | **21,077,314** | **894,200** | **140,093** | 18,778,182 | 570,375 | 129,096 |
| Private Equity | **11,471,947** | **–** | **–** | 7,141,781 | – | – |
| Real Estate | **5,294,150** | **219,190** | **–** | 5,128,771 | 142,775 | – |
| Hedge Funds | **2,748,465** | **–** | **–** | 2,193,437 | – | – |
| **Total Investments at Fair Value** | **$70,297,719** | **$2,258,608** | **$140,093** | **$56,574,410** | **$1,468,155** | **$129,096** |
| **TOTAL ASSETS** | **$75,363,970** | **$2,308,446** | **$233,380** | **$61,360,972** | **$1,492,943** | **$251,615** |
| **LIABILITIES** | | | | | | |
| Accounts Payable - Purchase of Investments | **$1,055,063** | **$1,260** | **$2,152** | $1,598,943 | $– | $3,453 |
| Retiree Payable and Other | **1,550** | **–** | **387** | 1,177 | – | 301 |
| Accrued Expenses | **50,276** | **359** | **750** | 34,887 | 315 | 458 |
| Tax Withholding Payable | **40,144** | **–** | **–** | 38,003 | – | – |
| Obligations under Securities Lending Program | **1,198,528** | **–** | **–** | 1,177,374 | – | – |
| Accounts Payable - Other | **6,383** | **–** | **63,492** | 180 | – | 98,930 |
| **TOTAL LIABLILITIES** | **$2,351,944** | **$1,619** | **$66,781** | **$2,850,564** | **$315** | **$103,142** |
| **FIDUCIARY NET POSITION RESTRICTED FOR BENEFITS** | **$73,012,026** | **$2,306,827** | **$166,599** | **$58,510,408** | **$1,492,628** | **$148,473** |

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

## Statement of Changes in Fiduciary Net Position

*For the Fiscal Years Ended June 30, 2021 and 2020*

(Dollars in Thousands)

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Pension Plan | OPEB Trust | OPEB Custodial Fund | Pension Plan | OPEB Trust | OPEB Custodial Fund |
| **ADDITIONS** | | | | | | |
| Contributions | | | | | | |
| Employer[1] | **$2,012,877** | **$1,057,366** | **$704,344** | $1,800,137 | $907,521 | $668,811 |
| Member | **760,994** | **—** | **49,617** | 659,296 | — | 50,180 |
| **Total Contributions** | **$2,773,871** | **$1,057,366** | **$753,961** | **$2,459,433** | **$907,521** | **$718,991** |
| Investment Income | | | | | | |
| From Investing Activities: | | | | | | |
| Net Appreciation/(Depreciation) in Fair Value of Investments | **$9,981,328** | **$438,050** | **($2,201)** | ($4,256,243) | ($6,452) | $1,961 |
| Investment Income/(Loss) | **5,915,584** | **15,089** | **2,488** | 5,906,599 | 13,486 | 3,925 |
| **Total Investment Activities Income** | **$15,896,912** | **$453,139** | **$287** | **$1,650,356** | **$7,034** | **$5,886** |
| Less Expenses from Investment Activities: | **($271,752)** | **($1,017)** | **($137)** | ($209,320) | ($863) | ($149) |
| **Net Investment Activities Income** | **$15,625,160** | **$452,122** | **$150** | **$1,441,036** | **$6,171** | **$5,737** |
| From Securities Lending Activities: | | | | | | |
| Securities Lending Income | **$5,072** | **$—** | **$—** | $15,987 | $— | $— |
| Less Expenses from Securities Lending Activities: | | | | | | |
| Borrower Rebates | **$869** | **$—** | **$—** | ($10,031) | $— | $— |
| Management Fees | **(1,186)** | **—** | **—** | (1,115) | — | — |
| Total Expenses from Securities Lending Activities | **(317)** | **—** | **—** | (11,146) | — | — |
| **Net Securities Lending Income** | **$4,755** | **$—** | **$—** | **$4,841** | **$—** | **$—** |
| **Total Net Investment Income** | **$15,629,915** | **$452,122** | **$150** | **$1,445,877** | **$6,171** | **$5,737** |
| Miscellaneous | **$2,928** | **$—** | **$15,829** | $2,383 | $— | $6,755 |
| **TOTAL ADDITIONS** | **$18,406,714** | **$1,509,488** | **$769,940** | **$3,907,693** | **$913,692** | **$731,483** |
| **DEDUCTIONS** | | | | | | |
| Retiree Payroll | **$3,785,608** | **$—** | **$—** | $3,578,879 | $— | $— |
| Service Benefits[1] | **—** | **694,665** | **743,715** | — | 659,295 | 708,914 |
| Administrative Expenses | **90,586** | **584** | **8,099** | 85,384 | 246 | 6,828 |
| Refunds | **24,512** | **—** | **—** | 25,231 | — | — |
| Lump Sum Death Benefits | **4,142** | **—** | **—** | 2,230 | — | — |
| Redemptions | **—** | **40** | **—** | — | — | — |
| Miscellaneous | **248** | **—** | **—** | 397 | — | — |
| **TOTAL DEDUCTIONS** | **$3,905,096** | **$695,289** | **$751,814** | **$3,692,121** | **$659,541** | **$715,742** |
| **NET INCREASE/(DECREASE) IN FIDUCIARY NET POSITION** | **$14,501,618** | **$814,199** | **$18,126** | **$215,572** | **$254,151** | **$15,741** |
| **FIDUCIARY NET POSITION RESTRICTED FOR BENEFITS** | | | | | | |
| BEGINNING OF YEAR | **$58,510,408** | **$1,492,628** | **$148,473** | **$58,294,836** | **$1,238,477** | **$132,732** |
| END OF YEAR | **$73,012,026** | **$2,306,827** | **$166,599** | **$58,510,408** | **$1,492,628** | **$148,473** |

[1] OPEB Trust Employer Contributions and Service Benefits are adjusted. Refer to Note B — Summary of Significant Accounting Policies for further information. See Note Q for OPEB Trust prefunding contributions.

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

# Note A — Plan Description

## Pension Plan

The Los Angeles County Employees Retirement Association (LACERA) was established on January 1, 1938. It is governed by the California Constitution, the County Employees Retirement Law of 1937 (CERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), relevant provisions of the Internal Revenue Code, and the regulations, procedures, and policies adopted by the LACERA Board of Retirement and the LACERA Board of Investments. The Los Angeles County (County) Board of Supervisors may also adopt resolutions, as permitted by CERL, which may affect the benefits of LACERA members. LACERA operates as a cost-sharing multiple-employer defined benefit Pension Plan for Los Angeles County, LACERA, Los Angeles County Superior Court (Superior Court), and four Outside Districts: Little Lake Cemetery District, Local Agency Formation Commission for the County of Los Angeles, Los Angeles County Office of Education, and South Coast Air Quality Management District.

## Retiree Healthcare Benefits Program

In April 1982, the County adopted an ordinance pursuant to the CERL that provided for a Retiree Healthcare Benefits Program (RHCBP) which is also referred to as the Other Post-Employment Benefits Program (OPEB Program) that covers the death/burial benefits for retired employees. In that same year, the County and LACERA entered into an agreement whereby LACERA would administer the program subject to the terms and conditions of the agreement.

In June 2014, at the County's request, the LACERA Board of Retirement approved an amendment to the agreement, which created a new retiree healthcare benefits program tier to lower costs. The Los Angeles County Retiree Healthcare Benefits Program Tier 2 was established and provides benefits for all employees hired after June 30, 2014. The existing benefits program and current membership at that time was labeled as Tier 1.

In July 2018, the OPEB Program, in which Los Angeles County, LACERA, Superior Court, and the Outside Districts participate, was restructured as an agent multiple-employer defined benefit OPEB plan. OPEB Program description and benefit provisions are explained in Note N — OPEB Program of the Financial Section.

## Governance

The LACERA Board of Retirement is responsible for the administration of the retirement system,  review and processing of disability retirement applications, and administration of the OPEB Program including overseeing actuarial matters. The Board is composed of nine trustees, plus two alternate trustees. Four trustees and two alternate trustees are elected: Active general members elect two trustees; retired members elect one trustee and one alternate trustee; and safety members elect one trustee and one alternate trustee. Four trustees are appointed by the Los Angeles County Board of Supervisors. The law requires the County Treasurer and Tax Collector to serve as an ex-officio trustee.

The LACERA Board of Investments is responsible for establishing LACERA's investment policy and objectives, deciding Pension Fund actuarial matters, including setting assumptions and member and employer contribution rates, and exercising authority and control over the investment management of the trust funds. The Board is composed of nine trustees. Four trustees are elected: Active general members elect two trustees; and retired members elect one trustee, as do safety members. Four trustees are appointed by the Los Angeles County Board of Supervisors, who are required as a condition of appointment to have significant prior experience in institutional investing. The law requires the County Treasurer and Tax Collector to serve as an ex-officio trustee.

## Membership

LACERA provides retirement, disability, and death benefits to its active safety and general members and administers the plan sponsors' Retiree Healthcare Benefits (or OPEB) Program. Safety membership includes law enforcement (sheriff and district attorney investigators), firefighting, forester, and lifeguard classifications. General membership is applicable to all other occupational classifications. The retirement benefits within the Pension Plan are tiered based on the date of LACERA membership. Additional information regarding the benefit structure is available by contacting LACERA or visiting the LACERA.com website.

## LACERA Pension Plan Membership

*As of June 30, 2021 and 2020*

| | 2021 | 2020 |
|---|---|---|
| Active Members | | |
| Vested | **74,434** | 73,522 |
| Non-Vested | **24,684** | 26,593 |
| Terminated[1] | **17,121** | 16,174 |
| **Total Active Members** | **116,239** | **116,289** |
| Retired Members | | |
| Service | **49,780** | 48,633 |
| Disability | **10,317** | 10,105 |
| Survivors | **9,427** | 9,250 |
| **Total Retired Members** | **69,524** | **67,988** |
| **Total Membership** | **185,763** | **184,277** |

[1] The terminated membership count includes both vested (deferred) and non-vested (inactive) members.

## INVESTMENTS

**Pension Plan**

Assets in the Pension Plan are derived from three sources: employer contributions, employee contributions (including those made by the employer on behalf of employees pursuant to §414(h)(2) of the Internal Revenue Code), and realized investment earnings. Pension Plan assets are held separate from any other assets, including the distinct OPEB Trust and OPEB Custodial Fund, and are invested pursuant to policies and procedures adopted by the LACERA Board of Investments. Pension Plan gross income is exempt from federal income taxation under §115 of the Internal Revenue Code.

**OPEB Trust**

In 2012, the County and LACERA, as participating employers, established an OPEB Trust for the purpose of holding and investing assets to prefund the Retiree Healthcare Benefits Program administered by LACERA for eligible retired members and eligible dependents and survivors of LACERA members. In June 2016, the Los Angeles County Superior Court began making OPEB prefunding contributions to the Court OPEB Trust. The assets held within the OPEB Trusts meet the criteria of qualifying trusts under GASB 74 and do not modify the Retiree Healthcare Benefits Program which has been administered under an agent multiple-employer plan structure since July 1, 2018.

The County and Superior Court entered into separate trust and investment services agreements with the LACERA Board of Investments to serve as trustee with sole and exclusive authority, control over, and responsibility for directing the investment and management of the respective employers' OPEB Trust assets. The County and Court OPEB Trust documentation and structure are substantively similar. The LACERA Board of Investments serves as trustee for the two OPEB Trusts, exercising similar authority for each employer's OPEB Trust assets. The two trusts are collectively referred to as the OPEB Trust throughout the financial statements and note disclosures except in the Investment Section, where they are also labeled as the OPEB Master Trust.

The LACERA Board of Investments adopted an investment policy statement establishing the initial asset allocation for the purpose of effectively managing and monitoring the assets of the OPEB Trust. Contributions and transfers to the OPEB Trust are determined at the employers' discretion.

The LACERA Board of Investments approved the formation of an OPEB master trust for the purpose of commingling funds of the County OPEB Trust and the Court OPEB Trust for investment purposes only. The OPEB Master Trust Declaration was made on July 13, 2016. The LACERA Board of Investments serves as Trustee of the Master Trust assets. Gross income from all the OPEB trusts above is exempt from federal income taxation under §115 of the Internal Revenue Code (IRC). LACERA obtained letter rulings from the Internal Revenue Service to this effect.

**OPEB Custodial Fund**
The County, the Superior Court, LACERA and participating Outside District employers provide a health insurance program and death benefits (OPEB Program) for retired employees and their dependents, which LACERA administers. Pursuant to an administrative agreement between the County and LACERA, and certain County ordinances, the County subsidizes, either in whole or in part, insurance premiums covering certain program participants who meet service credit hurdles.

LACERA maintains two investment accounts under the OPEB Custodial Fund: the OPEB Operating Account and OPEB Reserve Account. The County, Superior Court, LACERA, and participating Outside District employers provide monthly contributions to fund current benefits and own the funds in these accounts, which LACERA reports and invests in cash and fixed income securities, separately from Pension Plan assets and OPEB Trust funds. The funds held within the OPEB custodial investment accounts do not meet the definition of a qualifying OPEB trust under GASB 74 and are not used to reduce the employers' Total OPEB Liability. External managers invest funds in both accounts pursuant to policies and procedures approved by the LACERA Board of Investments. In addition, investment income realized in these types of accounts maintained by government entities generally is exempt from federal income taxation under §115 of the Internal Revenue Code.

***OPEB Operating Account:*** This account is primarily used to fund the OPEB Program's operations. Additions include the monthly health insurance subsidy collected from the County, health insurance premiums collected from LACERA, Superior Court, and the Outside Districts, payments collected from program participants, and interest income. Deductions include premium payments made to insurance carriers and the Program's administrative expenses.

***OPEB Reserve Account:*** This account was established by the Board of Retirement to help stabilize health insurance premium rates over time. Annual surpluses and deficits for the various insurance plans result from the difference between premiums received and the healthcare costs incurred. The accumulated surplus is held in this account to address deficits and/or emergency premiums. Additions include rebates from insurance carriers and other income. Deductions include management fees and County-authorized payments to offset waived premium costs (i.e., insurance premium holidays) for both the County and affected participants. In 2013, the LACERA Board of Retirement adopted a policy that established an account balance reserve target of 20 percent of the total annual premium cost by plan for indemnity medical and dental/vision plans.

## Benefit Provisions

Retirement benefit vesting occurs when a member accumulates five years of creditable service under contributory plans or accumulates 10 years of creditable service under the general service non-contributory plan. Depending on the retirement plan, benefits—according to applicable statutory formula—are based upon 12 or 36 months of average compensation, age at retirement, and length of service as of the retirement date. Vested members who terminate employment before retirement age are considered terminated vested (deferred) members. Service-connected disability benefits may be granted regardless of length of service. Five years of service are required for nonservice-connected disability eligibility, according to applicable statutory formula. Members of the non-contributory plan, who are covered under separate long-term disability provisions not administered by LACERA, are not eligible for disability benefits provided by LACERA. A Summary of Major Program Provisions for the Pension Plan is available upon request by contacting LACERA or visiting the LACERA website. OPEB Program provisions are explained in Note N — OPEB Program.

## Cost-of-Living Adjustment (COLA)

Each year, the LACERA Board of Retirement considers how the change in the cost of living, a measure of inflation, has affected the purchasing power of monthly retirement benefit allowances paid by LACERA. The cost of living is measured by the Bureau of Labor Statistics, which releases the Consumer Price Index (CPI) for all Urban Consumers in the Los Angeles-Long Beach-Anaheim area as of January 1 each year. The difference between the current and previous year's CPI shows whether the cost of living has increased or decreased in this geographic region during the past year.

If the CPI has increased up to 3 percent for Plan A members or 2 percent for all other members, the LACERA Board of Retirement may grant a cost-of-living adjustment (COLA) increase for monthly allowances. If the CPI has decreased, it is possible for the LACERA Board of Retirement to decrease monthly allowances;

however, a decrease in allowances has never occurred. In any event, a cost-of-living decrease could not reduce a member's allowance to an amount less than the allowance received at the time of retirement.

CERL also allows the amount of any CPI cost-of-living increase in any year that exceeds the maximum annual change of 3 percent or 2 percent in retirement allowances to be accumulated and tracked. The accumulated percentage carryover is known as the COLA Accumulation which, under certain circumstances, may be applied to retirement allowances in future years when the cost of living does not exceed the maximum adjustment. Adjustments require approval from the Board of Retirement.

LACERA members may receive more than one type of COLA:

***COLA ("April 1st COLA")***

The COLA percentage increase is effective annually on April 1. Members who retire prior to April 1 or eligible survivors of members who died prior to April 1 are eligible for that year's COLA increase. The increase begins with the April 30 monthly allowance. The COLA provision was added to CERL in 1966, and LACERA's first COLA increase was granted July 1, 1967. Until 2002, only contributory members were eligible for COLA.

***Plan E COLA***

Effective June 4, 2002, Plan E members and their survivors are also eligible for a COLA. The portion of the COLA percentage received by each Plan E member is a ratio of the member's service credit earned on and after June 4, 2002, to total service credit. The portion of the full increase not awarded may be purchased by the member.

## Supplemental Targeted Adjustment for Retirees (STAR) Program

In addition to cost-of-living increases, the CERL also provides the LACERA Board of Retirement the authority to grant supplemental cost-of-living increases for retirement benefits. Under this program, known as the STAR Program, excess earnings have been used to restore retirement allowances to 80 percent of the purchasing power held by retirees at the time of retirement. STAR applies to contributory plans only. Retirees and survivors whose allowances have lost more than 20 percent of their purchasing power are eligible for STAR Program benefits.

The STAR percentage increase is effective annually on January 1.

Future ad hoc increases in the current STAR Program will be subject to approval by the LACERA Board of Retirement on an annual basis, provided sufficient excess earnings are available as determined by the LACERA Board of Investments. Permanent STAR benefits become part of the member's retirement allowance and are payable for life. Ad hoc STAR benefits are payable only for the calendar year approved.

Except for program year 2005, the LACERA Board of Retirement made permanent the 2001 through 2009 STAR benefits at an 80 percent level, as authorized in the CERL. For program years 2010 through 2021, STAR benefits were not provided due to minimal increases in the CPI percentage such that all eligible members maintained COLA Accumulation accounts below the 20 percent threshold for providing STAR benefits.

The STAR Program has received $1.523 billion in funding from the Program's inception in 1990 to the present. Ad-hoc STAR Program costs from 1990 through 2001 reduced the STAR Program reserve by $556 million. Subsequently, except for program year 2005, the LACERA Board of Retirement made permanent the 2001 through 2009 STAR benefits totaling $353 million, which was transferred to employer reserves to invest and pay for permanent STAR benefits awarded. As of June 30, 2021, there is $614 million remaining in the STAR Program reserve to fund future benefits.

The STAR Program is administered on a calendar-year basis. The Statistical Section contains a 10-year trend schedule of STAR Program costs.

# NOTE B — Summary of Significant Accounting Policies

## Reporting Entity

LACERA, with its own two governing Boards, is an independent governmental entity separate and distinct from the County of Los Angeles (County). Due to the nature of the relationship between LACERA and the County, LACERA's Pension Plan and OPEB Trust funds are reflected as fiduciary funds within the County's basic financial statements. The OPEB Custodial Fund reports fiduciary activities that are conducted by LACERA on behalf of the County without a trust or equivalent arrangement. Maintaining appropriate controls and preparing the financial statements are the responsibility of LACERA Management. LACERA's Audit Committee and the Chief Audit Executive assist the LACERA Boards of Retirement and Investments (Boards) in fulfilling their fiduciary oversight responsibilities for the organization's financial reporting process, the system of internal controls, the audit processes, and the organization's method for monitoring compliance with laws and regulations.

## Method of Reporting

LACERA follows the Generally Accepted Accounting Principles in the United States of America (U.S. GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements that guide LACERA are promulgated by the Governmental Accounting Standards Board (GASB).

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting to reflect LACERA's overall operations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Employer and employee contributions are recognized in the period in which the contributions are due, pursuant to legal requirements. Benefits and refunds are recognized when due and payable, in accordance with the terms of each benefit plan.

## OPEB Custodial Fund and OPEB Trust Fund Presentation

The OPEB Custodial Fund and OPEB Trust Fund are presented in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position as part of the Basic Financial Statements.

The OPEB Custodial Fund captures the annual financial operating activity of the RHCBP/OPEB Program for all participating employers (i.e., County, Court, and LACERA), including the Outside Districts. Plan sponsors and members provide monthly funding using a "pay-as-you-go" methodology, which LACERA uses to pay healthcare premiums including administrative fees, as well as other healthcare benefits provided by the OPEB Program. LACERA acts as a custodian for these funds on behalf of the plan sponsors and participants. Actual amounts paid out by LACERA in the form of benefits and reimbursed to LACERA in the form of contributions are included within the OPEB Custodial Fund. Residual balances (contributions that exceed benefit payments) are reported at fiscal year-end, held on behalf of plan sponsors, and made available to fund current benefits payments in subsequent fiscal years.

OPEB Trust financial activity includes prefunding contributions provided by plan sponsors either quarterly or on an annual basis. Funds are set aside and placed in Trust to earn investment income and interest, and are held and used to provide future OPEB benefits at the plan sponsors' discretion. Investment income activity is reported within the OPEB Trust. For financial statement presentation purposes, GASB standards require that the OPEB Trust includes pay-as-you-go costs, paid by the employers on a monthly basis, in addition to employer prefunding contributions to the OPEB Trust. However, these monthly costs are not paid from the OPEB Trust and are shown instead for presentation purposes only. In addition, as required per GASB standards, the same amounts are reported as service benefits charged to the OPEB Trust as deductions, which also include administrative expenses (per paragraphs 28a and 31 of GASB Statement Number 74). See Note Q for OPEB Trust prefunding contributions from participating employers.

## Capital Assets (Including Intangible Assets)

Capital assets are items that benefit the organization for more than one fiscal year. LACERA's potential capital assets are largely held in information technology systems. The information technology environment is continuously changing, causing frequent upgrades. As such, LACERA treats these items as budgeted expenses, as they are immaterial to LACERA's overall financial statements. Management reviewed and considered all expenses that could be capitalized as capital or intangible assets and determined these items to be appropriately classified as expenses for the current fiscal year.

## Accrued Vacation and Sick Leave

Employees who terminate or retire from active employment are entitled to full compensation for all unused vacation time and a percentage of their unused sick leave time. The accrued vacation and sick leave balances for LACERA employees as of June 30, 2021 and 2020, were $5.3 million and $4.6 million, respectively.

## Cash and Short-Term Securities

Cash includes deposits with various financial institutions, the County, and non-U.S. currency holdings, translated to U.S. dollars using the exchange rates in effect at June 30, 2021 and 2020.

LACERA classifies fixed income securities with a maturity of 12 months or less as short-term investments. Foreign exchange contracts held in pending status are also included in the category.

## Real Estate Separate Account Investments

LACERA's real estate investments utilize several different types of special purpose entities (SPEs), including title holding corporations (THCs) and limited liability companies (LLCs). The THCs are nonprofit corporations under §501(c)(25) and §501(c)(2) of the Internal Revenue Code (IRC). The LLCs do not have tax-exempt status, but their income is excludable from taxation under IRC §115. Both THCs and LLCs invest in real estate assets located throughout the United States. Under GASB Statement Number 72, Fair Value Measurement and Application, the THCs and LLCs meet GASB's definition of an investment and therefore are included in the accompanying financial statements as investments at fair value. For additional information, see Note J — Special Purpose Entities.

## Fair Value

Investments are carried at fair value. Fair values for investments are derived by various methods, as indicated in the following chart:

| Investments | Source |
|---|---|
| **Publicly traded securities, such as stocks and bonds. Bonds include obligations of the U.S. Treasury, U.S. agencies, non-U.S. governments, and both U.S. and non-U.S. corporations. Also included are mortgage- backed securities and asset-backed securities.** | Valuations are provided by LACERA's custodian based on end-of-day prices from external pricing vendors. Non-U.S. securities reflect currency exchange rates in effect at June 30, 2021 and 2020. |
| **Whole Loan Mortgages** | For the LACERA Member Home Loan Program, valuation is performed by LACERA staff based on loan information provided by Ocwen Financial Corporation, the program's mortgage servicer, with fair market value adjustments based on the market returns of the Bloomberg Barclays mortgage-backed securities index. |
| **Real Estate Equity Commingled Funds**[1] | Fair value as provided by real estate fund managers, based on review of cash flow, exit capitalization rates, and market trends. Fund managers commonly subject each property to independent third-party appraisal annually. Investments under development are carried at cumulative cost until development is completed. |
| **Real Estate: Special Purpose Entities, including Title Holding Corporations and Limited Liability Companies**[1] | Fair value of the investment as provided by investment managers. Each property is subject to independent third-party appraisals every year. |
| **Real Estate Debt Investments**[1] | Fair value for real estate debt investments as provided by investment managers. |
| **Private Equity**[1] | Fair value provided by investment managers as follows:<br>Private investments — valued by the general partner giving consideration to financial condition and operating results of the portfolio companies, nature of investment, marketability, and other factors deemed relevant.<br>Public investments — valued based on quoted market prices, less a discount, if appropriate, for restricted securities. |

| Investments | Source |
|---|---|
| **Public Market Equity and Fixed Income Investments Held in Institutional Commingled Fund/Partnership[1]** | Fair value is typically provided by third-party fund administrator, who performs this service for the fund manager. |
| **Derivatives** | Over-the-counter derivatives (other than currency forwards) valuations are provided by the fund managers. Currency forward contracts are valued by the custodian bank. |
| **Hedge Fund of Funds[1]** | Valuation of the underlying funds is performed by those funds' general partners. Valuation of the fund of funds portfolios are provided by third-party administrators and by the General Partner for the portfolios held in limited partnership vehicles. |

[1]These assets are reported by LACERA based on the practical expedient allowed under GAAP.

Note: The fair value hierarchy is provided in Note P — Fair Value.

There are certain market risks, credit risks, foreign currency exchange risks, liquidity risks, and event risks that may subject LACERA to economic changes occurring in certain industries, sectors, or geographies. For additional information, see Note G — Deposit and Investment Risks.

Dividend income is recorded on the ex-dividend date. Other investment income is recorded as earned on an accrual basis.

## PENSION PLAN INVESTMENTS

**Investment Policy Statement**

The allocation of investment assets within the LACERA Defined Benefit Pension Plan (Pension Plan) investment portfolio is approved by the LACERA Board of Investments, as outlined in the LACERA Investment Policy Statement (IPS). Pension Plan (or Fund) assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Pension Plan. The Investment Policy Statement calls for an asset liability study to be conducted no later than every three to five years.

In November 2018, the LACERA Board of Investments adopted a restated IPS to address topics such as Legal Authority, Investment Philosophy and Strategy, Investment Process, Risk Management, Roles and Responsibilities, Asset Allocation and Benchmarks, and Delegated Authorities. In addition, the IPS includes several related policies as attachments: Corporate Governance Principles, Corporate Governance Policy, Responsible Contractor Policy, Emerging Manager Policy, and Placement Agent Policy.

The LACERA Board of Investments and internal staff implement asset allocation targets through the use of external managers who manage portfolios using active and passive investment strategies.

Financial statements were prepared using traditional investment asset categories (i.e., equity, fixed income, private equity, real estate, and hedge funds). In the following table and in the Investment Section, investment information is presented in functional asset categories. LACERA's Board of Investments developed and practices its Investment Beliefs, which state that long-term strategic allocation will be the determinant of LACERA's risk/return outcomes. Based on the Pension Trust Asset Allocation Study completed by Meketa Investment Group (Meketa) in March 2018, the Board of Investments approved the use of a functional framework developed by LACERA's Investment Office for modeling purposes, which offers the inclusion of a broader group of investments within Credit and Real Assets and Inflation Hedges. The functional categories include various asset classes that represent the risk/return characteristics of each area. LACERA expects the four functional categories to diversify the Fund and optimize growth while mitigating downside risk. The asset allocation determines what proportion of the Fund is allocated to each functional category and underlying asset class, including target weights and allowable ranges as a percentage of the Fund.

## Schedule of Target Allocation and Long-Term Expected Rate of Return

*For the Fiscal Year Ended June 30, 2021*

| Asset Class | Target Allocation (Policy) | Weighted Average Long-Term Expected Real Rate of Return (After Expected 2.75% Inflation Rate) (Geometric) |
|---|---|---|
| **Growth** | **47.0%** | **5.3%** |
| Global Equity | 35.0% | 4.2% |
| Private Equity | 10.0% | 6.1% |
| Opportunistic Real Estate | 2.0% | 6.3% |
| **Credit** | **12.0%** | **1.7%** |
| High Yield Bonds | 3.0% | 1.4% |
| Bank Loans | 4.0% | 1.2% |
| Emerging Market Bonds | 2.0% | 1.0% |
| Illiquid Credit | 3.0% | 2.3% |
| **Real Assets and Inflation Hedges** | **17.0%** | **3.2%** |
| Core and Value-Added Real Estate | 7.0% | 2.9% |
| Natural Resources and Commodities | 4.0% | 3.2% |
| Infrastructure | 3.0% | 4.5% |
| TIPS | 3.0% | (0.9)% |
| **Risk Reduction and Mitigation** | **24.0%** | **(0.4)%** |
| Investment Grade Bonds | 19.0% | (0.9)% |
| Diversified Hedge Fund Portfolio | 4.0% | 1.7% |
| Cash Equivalents | 1.0% | (1.6)% |

### Target Allocation

The LACERA Board of Investments approved the current target allocation as a result of the Asset Allocation Study completed by Meketa in May 2018. At the time, the Board adopted the targets to provide for diversification of assets in an effort to meet LACERA's actuarial assumed rate of return, consistent with market conditions and risk control. LACERA recently completed an asset allocation exercise and the Board approved revised target weights at its May 2021 Board meeting. Transition to the first phase of the revised target allocation will begin in the upcoming fiscal year.

### Weighted Average Long-Term Expected Real Rate of Return

The long-term expected real rate of return on Pension Plan investments is based on inflation expectations and nominal return expectations developed by Meketa for each asset class. In the case of the total portfolio and broad asset groupings (e.g., Growth, Credit), returns are calculated using a portfolio approach that first calculates nominal expected returns by incorporating target weights, nominal expected returns, and volatility and correlations estimates for each asset class, adjusted by the defined return period. Nominal expected returns for each asset class are converted to real expected returns by adjusting them for inflation, using a base inflation rate assumption of 2.75 percent.

A simple weighted sum of asset class returns will not yield the results shown on the table given the process followed to adjust for inflation, the compounding to a given time period, and the impact of volatility and correlations to the portfolio.

### Discount Rate

GASB Statement Number 67 requires determination of whether the Pension Plan's Fiduciary Net Position is projected to be sufficient to make projected benefit payments. The discount rate used to measure the Total Pension Liability (TPL) was 7.13 percent. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.00 percent, net of all expenses, increased by 0.13 percent, gross of administrative expenses.

The valuation assumption for the long-term expected return is re-assessed in detail at the triennial investigation of experience, and is set based on a long-term time horizon. The most recent analysis was completed in January 2020. See Milliman's Investigation of Experience for Retirement Benefit Assumptions report for the period July 1, 2016–June 30, 2019 for more details. The assumption for the long-term expected return is reviewed annually for continued compliance with the relevant actuarial standards of practice. As part of this assessment, Milliman compares the assumption with the 20-year expected geometric return determined by LACERA's investment consultant, Meketa.

The projection of cash flows used to determine the discount rate assumed that Pension Plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the Pension Plan's Fiduciary Net Position was projected to be sufficient to pay projected benefit payments in all future years. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the TPL.

## Money-Weighted Rate of Return

The annual money-weighted rate of return on Pension Plan investments, net of investment expenses as of the fiscal years ended June 30, 2021 and 2020, were 25.2 percent and 1.4 percent, respectively. The money-weighted rate of return is a measure of the performance of an investment calculated by finding the rate of return that will set the present values of all cash flows equal to the value of the initial investment. This method is equivalent to the internal rate of return. Historical returns are presented in the Schedule of Investment Returns — Pension Plan in the Required Supplementary Information Section.

## Time-Weighted Rate of Return

The annual time-weighted rate of return on Pension Plan investments, net of investment expenses as of the fiscal years ended June 30, 2021 and 2020, were 25.2 percent and 1.8 percent, respectively. The time-weighted rate of return is a measure of the compound rate of growth in a portfolio. This measure is often used to compare the performance of investment managers because it eliminates the distorting effects on growth rates created by inflows and outflows of money. The time-weighted return breaks up the return on an investment portfolio into separate intervals based on whether money was added or withdrawn from the fund. Historical returns are presented in the Investments Results Based on Fair Value — Pension Plan in the Investment Section.

## Use of Estimates

The preparation of LACERA's financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes to the financial statements. Actual results may differ from these estimates.

## Reclassifications

Comparative data for the prior year have been presented in the selected sections of the accompanying Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position.

## UPCOMING GASB PRONOUNCEMENTS

**Leases**

In June 2017, the GASB issued Statement Number 87 (GASB 87), Leases, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. LACERA is currently evaluating the impact this standard will have on the financial statements, when adopted. The provisions of this statement are effective for LACERA's financial statements for the fiscal year ending June 30, 2022.

**Subscription Based Information Technology Arrangements**

GASB issued Statement Number 96, Subscription Based Information Technology Arrangements (SBITAs), to establish SBITAs as intangible assets with a corresponding subscription liability for contracts that convey control of the right to use another party's information technology software. The objective of this Statement is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for SBITAs; (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. This statement also brings the guidance on the accounting and financial reporting for SBITAs in line with that of GASB 87, Leases. For LACERA's financial statements, the requirements of GASB 96 are effective for the fiscal year ending June 30, 2023.

# NOTE C — Pension Plan Contributions

## Funding Policy

In December 2009, the LACERA Board of Investments adopted a revised Retirement Benefit Funding Policy (Funding Policy). The Funding Policy was amended in February 2013 to conform to the new standards mandated in the California Public Employees' Pension Reform Act of 2013 (PEPRA).

## Member and Employer Rates

Members and employers contribute to LACERA based on unisex rates recommended by an independent consulting actuary and adopted by the LACERA Board of Investments and the Los Angeles County Board of Supervisors. Contributory plan members are required to contribute between approximately 6 percent and 18 percent of their annual covered salary. Member and employer contributions received from the Outside Districts constitute part of LACERA's Pension Plan as a whole.

Participating employers are required to contribute the remaining amounts necessary to finance the coverage of their employees' (members') pension benefits through monthly or annual prefunded contributions at actuarially determined rates. Rates for contributory plan members who entered the Pension Plan prior to January 1, 2013, are based upon plan entry-age and plan-type enrollment. The PEPRA-mandated retirement plan contributions for new members who enter the system on and after January 1, 2013 are based on a single flat-rate percentage and are structured in accordance with the required 50/50 normal cost-sharing between the employer and the member.

Both member rate methodologies are actuarially designed for the members, as a group, to make contributions into the Pension Plan, which when combined with employer contributions and investment earnings, provide sufficient funding for their members'. As a result of collective bargaining, actual member contribution rates for various plan types are controlled through these agreements and through additional employer contributions (for some contributory plans), known as the surcharge amount, which is subject to change each year. As required by GASB Statement Number 82, member contributions paid by the employer are reported within the member contribution amounts.

The employer contribution rate is composed of the normal cost and the UAAL amortization payment. Normal cost is the portion of the actuarial present value of retirement benefits attributable to the current year of service. Amortization of the UAAL is payments made for prior year unfunded benefits not provided by future normal costs. The latest actuarial valuation as of June 30, 2020 increased the employer normal cost rate from 10.86 percent to 10.89 percent and increased the employers' required contribution rate to finance the UAAL from 13.92 percent to 14.85 percent. Effective with the June 30, 2019 valuation, all new UAAL layers are amortized over a 20-year period, beginning with the date the contribution is first expected to be made. In addition, all existing amortization layers are set to be amortized over a maximum 22-year period, so they are fully amortized no later than 2042. Member contribution rates decreased for PEPRA members, with General Plan G moving down from 9.11 percent to 9.10 percent and Safety Plan C decreasing slightly from 14.54 percent to 14.42 percent, effective with the 2020 Actuarial Valuation. There was no change in contribution rates for the other retirement plans.

## Experience Study

At its January 2020 meeting, the BOI adopted a 3.29 percent increase in the employer contribution rate due to the 2019 experience study which was reduced by a three-year phase-in approach. The calculated total employer contribution rate would have been 25.74 percent but was reduced by 1.10 percent resulting in an employer contribution rate of 24.64 percent, beginning July 1, 2021.

The total employer contribution rate increased 2.05 percent from the previous valuation as of June 30, 2019 (from 22.59 percent to 24.64 percent), primarily due to the deferred recognition of assumption and method changes which resulted in an increase of 1.09 percent,  the recognition of current and prior year investment losses for 0.67 percent, and salary increases greater than assumed for 0.29 percent. The 24.64 percent is reduced 1.10 percent below the amount recommended by the consulting actuary as a result of implementing the three-year phase-in method. The increased costs based on the assumption changes from the 2019 experience study will be fully phased into the employer contribution rate for the fiscal year beginning July 1, 2022.

## Contribution Payments

For the fiscal years ended June 30, 2021 and June 30, 2020, Los Angeles County, including the Superior Court and Outside Districts, paid their employer and member contributions due to LACERA in the form of cash payments. For the fiscal years ended June 30, 2021 and June 30, 2020, employer contributions totaled $2.0 billion and $1.8 billion, respectively, and member contributions totaled $761 million and $659 million, respectively.

## Pension Plan Contributions

*For the Fiscal Years Ended June 30, 2021 and 2020*

(Dollars in Thousands)

| | 2021 | 2020 |
|---|---|---|
| **Employers** | | |
| Los Angeles County[1] | **$1,940,715** | $1,732,960 |
| Superior Court | **72,021** | 67,048 |
| Local Agency Formation Commission for the County of Los Angeles | **133** | 121 |
| South Coast Air Quality Management District[2] | **—** | — |
| Little Lake Cemetery District | **8** | 8 |
| Los Angeles County Office of Education[3] | **—** | — |
| **Total Employer Contributions** | **$2,012,877** | $1,800,137 |
| Employee Contributions[4] | **$760,994** | $659,296 |
| **Total Contributions** | **$2,773,871** | $2,459,433 |

[1]LACERA contributions are included with Los Angeles County.

[2]South Coast Air Quality Management District has no active members contributing to the Pension System for the fiscal year ended 2021 and 2020.

[3]Los Angeles County Office of Education has no active members contributing to the Pension System for the fiscal years ended 2021 and 2020.

[4]In accordance with GASB Statement No. 82, payments made by an employer to satisfy member contribution requirements are classified as member contributions.

## NOTE D — Pension Plan Reserves

LACERA includes reserve accounts within its financial records for various operating purposes as outlined in LACERA's reserves accounting policies. Reserves are established from member and employer contributions and the accumulation of realized investment income after satisfying investment and administrative expenses. With the exception of the reserves required by CERL, reserves are neither required nor recognized under generally accepted accounting principles in the United States of America (i.e., U.S. GAAP). They are not shown separately on the Basic Financial Statements (i.e., Statement of Fiduciary Net Position), although the sum of these reserves equals the Fiduciary Net Position Restricted for Benefits. The reserves do not represent the present value of assets needed, as determined by the actuarial valuation, to satisfy retirement and other benefits as they become due. Instead, the balances contained within the Fiduciary Net Position Restricted for Benefits, when combined with future investment earnings and contributions from members and employers, are used to satisfy member retirement benefits.

### Pension Plan

LACERA's major classes of Pension Plan reserves are:

#### Member Reserves

Member Reserves represent the balance of member contributions. Additions include member contributions and related earnings. Deductions include annuity payments to retirees, refunds to members, and related expenses.

#### Employer Reserves

Employer Reserves represent the balance of employer contributions for future retirement payments to current active members. Additions include contributions from employers and related earnings. Deductions include annuity payments to retired members, lump-sum death/burial benefit payments to members' survivors, and supplemental disability payments.

### Supplemental Targeted Adjustment for Retirees (STAR) Reserve

STAR Reserve represents the balance of transfers from the Contingency Reserve for future supplemental cost-of-living adjustment (COLA) increases. During fiscal years 1995-1999, 25 percent of excess earnings were credited to the STAR Reserve pursuant to the 1994 Retirement System Funding Agreement between LACERA and the County. Additions include transfers from the Contingency Reserve. Deductions include STAR Program payments to retirees and funding for permanent benefits. In October 2008, except for program year 2005, the LACERA Board of Retirement made permanent the 2001 through 2009 STAR programs at an 80 percent level, as authorized in the County Employees Retirement Law of 1937 (CERL). For program years 2010 through 2020, additional STAR benefits were not provided. There were no new retirees or beneficiaries entitled to additional STAR benefits for program year 2021 due to modest increases in the Consumer Price Index (CPI). Thus, all eligible members had COLA Accumulation accounts below the 20 percent threshold for providing STAR benefits.

STAR Program awards are subject to approval by the Board of Retirement on an annual basis, provided sufficient excess earnings are available in the STAR Reserve. The Board of Retirement may approve ad hoc STAR benefits which are payable only for the calendar year approved or permanent STAR benefits that become part of the member's retirement allowance and are payable for life.

### Contingency Reserve

Contingency Reserve represents reserves accumulated for future earning deficiencies, investment losses, and other contingencies. Additions include realized investment income and other revenues. Deductions include investment expenses; administrative expenses; and, interest allocated to other reserves, in priority order, to the extent that realized earnings are available for the six-month period, as defined in the 2009 Retirement Benefit Funding Policy (Funding Policy) amended in 2013 and approved by the LACERA Board of Investments; and funding of the STAR Reserve when excess earnings are available and benefits are authorized by the LACERA Board of Retirement. For the fiscal years ended June 30, 2021 and 2020, the net investment realized earnings were applied as interest credits to some of the reserves in accordance with the Funding Policy.

## Pension Plan Reserves

*As of June 30, 2021 and 2020*
(Dollars in Thousands)

| | 2021 | 2020 |
|---|---|---|
| Member Reserves | **$24,646,373** | $23,481,576 |
| Employer Reserves | **29,026,898** | 25,818,509 |
| STAR Reserve | **614,011** | 614,011 |
| Contingency Reserve | **147,104** | — |
| **Total Reserves at Book Value** | **$54,434,386** | $49,914,096 |
| Unrealized Investment Portfolio Appreciation | **$18,577,640** | $8,596,312 |
| **Total Reserves at Fair Value**[1] | **$73,012,026** | $58,510,408 |

[1]Total Reserves at Fair Value equals the Fiduciary Net Position Restricted for Benefits as presented in the Basic Financial Statements.

## NOTE E — Pension Plan Liabilities

The County Employees Retirement Law of 1937 (CERL) requires an actuarial valuation to be performed at least every three years for the purpose of measuring the Pension Plan's funding progress and setting employer and employee contribution rates. LACERA exceeds this requirement by engaging an independent actuarial consulting firm to perform an actuarial valuation for the Pension Plan annually. Employer contribution rates and employee contribution rates for new retirement plans established under the California Public Employees' Pension Reform Act of 2013 (PEPRA) may be updated each year as a result of the valuation.

LACERA engages an independent actuarial consulting firm to perform an investigation of experience (experience study) at least every three years, which is guided by actuarial practices and consistent with CERL requirements. The economic and demographic assumptions are reviewed and updated as deemed necessary each time an experience study is completed. The experience study and corresponding annual valuation serve as the basis for changes in employer and employee contribution rates for both PEPRA and legacy retirement plans necessary to properly fund the Pension Plan.

The LACERA Board of Investments adopted some new assumptions beginning with the June 30, 2019 actuarial valuation based on the 2019 triennial experience study. Some assumptions from prior experience studies were  reaffirmed and carried forward. For financial reporting purposes, LACERA reviews these assumptions annually to ensure they continue to represent appropriate plan assumptions under U.S. GAAP.

### Actuarial Assumptions

Actuarial valuations of an ongoing plan involve assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, cost trends, assumed rate of return, inflation, and other demographic and economic changes over time.

Actuarially determined assumptions are subject to continual review or modification as actual experience is compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the adopted assumptions and actual demographics of the Pension Plan and include the types of benefits provided at the time of each valuation.

Employer contribution rate increases were phased in over a three-year period when new assumptions were adopted based on the 2019 triennial experience study. Instead of immediately recognizing the new employer contribution rates in the first year, the employer rates were stepped up over time. When the phase-in approach is applied, the employer contribution rates will be slightly higher in the third year as compared to if the new employer contribution rates were fully recognized in the first year. The phase-in of increases in employer contributions over a three-year period supports LACERA's fiduciary duty of legal authority set forth in the California Constitution, Article XVI, Section 17(a) to minimize the financial impact to the employer.

The Total Pension Liability (TPL) as of June 30, 2021, was determined by completing a roll- forward calculation based on an actuarial valuation conducted as of June 30, 2020, using the following actuarial assumptions in accordance with the requirements of GASB Statement Number 67 (GASB 67). The actuarial funding valuation serves as a basis for the GASB 67 financial reporting information. All actuarial methods and assumptions used for this GASB analysis were the same as those used for the June 30, 2020 funding valuation, except where differences are noted. Key actuarial methods and significant assumptions used to calculate the TPL are presented as follows. For additional information regarding the actuarial valuation, refer to the Actuarial Section.

## Actuarial Methods and Significant Assumptions

| Description | Method |
|---|---|
| **Actuarial Cost Method** | Individual entry age normal. |
| **Discount Rate** | 7.13 percent, net of Pension Plan investment expense, including inflation.<br>This rate was adopted beginning with the June 30, 2019 valuation. |
| **Price Inflation** | 2.75 percent.<br>This rate was adopted beginning with the June 30, 2016 valuation. The rate was reaffirmed in the 2019 triennial experience study. |
| **General Wage Growth and Projected Salary Increases** | General wage growth: 3.25 percent.<br>This rate was adopted beginning with the June 30, 2016 valuation. The rate was reaffirmed in the 2019 triennial experience study.<br>Projected salary increases: 3.51 percent to 12.54 percent.<br>The total expected increase in salary includes both merit and the general wage increase assumption of 3.25 percent per annum. The total result is compounded rather than additive. Increases are assumed to occur in the middle of the fiscal year (i.e., January 1) and apply only to base salary. The mid-year timing reflects that salary increases occur throughout the year, or on average mid-year.<br>These rates were adopted beginning with the June 30, 2019 valuation. |
| **Cost-of-Living Adjustments** | Post-retirement benefit increases of either 2.75 percent or 2 percent per year (a pro-rata portion for Plan E) are assumed.<br>This assumption was adopted with the June 30, 2016 valuation. The LACERA Funding Policy calls for the inclusion of the Supplemental Targeted Adjustment for Retirees (STAR) Reserve in the calculation of valuation assets for funding purposes, with no corresponding liability. For the Total Pension Liability, STAR COLA (supplemental cost-of-living adjustments) benefits are assumed to be substantively automatic at the 80 percent purchasing power level until the STAR Reserve is projected to be insufficient to pay further STAR benefits. This roll-forward calculation includes a future liability for STAR COLA benefits.<br>See Note A — Plan Description for additional COLA and STAR COLA information. |
| **Mortality** | Various rates based on the Pub-2010 mortality tables and including projection for expected future mortality improvement using the MP-2014 Ultimate Projection Scale.<br>This assumption was adopted with the June 30, 2019 valuation. |

## Discount Rate

Milliman's analysis contained in their January 2020 Investigation of Experience report was used to develop the 7.13 percent assumption used for the current GASB 67 reporting date. This is equal to the 7 percent long-term investment return assumption adopted by the Board of Investments (net of investment and administrative expenses), plus 0.13 percent assumed administrative expenses, as required by GASB 67. LACERA has reviewed this assumption as of the GASB 67 reporting date using current capital market assumptions provided by external investment advisors.

The plan's projected Fiduciary Net Position (FNP), after reflecting employee and employer contributions, was expected to be sufficient to make all future benefit payments of current active and inactive (retired and deferred) employees. Therefore, the discount rate for calculating the TPL is equal to the long-term expected rate of return, gross of administrative expenses, which is 7.13 percent for the fiscal year ended June 30, 2021 reporting cycle.

## Other Key Assumptions

Other key actuarial assumptions used to calculate the TPL as of the June 30, 2021 measurement date are the same as used to determine the June 30, 2020 actuarial funding valuation. For the determination of the TPL as of the June 30, 2020 measurement date, other key actuarial assumptions were the same as used in the June 30, 2019 actuarial funding valuation.

## Net Pension Liability

GASB 67 requires public pension plans to provide the calculation of the Net Pension Liability (NPL). The NPL is measured as the Total Pension Liability less the amount of the Pension Plan's FNP.

The NPL is an accounting measurement for financial statement reporting purposes. The funded status of the Plan is calculated separately by the consulting actuary and the results are included in the actuarial valuation report. The components of LACERA's (the Pension Plan's) NPL at fiscal year-end June 30, 2021 and 2020, were as follows:

### Schedule of Net Pension Liability

*For the Fiscal Years Ended June 30, 2021 and 2020*
(Dollars in Thousands)

| | 2021 | 2020 |
|---|---|---|
| Total Pension Liability | **$80,303,904** | $76,579,594 |
| Less: Fiduciary Net Position | **(73,012,026)** | (58,510,408) |
| **Net Pension Liability** | **$7,291,878** | $18,069,186 |
| Fiduciary Net Position as a Percentage of Total Pension Liability | **90.92%** | 76.40% |

The TPL increased due to the normal operations of LACERA including the cost of benefits earned over the period (service cost), interest on the TPL, and benefit payments. The NPL decreased primarily due to strong investment returns for the fiscal year ended June 30, 2021.

## Sensitivity Analysis

In accordance with GASB 67, sensitivity of the NPL to changes in the discount rate must be reported. The following presents the NPL, calculated for the fiscal year ended June 30, 2021, using the discount rate of 7.13 percent, as well as the results of NPL calculations using a discount rate that is 1 percentage point lower (6.13 percent) or 1 percentage point higher (8.13 percent) than the current rate (7.13 percent). A corresponding calculation is presented for the fiscal year ended June 30, 2020, based on the discount rate in effect for that year.

### Sensitivity Analysis

*For the Fiscal Years Ended June 30, 2021 and 2020*

(Dollars in Thousands)

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **1% Decrease [6.13%]** | **Current Discount Rate [7.13%]** | **1% Increase [8.13%]** | **1% Decrease [6.13%]** | **Current Discount Rate [7.13%]** | **1% Increase [8.13%]** |
| Total Pension Liability (Asset) | $91,186,244 | $80,303,904 | $71,310,939 | $86,990,827 | $76,579,594 | $67,976,838 |
| Less: Fiduciary Net Position | (73,012,026) | (73,012,026) | (73,012,026) | (58,510,408) | (58,510,408) | (58,510,408) |
| **Net Pension Liability/(Asset)** | **$18,174,218** | **$7,291,878** | **($1,701,087)** | **$28,480,419** | **$18,069,186** | **$9,466,430** |

## NOTE F — Partial Annuitization of Pension Benefit Payments

In January 1987, LACERA purchased single life annuities from two insurance companies that provided pension benefit payments to a portion of retired members, referred to as covered members. Under the terms of the agreements, LACERA continues to administer all pension benefit payments to covered members. There is no effect on covered members, since they retain all pension benefits accorded to LACERA members under the law, including rights to a monthly continuing allowance payable to eligible survivors or beneficiaries of deceased LACERA retirees, health insurance subsidies, and any cost-of-living adjustments (COLAs) awarded. The values of the annuities are entirely allocated to covered members. In accordance with the agreements. The annuity providers make monthly annuity reimbursements limited to the straight life annuity payments and statutory COLA increases.

LACERA is responsible for any difference in pension benefit payments payable to covered members that are unreimbursed by the insurance companies. The reimbursements received are netted against the pension and annuity payments (i.e., retiree payroll) in LACERA's financial statements. For the fiscal year ended June 30, 2021, LACERA paid $9.3 million to covered members and received $7.6 million in related reimbursements. For the fiscal year ended June 30, 2020, LACERA paid $11.0 million to covered members and received $9.1 million in related reimbursements. As the annuity providers' monthly annuity reimbursements are allocated to covered members' pension payments, the fair value of contracts was excluded from pension plan assets and actuarially determined amounts.

## NOTE G — Deposit and Investment Risks

The County Employees Retirement Law of 1937 (CERL) vests the LACERA Board of Investments with exclusive control over LACERA's investment portfolio. The LACERA Board of Investments established investment policy statements and investment manager guidelines for the management of the LACERA defined benefit retirement plan (Pension Plan) and the LACERA Other Post-Employment Benefits Master Trust (OPEB Master Trust or OPEB Trust). The LACERA Board of Investments exercises authority and control over the management of LACERA's Fiduciary Net Position Restricted for Benefits by setting a policy that the LACERA Investment Office staff executes either internally or through the use of prudent external experts.

Each investment policy statement recognizes that every investment asset class and type is subject to certain risks. Outlined below are the deposit and investment risks as they relate to fixed-income investments.

### Credit Risk

Credit risk is the risk that an issuer or a counterparty to an investment transaction will not fulfill its obligations, causing the investment to decline in value. LACERA seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the Pension Plan at an acceptable level of risk within this asset class. To control credit risk, credit quality guidelines have been established.

### Investment Grade Bonds

Investment grade bonds are categorized as a component of the Risk Reduction and Mitigation functional asset category presented in the Investment Section and are subdivided into two types of strategies: Core and Core Plus, with target allocation ranges of 80 to 100 percent for Core and 0 to 20 percent for Core Plus. Investment guidelines for Core managers require that they invest predominantly in sectors represented in their benchmark index, which consists of 100 percent of bonds rated investment grade. As a result, Core portfolios consist almost 100 percent of bonds rated investment grade by the major credit rating agencies: Moody's, S&P Global Ratings (S&P), and Fitch. Core Plus managers are afforded some latitude to deviate from the benchmark index in order to generate excess return, so investment grade bonds must comprise at least 70 percent of Core Plus portfolios.

### High Yield Bonds

Dedicated high yield bond portfolios are categorized in the Credit functional asset category presented in the Investment Section. By definition, high yield bonds are securities rated below investment grade. Therefore, the majority of bonds in the high yield portfolios are rated below investment grade by at least one of the major credit rating agencies: Moody's, S&P, and Fitch.

The credit portfolios allow for the assumption of more credit risk than investment grade portfolios by investing in securities that include unrated bonds, bonds rated below investment grade issued by corporations undergoing financial stress or distress, junior tranches of structured securities backed by residential and commercial mortgages, bank loans, illiquid credit, and emerging market debt. LACERA utilizes specific investment manager guidelines for these portfolios that limit maximum exposure by issuer, industry, and sector, which result in well-diversified portfolios.

*The following is a schedule for the year ended June 30, 2021 of the credit quality ratings by Moody's, a nationally recognized statistical rating organization, of investments in fixed income securities. Whole loan mortgages included in the Pension Plan portfolio of $16 million are excluded from this presentation.*

## Credit Quality Ratings of Investments in Fixed Income Securities — Pension Plan

*As of June 30, 2021*
(Dollars in Thousands)

| Quality Ratings | U.S. Treasuries | U.S. Govt. Agencies | Municipals | Corporate Debt/Credit Securities | Pooled Investments | Non-U.S. Fixed Income | Private Placement Fixed Income | Total | Percentage of Portfolio |
|---|---|---|---|---|---|---|---|---|---|
| Aaa | $3,301,874 | $1,195,987 | $1,480 | $172,471 | $4,497,797 | $2,346 | $160,507 | $9,332,462 | 44.3% |
| Aa | — | — | 4,221 | 32,962 | 1,042,542 | 24,674 | 20,947 | 1,125,346 | 5.3% |
| A | — | — | — | 386,122 | 877,203 | 38,208 | 47,334 | 1,348,867 | 6.4% |
| Baa | — | — | 2,695 | 585,436 | 1,079,893 | 78,426 | 140,929 | 1,887,379 | 9.0% |
| Ba | — | — | — | 211,026 | 33,863 | 47,809 | 188,558 | 481,256 | 2.3% |
| B | — | — | — | 1,115,369 | 662 | 120,190 | 383,016 | 1,619,237 | 7.7% |
| Caa | — | — | — | 190,817 | — | 13,097 | 216,681 | 420,595 | 2.0% |
| Ca | — | — | — | 7,630 | — | 784 | 6,797 | 15,211 | 0.1% |
| C | — | — | — | 1,132 | — | — | — | 1,132 | —% |
| Not Rated | — | 1,027 | — | 317,497 | 4,195,662 | 110,193 | 205,097 | 4,829,476 | 22.9% |
| **Total** | **$3,301,874** | **$1,197,014** | **$8,396** | **$3,020,462** | **$11,727,622** | **$435,727** | **$1,369,866** | **$21,060,961** | **100.0%** |

Note: Pooled Investments included within the Not Rated Quality Ratings represent investments in commingled funds.

*The following is a schedule for the year ended June 30, 2020 of the credit quality ratings by Moody's, a nationally recognized statistical rating organization, of investments in fixed income securities. Whole loan mortgages included in the Pension Plan portfolio of $22 million are excluded from this presentation.*

## Credit Quality Ratings of Investments in Fixed Income Securities — Pension Plan

*As of June 30, 2020*

(Dollars in Thousands)

| Quality Ratings | U.S. Treasuries | U.S. Govt. Agencies | Municipals | Corporate Debt/Credit Securities | Pooled Investment | Non-U.S. Fixed Income | Private Placement Fixed Income | Total | Percentage of Portfolio |
|---|---|---|---|---|---|---|---|---|---|
| Aaa | $1,858,678 | $1,922,386 | $4,058 | $153,132 | $2,597,269 | $8,480 | $200,858 | $6,744,861 | 36.0% |
| Aa | — | — | 20,640 | 79,420 | 2,020,117 | 33,057 | 35,783 | 2,189,017 | 11.7% |
| A | — | — | 9,415 | 531,485 | 749,190 | 114,523 | 128,535 | 1,533,148 | 8.1% |
| Baa | — | — | 9,373 | 772,037 | 871,061 | 193,341 | 360,294 | 2,206,106 | 11.8% |
| Ba | — | — | — | 403,950 | 35,453 | 104,058 | 171,367 | 714,828 | 3.8% |
| B | — | — | 81 | 837,605 | — | 173,683 | 261,083 | 1,272,452 | 6.8% |
| Caa | — | — | — | 153,355 | 2,882 | 19,498 | 166,901 | 342,636 | 1.8% |
| Ca | — | — | 4,548 | 9,495 | — | 4,180 | 2,150 | 20,373 | 0.1% |
| C | — | — | — | 499 | — | — | 15 | 514 | —% |
| Not Rated | — | 1,267 | 828 | 159,187 | 3,270,486 | 49,325 | 251,064 | 3,732,157 | 19.9% |
| **Total** | **$1,858,678** | **$1,923,653** | **$48,943** | **$3,100,165** | **$9,546,458** | **$700,145** | **$1,578,050** | **$18,756,092** | **100.0%** |

Note: Pooled Investments included within the Not Rated Quality Ratings represent investments in commingled funds.

## Credit Quality Ratings of Investments in Fixed Income Securities — OPEB Trust

*As of June 30, 2021*
(Dollars in Thousands)

| Quality Ratings | Pooled Investments | Total | Percentage of Portfolio |
|---|---|---|---|
| Not Rated | $894,200 | $894,200 | 100% |
| **Total** | **$894,200** | **$894,200** | **100%** |

## Credit Quality Ratings of Investments in Fixed Income Securities — OPEB Trust

*As of June 30, 2020*
(Dollars in Thousands)

| Quality Ratings | Pooled Investments | Total | Percentage of Portfolio |
|---|---|---|---|
| Not Rated | $570,375 | $570,375 | 100% |
| **Total** | **$570,375** | **$570,375** | **100%** |

Note: Pooled Investments included with the Not Rated Quality represent investments in commingled funds. All fixed income securities in the OPEB Trust were invested through commingled funds.

## Credit Quality Ratings of Investments in Fixed Income Securities — OPEB Custodial Fund

*As of June 30, 2021*
(Dollars in Thousands)

| Quality Ratings | U.S. Treasuries | Corporate Debt/ Credit Securities | Private Placement Fixed Income | Total | Percentage of Portfolio |
|---|---|---|---|---|---|
| Aaa | $99,076 | $7,317 | $962 | $107,355 | 76.6% |
| Aa | — | 6,222 | 1,748 | 7,970 | 5.7% |
| A | — | 19,509 | 2,087 | 21,596 | 15.4% |
| Baa2 | — | 541 | — | 541 | 0.4% |
| Not Rated | — | 2,631 | — | 2,631 | 1.9% |
| **Total** | **$99,076** | **$36,220** | **$4,797** | **$140,093** | **100.0%** |

## Credit Quality Ratings of Investments in Fixed Income Securities — OPEB Custodial Fund

*As of June 30, 2020*
(Dollars in Thousands)

| Quality Ratings | U.S. Treasuries | Corporate Debt/ Credit Securities | Private Placement Fixed Income | Total | Percentage of Portfolio |
|---|---|---|---|---|---|
| Aaa | $78,197 | $8,443 | $2,418 | $89,058 | 69.0% |
| Aa | — | 9,491 | 667 | 10,158 | 7.9% |
| A | — | 23,795 | 2,671 | 26,466 | 20.5% |
| Not Rated | — | 3,414 | — | 3,414 | 2.6% |
| **Total** | **$78,197** | **$45,143** | **$5,756** | **$129,096** | **100.0%** |

## Custodial Credit Risk

LACERA's contract with its custodian State Street Bank and Trust (Bank) provides that the Bank may hold LACERA's securities registered in the Bank's or its agent's nominee name, in bearer form, in book-entry form, with a clearinghouse corporation, or with a depository, so long as the Bank's records clearly indicate that the securities are held in custody for LACERA's account. The Bank may also hold securities in custody in LACERA's name when required by LACERA. When held in custody by the Bank, the securities are not at risk of loss in the event of the Bank's financial failure, because the securities are not property (assets) of the Bank. Cash invested overnight in the Bank's depository accounts is subject to the risk that in the event of the Bank's failure, LACERA might not recover all or some of those overnight deposits. This risk is mitigated when the overnight deposits are insured or collateralized.

LACERA's policy as incorporated in its current contract with the Bank requires the Bank to certify it has taken all steps to assure all LACERA monies on deposit with the Bank are eligible for and covered by pass-through insurance, in accordance with applicable law and FDIC rules and regulations. The steps taken by the Bank include paying deposit insurance premiums when due, maintaining a prompt corrective action capital category of "well capitalized," and identifying on the Bank's records that it acts as a fiduciary for LACERA with respect to the monies on deposit. In addition, the Bank is required to provide evidence of insurance and to maintain a financial institution bond, which would cover the loss of money and securities with respect to any and all property the Bank or its agents hold in or for LACERA's account, up to the amount of the bond. To implement certain investment strategies, some of LACERA's assets are invested in investment managers' pooled vehicles. The securities in these vehicles may be held by a different custodian other than State Street Bank and Trust.

## Counterparty Risk

Counterparty risk for investments is the risk that, in the event of the failure of the counterparty to complete a transaction, LACERA would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. LACERA and its managers seek to minimize risk of loss from its counterparties by diversifying the number of counterparties, periodically reviewing their credit quality, and seeking to structure agreements so that collateral is posted on accrued gains if they reach certain size thresholds.

## Concentration of Credit Risk

No more than 5 percent of the investment grade bond and high yield bond portfolios may be invested in securities of a single issuer, except: U.S. Treasury securities, government-guaranteed debt (including G-7 countries), agency debt, agency mortgage-backed securities, and approved commingled funds. During fiscal year 2020, LACERA revised the Investment Manager Guidelines to allow an allocation to one high yield bond portfolio of up to 7 percent.

As of June 30, 2021, LACERA did not hold any investments in any one issuer that would represent 5 percent or more of the Pension Plan Fiduciary Net Position. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this requirement.

## Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates.

To manage interest rate risk, the duration of all investment grade bond portfolios is restricted to plus or minus 25 percent of the duration of the portfolios' respective benchmarks. Deviations from any of the stated guidelines require prior written authorization from LACERA.

*The Duration in Fixed Income Securities — Pension Plan schedule for the year ended June 30, 2021 presents the duration by investment type. Whole loan mortgages included in the Pension Plan portfolio of $16 million are excluded from this presentation.*

## Duration in Fixed Income Securities — Pension Plan

*As of June 30, 2021*

(Dollars in Thousands)

| Investment Type | Fair Value | Portfolio-Weighted Average Effective Duration[1] |
|---|---|---|
| U.S. Treasuries, U.S. Government Agency, and Municipal Instruments: | | |
| U.S. Treasuries | $3,301,874 | 7.08 |
| U.S. Government Agency | 1,197,014 | 3.39 |
| Municipal/Revenue Bonds | 8,396 | 13.41 |
| **Subtotal U.S. Treasuries, U.S. Government Agency, and Municipal Instruments** | **$4,507,284** | |
| Corporate Bonds and Credit Securities: | | |
| Asset-Backed Securities | $251,781 | 2.99 |
| Corporate and Other Credit | 2,762,494 | 2.73 |
| Fixed Income Swaps and Options | 6,186 | N/A |
| Pooled Funds | 11,727,622 | 3.47 |
| **Subtotal Corporate Bonds and Credit Securities** | **$14,748,083** | |
| Non-U.S. Fixed Income | $435,728 | 2.37 |
| Private Placement Fixed Income | 1,369,866 | 3.40 |
| **Subtotal Non-U.S. and Private Placement Securities** | **$1,805,594** | |
| **Total Fixed Income Securities** | **$21,060,961** | |

[1]Effective Duration is a measure of a bond's sensitivity to interest rates. It is calculated as the percentage change in a bond's price caused by a change in the bond's yield. For example, a duration of 5 indicates that a 1 percent increase in a bond's yield will cause the bond price to decline 5 percent

*The Duration in Fixed Income Securities — Pension Plan schedule for the year ended June 30, 2020 presents the duration by investment type. Whole loan mortgages included in the Pension Plan portfolio of $22 million are excluded from this presentation.*

## Duration in Fixed Income Securities — Pension Plan

*As of June 30, 2020*

(Dollars in Thousands)

| Investment Type | Fair Value | Portfolio-Weighted Average Effective Duration[1] |
|---|---|---|
| U.S. Treasuries, U.S. Government Agency, and Municipal Instruments: | | |
| U.S. Treasuries | $1,858,678 | 9.41 |
| U.S. Government Agency | 1,923,653 | 1.40 |
| Municipal/Revenue Bonds | 48,943 | 10.06 |
| **Subtotal U.S. Treasuries, U.S. Government Agency, and Municipal Instruments** | **$3,831,274** | |
| Corporate Bonds and Credit Securities: | | |
| Asset-Backed Securities | $223,901 | 2.03 |
| Corporate and Other Credit | 2,898,210 | 3.93 |
| Fixed Income Swaps and Options | (21,946) | N/A |
| Pooled Funds | 9,546,458 | 4.24 |
| **Subtotal Corporate Bonds and Credit Securities** | **$12,646,623** | |
| Non-U.S. Fixed Income | $700,145 | 3.58 |
| Private Placement Fixed Income | 1,578,050 | 3.62 |
| **Subtotal Non-U.S. and Private Placement Securities** | **$2,278,195** | |
| **Total Fixed Income Securities** | **$18,756,092** | |

[1]Effective Duration is a measure of a bond's sensitivity to interest rates. It is calculated as the percentage change in a bond's price caused by a change in the bond's yield. For example, a duration of 5 indicates that a 1 percent increase in a bond's yield will cause the bond price to decline 5 percent.

## Duration in Fixed Income Securities — OPEB Trust

*As of June 30, 2021*
(Dollars in Thousands)

| Investment Type | Fair Value | Portfolio-Weighted Average Effective Duration[1] |
|---|---|---|
| Pooled Investments | $894,200 | 3.41 |
| **Total Fixed Income Securities** | **$894,200** | |

[1]Effective Duration is a measure of a bond's sensitivity to interest rates. It is calculated as the percentage change in a bond's price caused by a change in the bond's yield. For example, a duration of 5 indicates that a 1 percent increase in a bond's yield will cause the bond price to decline 5 percent.

## Duration in Fixed Income Securities — OPEB Trust

*As of June 30, 2020*
(Dollars in Thousands)

| Investment Type | Fair Value | Portfolio-Weighted Average Effective Duration[1] |
|---|---|---|
| Pooled Investments | $570,375 | 3.22 |
| **Total Fixed Income Securities** | **$570,375** | |

[1]Effective Duration is a measure of a bond's sensitivity to interest rates. It is calculated as the percentage change in a bond's price caused by a change in the bond's yield. For example, a duration of 5 indicates that a 1 percent increase in a bond's yield will cause the bond price to decline 5 percent.

## Duration in Fixed Income Securities — OPEB Custodial Fund

*As of June 30, 2021*
(Dollars in Thousands)

| Investment Type | Fair Value | Portfolio-Weighted Average Effective Duration[1] |
|---|---|---|
| U.S. Treasuries | $99,076 | 2.01 |
| Corporate Bonds and Credit Securities: | | |
| Asset-Backed Securities | $9,948 | 1.34 |
| Corporate and Other Credit | 26,272 | 1.75 |
| **Subtotal Corporate Bonds and Credit Securities** | **$36,220** | |
| Private Placement Fixed Income | $4,797 | 2.13 |
| **Total Fixed Income Securities** | **$140,093** | |

[1]Effective Duration is a measure of a bond's sensitivity to interest rates. It is calculated as the percentage change in a bond's price caused by a change in the bond's yield. For example, a duration of 5 indicates that a 1 percent increase in a bond's yield will cause the bond price to decline 5 percent.

## Duration in Fixed Income Securities — OPEB Custodial Fund

*As of June 30, 2020*
(Dollars in Thousands)

| Investment Type | Fair Value | Portfolio-Weighted Average Effective Duration[1] |
|---|---|---|
| U.S. Treasuries | $78,197 | 2.25 |
| Corporate Bonds and Credit Securities: | | |
| Asset-Backed Securities | $11,590 | 1.30 |
| Corporate and Other Credit | 33,553 | 1.60 |
| **Subtotal Corporate Bonds and Credit Securities** | **$45,143** | |
| Private Placement Fixed Income | $5,756 | 1.12 |
| **Total Fixed Income Securities** | **$129,096** | |

[1]Effective Duration is a measure of a bond's sensitivity to interest rates. It is calculated as the percentage change in a bond's price caused by a change in the bond's yield. For example, a duration of 5 indicates that a 1 percent increase in a bond's yield will cause the bond price to decline 5 percent

## Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. LACERA's authorized managers are permitted to invest in approved countries or regions, as stated in their respective investment manager guidelines. To mitigate foreign currency risk within global equity, LACERA has implemented a passive currency hedging program, which hedges into U.S. dollars approximately 50 percent of LACERA's foreign currency exposure for developed market equities.

The following schedule represents LACERA's exposure to foreign currency risk in U.S. dollars. Most of the exposure is from separately managed accounts with the remaining exposure from non-U.S. commingled funds. For the commingled funds, LACERA owns units, and the fund holds actual securities and/or currencies. The values shown include LACERA's separately managed account holdings and the pro rata portion of non-U.S. commingled fund holdings.

## Non-U.S. Investment Securities at Fair Value — Pension Plan

*As of June 30, 2021*
(Dollars in Thousands)

| Currency | Equity | Fixed Income | Foreign Currency | Real Estate Commingled Funds | Private Equity Investments | Forward Contracts | Total |
|---|---|---|---|---|---|---|---|
| AFRICA | | | | | | | |
| Angolan Kwanza | $– | $4,788 | $– | $– | $– | $– | **$4,788** |
| Central African CFA franc | – | 2,317 | – | – | – | – | **2,317** |
| Ghana New Cedi | – | 7,798 | – | – | – | – | **7,798** |
| Kenya Shilling | 4,338 | 2,133 | – | – | – | – | **6,471** |
| Mauritian Rupee | – | 4,547 | – | – | – | – | **4,547** |
| Moroccan Dirham | – | 3,775 | – | – | – | – | **3,775** |
| Nigerian Naira | 8,383 | 5,445 | – | – | – | – | **13,828** |
| Rwandan Franc | – | 4,542 | – | – | – | – | **4,542** |
| South African Rand | 163,350 | 30,442 | 77 | – | – | – | **193,869** |
| Tunisian Dinar | – | 4,366 | – | – | – | – | **4,366** |
| West African CFA Franc | – | 11,786 | – | – | – | – | **11,786** |
| AMERICAS | | | | | | | |
| Argentina Peso | – | 10,889 | – | – | – | – | **10,889** |
| Bahamian Dollar | – | 5,884 | – | – | – | – | **5,884** |
| Barbadian Dollar | – | 794 | – | – | – | – | **794** |
| Belize Dollar | – | 1,150 | – | – | – | – | **1,150** |
| Brazilian Real | 176,747 | 39,358 | 465 | – | – | 7,304 | **223,874** |
| Canadian Dollar | 912,837 | 10,290 | 766 | – | – | – | **923,893** |
| Chilean Peso | 21,484 | 3,313 | – | – | – | – | **24,797** |
| Colombian Peso | 5,114 | 17,641 | 5 | – | – | – | **22,760** |
| Dominican Peso | – | 7,355 | – | – | – | – | **7,355** |
| Honduran Lempira | – | 912 | – | – | – | – | **912** |
| Mexican Peso | 86,166 | 43,521 | (57) | – | – | – | **129,630** |
| Paraguayan Guarani | – | 2,007 | – | – | – | – | **2,007** |
| Peruvian Sol | 5,730 | 6,438 | – | – | – | – | **12,168** |
| Uruguayan Peso | – | 6,134 | – | – | – | – | **6,134** |
| Venezuelan Bolivar | – | 1,124 | – | – | – | – | **1,124** |
| ASIA | | | | | | | |
| Armenian Dram | – | 5,196 | – | – | – | – | **5,196** |
| Australian Dollar | 582,851 | 1,499 | 810 | – | – | – | **585,160** |
| Chinese Renminbi | 207,769 | 17,241 | 4 | – | – | – | **225,014** |
| Georgia Lari | – | 7,107 | – | – | – | – | **7,107** |
| Hong Kong Dollar | 1,124,714 | – | 699 | – | – | 3,978 | **1,129,391** |
| Indian Rupee | 155,324 | 11,351 | – | – | – | – | **166,675** |
| Indonesian Rupiah | 55,584 | 25,989 | 42 | – | – | – | **81,615** |
| Japanese Yen | 1,486,494 | – | 1,248 | – | – | (82) | **1,487,660** |
| Kazakhstani Tenge | – | 5,518 | – | – | – | – | **5,518** |
| Kuwaiti Dinar | 8,078 | – | – | – | – | – | **8,078** |
| Malaysian Ringgit | 61,692 | 10,306 | 131 | – | – | – | **72,129** |

## Non-U.S. Investment Securities at Fair Value continued — Pension Plan

*As of June 30, 2021*
(Dollars in Thousands)

| Currency | Equity | Fixed Income | Foreign Currency | Real Estate Commingled Funds | Private Equity Investments | Forward Contracts | Total |
|---|---|---|---|---|---|---|---|
| ASIA | | | | | | | |
| New Zealand Dollar | 46,881 | 261 | 12 | – | – | 787 | **47,941** |
| Pakistan Rupee | 2,405 | 3,109 | – | – | – | – | **5,514** |
| Philippine Peso | 25,662 | 1,220 | 3 | – | – | – | **26,885** |
| Singapore Dollar | 78,336 | 2,351 | 280 | – | – | 2,462 | **83,429** |
| South Korean Won | 488,596 | 1,743 | 342 | – | – | 19,887 | **510,568** |
| Taiwan Dollar | 417,184 | – | 96 | – | – | – | **417,280** |
| Thai Baht | 52,389 | 7,844 | 8 | – | – | – | **60,241** |
| Uzbekistani So'm | – | 5,115 | – | – | – | – | **5,115** |
| Vietnamese Dong | 37,223 | – | – | – | – | – | **37,223** |
| EUROPE | | | | | | | |
| Belarusian Ruble | – | 6,341 | – | – | – | – | **6,341** |
| British Pound Sterling | 1,481,904 | 60,616 | 385 | 485 | 122,063 | 27,817 | **1,693,270** |
| Czech Republic Koruna | 3,588 | 16,354 | – | – | – | – | **19,942** |
| Danish Krone | 222,322 | – | 479 | – | – | 3,106 | **225,907** |
| Euro | 2,589,916 | 172,931 | 13,719 | 287,627 | 644,294 | 1,918 | **3,710,405** |
| Hungarian Forint | 17,363 | 3,486 | – | – | – | – | **20,849** |
| Norwegian Krone | 128,472 | – | 90 | – | – | – | **128,562** |
| Polish Zloty | 39,781 | 6,537 | 197 | – | – | – | **46,515** |
| Romanian New Leu | 17,169 | 8,210 | – | – | – | – | **25,379** |
| Russian Ruble | 127,259 | 23,145 | – | – | – | – | **150,404** |
| Serbian Dinar | – | 4,367 | – | – | – | – | **4,367** |
| Swedish Krona | 508,125 | – | 516 | – | – | 237 | **508,878** |
| Swiss Franc | 685,030 | – | 265 | – | – | 817 | **686,112** |
| Ukrainian Hryvnia | – | 22,175 | – | – | – | – | **22,175** |
| MIDDLE EAST | | | | | | | |
| Bahraini Dinar | – | 5,687 | – | – | – | – | **5,687** |
| Egyptian Pound | 2,732 | 18,671 | – | – | – | – | **21,403** |
| Israeli New Shekel | 42,162 | 1,799 | 5 | – | – | 68 | **44,034** |
| Jordanian Dinar | 7,197 | | – | – | – | – | **7,197** |
| Qatari Rial | 18,655 | 17,795 | – | – | – | – | **36,450** |
| Saudi Riyal | 1,410 | 11,763 | – | – | – | – | **13,173** |
| Turkish Lira | 10,340 | 7,122 | – | – | – | – | **17,462** |
| UAE Dirham | 18,277 | 15,373 | 13 | – | – | – | **33,663** |
| **Total Investment Securities Subject to Foreign Currency Risk** | **$12,137,033** | **$746,971** | **$20,600** | **$288,112** | **$766,357** | **$68,299** | **$14,027,372** |

## Non-U.S. Investment Securities at Fair Value — Pension Plan

*As of June 30, 2020*
(Dollars in Thousands)

| Currency | Equity | Fixed Income | Foreign Currency | Real Estate Commingled Funds | Private Equity Investments | Forward Contracts | Total |
|---|---|---|---|---|---|---|---|
| AFRICA | | | | | | | |
| Ghana New Cedi | $— | $5,303 | $— | $— | $— | $— | **$5,303** |
| Kenya Shilling | — | 7,919 | — | — | — | — | **7,919** |
| Mauritian Rupee | — | 1,865 | — | — | — | — | **1,865** |
| Moroccan Dirham | 1,000 | 5,600 | — | — | — | — | **6,600** |
| Mozambican Metical | — | 2,517 | — | — | — | — | **2,517** |
| Nigerian Naira | 6,072 | 8,110 | — | — | — | — | **14,182** |
| Rwandan Franc | — | 3,908 | — | — | — | — | **3,908** |
| South African Rand | 131,118 | 37,872 | 23 | — | — | — | **169,013** |
| Tunisian Dinar | — | 6,342 | — | — | — | — | **6,342** |
| West African CFA Franc | — | 14,102 | — | — | — | — | **14,102** |
| AMERICAS | | | | | | | |
| Argentina Peso | 2,290 | 11,683 | 2,290 | — | — | — | **16,263** |
| Bahamian Dollar | — | 7,725 | — | — | — | — | **7,725** |
| Barbadian Dollar | — | 935 | — | — | — | — | **935** |
| Belize Dollar | — | 1,734 | — | — | — | — | **1,734** |
| Brazilian Real | 119,265 | 55,423 | 543 | — | — | — | **175,231** |
| Canadian Dollar | 685,483 | 3,031 | 887 | — | — | (8,347) | **681,054** |
| Chilean Peso | 14,979 | 4,942 | — | — | — | — | **19,921** |
| Colombian Peso | 6,554 | 29,981 | 5 | — | — | — | **36,540** |
| Costa Rican Colon | — | 2,528 | — | — | — | — | **2,528** |
| Dominican Peso | — | 8,704 | — | — | — | — | **8,704** |
| Honduran Lempira | — | 815 | — | — | — | — | **815** |
| Mexican Peso | 61,287 | 101,390 | 10 | | | (13) | **162,674** |
| Paraguayan Guarani | — | 4,664 | — | — | — | — | **4,664** |
| Peruvian Sol | 6,386 | 15,854 | — | — | — | 55 | **22,295** |
| Uruguayan Peso | — | 7,696 | — | — | — | — | **7,696** |
| Venezuelan Bolivar | — | 657 | — | — | — | — | **657** |
| ASIA | | | | | | | |
| Armenian Dram | — | 6,534 | — | — | — | — | **6,534** |
| Australian Dollar | 475,390 | | 921 | — | — | (17,686) | **458,625** |
| Chinese Renminbi | 127,322 | 15,101 | — | — | — | — | **142,423** |
| Georgia Lari | — | 8,594 | — | — | — | — | **8,594** |
| Hong Kong Dollar | 787,639 | | 192 | — | — | (55) | **787,776** |
| Indian Rupee | 112,742 | 10,724 | — | — | — | — | **123,466** |
| Indonesian Rupiah | 47,276 | 92,387 | 28 | — | — | — | **139,691** |
| Japanese Yen | 1,383,238 | 1,901 | 1,000 | — | — | 4,541 | **1,390,680** |
| Kazakhstani Tenge | — | 6,932 | — | — | — | — | **6,932** |
| Malaysian Ringgit | 61,344 | 28,472 | 997 | — | — | — | **90,813** |
| New Zealand Dollar | 38,694 | 234 | 26 | — | — | (695) | **38,259** |

## Non-U.S. Investment Securities at Fair Value continued — Pension Plan

*As of June 30, 2020*
(Dollars in Thousands)

| Currency | Equity | Fixed Income | Foreign Currency | Real Estate Commingled Funds | Private Equity Investments | Forward Contracts | Total |
|---|---|---|---|---|---|---|---|
| ASIA | | | | | | | |
| Pakistan Rupee | 2,173 | 2,660 | – | – | – | – | **4,833** |
| Philippine Peso | 20,597 | 6,297 | 1 | – | – | – | **26,895** |
| Singapore Dollar | 70,910 | 5,366 | 38 | – | – | (709) | **75,605** |
| South Korean Won | 304,513 | 12,265 | 161 | – | – | – | **316,939** |
| Sri Lankan Rupee | – | 3,199 | – | – | – | – | **3,199** |
| Taiwan Dollar | 103,008 | 4,216 | 296 | – | – | – | **107,520** |
| Thai Baht | 56,749 | 39,131 | 5 | – | – | – | **95,885** |
| Uzbekistani So'm | – | 2,596 | – | – | – | – | **2,596** |
| Vietnamese Dong | 26,033 | – | – | – | – | – | **26,033** |
| EUROPE | | | | | | | |
| Albanian Lek | – | 2,049 | – | – | – | – | **2,049** |
| Belarusian Ruble | – | 1,623 | – | – | – | – | **1,623** |
| British Pound Sterling | 1,169,459 | 30,093 | 2,348 | 1,366 | 52,403 | (8,223) | **1,247,446** |
| Czech Republic Koruna | 2,600 | 21,209 | – | – | – | | **23,809** |
| Danish Krone | 174,988 | – | (120) | – | – | (1,329) | **173,539** |
| Euro | 2,141,350 | 97,461 | 16,789 | 233,477 | 339,601 | (17,930) | **2,810,748** |
| Hungarian Forint | 13,231 | 13,520 | – | – | – | – | **26,751** |
| Norwegian Krone | 81,508 | – | 52 | – | – | (1,751) | **79,809** |
| Polish Zloty | 19,432 | 39,244 | 25 | – | – | – | **58,701** |
| Romanian New Leu | 14,125 | 16,833 | – | – | – | – | **30,958** |
| Russian Ruble | 24,594 | 78,099 | 302 | – | – | (537) | **102,458** |
| Serbian Dinar | – | 5,414 | – | – | – | – | **5,414** |
| Swedish Krona | 309,333 | – | 931 | – | – | (5,602) | **304,662** |
| Swiss Franc | 595,671 | – | 48 | – | – | (4,604) | **591,115** |
| Ukrainian Hryvnia | – | 19,162 | – | – | – | – | **19,162** |
| MIDDLE EAST | | | | | | | |
| Bahraini Dinar | – | 2,770 | – | – | – | – | **2,770** |
| Egyptian Pound | 3,660 | 14,615 | – | – | – | – | **18,275** |
| Israeli New Shekel | 35,560 | 1,150 | 2 | – | – | (657) | **36,055** |
| Jordanian Dinar | 4,705 | – | – | – | – | – | **4,705** |
| Qatari Rial | 18,305 | 26,536 | – | – | – | – | **44,841** |
| Saudi Riyal | 2,695 | (620) | – | – | – | – | **2,075** |
| Turkish Lira | 15,115 | 14,166 | – | – | – | – | **29,281** |
| UAE Dirham | 18,708 | 6,012 | 13 | – | – | – | **24,733** |
| **Total Investment Securities Subject to Foreign Currency Risk** | **$9,297,101** | **$987,245** | **$27,813** | **$234,843** | **$392,004** | **($63,542)** | **$10,875,464** |

## Non-U.S. Investment Securities at Fair Value — OPEB Trust

*As of June 30, 2021*
(Dollars in Thousands)

| Currency | Equity | Fixed Income | Total |
|---|---|---|---|
| AFRICA | | | |
| Liberian Dollar | $— | $766 | $766 |
| South African Rand | 5,202 | 7,350 | 12,552 |
| AMERICAS | | | |
| Brazilian Real | 7,955 | 8,131 | 16,086 |
| Canadian Dollar | 33,523 | 8,784 | 42,307 |
| Cayman Islands Dollar | — | 356 | 356 |
| Chilean Peso | 705 | 2,162 | 2,867 |
| Colombian Peso | 219 | 4,391 | 4,610 |
| Dominican Peso | — | 110 | 110 |
| Mexican Peso | 2,566 | 9,464 | 12,030 |
| Panamanian Balboa | — | 1,249 | 1,249 |
| Peruvian Sol | — | 2,165 | 2,165 |
| Uruguayan Peso | — | 233 | 233 |
| ASIA | | | |
| Australian Dollar | 22,521 | 832 | 23,353 |
| Chinese Renminbi | 6,181 | 9,244 | 15,425 |
| Hong Kong Dollar | 44,151 | — | 44,151 |
| Indian Rupee | 15,851 | — | 15,851 |
| Indonesian Rupiah | 1,671 | 9,017 | 10,688 |
| Japanese Yen | 72,313 | 1,185 | 73,498 |
| Kuwaiti Dinar | 789 | — | 789 |
| Malaysian Ringgit | 2,087 | 6,703 | 8,790 |
| New Zealand Dollar | 1,041 | — | 1,041 |
| Pakistan Rupee | 85 | — | 85 |
| Philippine Peso | 949 | 364 | 1,313 |
| Singapore Dollar | 3,484 | 27 | 3,511 |
| South Korean Won | 20,219 | 198 | 20,417 |
| Taiwan Dollar | 21,798 | — | 21,798 |
| Thai Baht | 2,667 | 8,060 | 10,727 |
| EUROPE | | | |
| British Pound Sterling | 44,938 | 7,347 | 52,285 |
| Czech Republic Koruna | 137 | 3,804 | 3,941 |
| Danish Krone | 7,416 | 62 | 7,478 |
| Euro | 94,815 | 11,065 | 105,880 |
| Hungarian Forint | 298 | 3,645 | 3,943 |
| Norwegian Krone | 2,766 | 135 | 2,901 |
| Polish Zloty | 1,130 | 7,413 | 8,543 |
| Romanian Leu | — | 2,696 | 2,696 |
| Russian Ruble | 3,994 | 6,937 | 10,931 |
| Swedish Krona | 13,006 | 124 | 13,130 |
| Swiss Franc | 27,370 | — | 27,370 |

| Currency | Equity | Fixed Income | Total |
|---|---|---|---|
| MIDDLE EAST | | | |
| Egyptian Pound | 129 | — | 129 |
| Israeli New Shekel | 1,837 | 119 | 1,956 |
| Qatari Rial | 957 | — | 957 |
| Saudi Riyal | 4,127 | — | 4,127 |
| Turkish Lira | 520 | 1,640 | 2,160 |
| UAE Dirham | 1,001 | — | 1,001 |
| **Total Investment Securities Subject to Foreign Currency Risk** | **$470,418** | **$125,778** | **$596,196** |

## Non-U.S. Investment Securities at Fair Value — OPEB Trust

*As of June 30, 2020*

(Dollars in Thousands)

| Currency | Equity | Fixed Income | Total |
|---|---|---|---|
| AFRICA | | | |
| Liberian Dollar | $— | $82 | $82 |
| South African Rand | 3,322 | 4,272 | 7,594 |
| AMERICAS | | | |
| Argentine Peso | 227 | — | 227 |
| Brazilian Real | 4,756 | 5,305 | 10,061 |
| Canadian Dollar | 21,062 | — | 21,062 |
| Cayman Islands Dollar | — | 6,264 | 6,264 |
| Chilean Peso | 528 | 1,415 | 1,943 |
| Colombian Peso | 226 | 3,423 | 3,649 |
| Dominican Peso | — | 70 | 70 |
| Mexican Peso | 1,585 | 6,180 | 7,765 |
| Panamanian Balboa | — | 118 | 118 |
| Peruvian Sol | 226 | 2,103 | 2,329 |
| Uruguay Peso | — | 198 | 198 |
| ASIA | | | |
| Australian Dollar | 15,098 | 539 | 15,637 |
| Chinese Renminbi | 34,122 | 2,135 | 36,257 |
| Hong Kong Dollar | 7,247 | — | 7,247 |
| Indian Rupee | 7,474 | — | 7,474 |
| Indonesian Rupiah | 1,359 | 5,900 | 7,259 |
| Japanese Yen | 56,542 | 678 | 57,220 |
| Malaysian Ringgit | 1,736 | 4,104 | 5,840 |
| New Zealand Dollar | 906 | — | 906 |
| Pakistan Rupee | 76 | — | 76 |
| Philippine Peso | 755 | 244 | 999 |
| Singapore Dollar | 2,642 | 14 | 2,656 |
| South Korean Won | 10,946 | 144 | 11,090 |
| Taiwan Dollar | 12,078 | — | 12,078 |
| Thailand Baht | 2,114 | 5,549 | 7,663 |
| EUROPE | | | |
| British Pound Sterling | 31,177 | 3,657 | 34,834 |
| Czech Republic Koruna | 75 | 2,784 | 2,859 |
| Danish Krone | 4,907 | 49 | 4,956 |
| Euro | 66,280 | 7,262 | 73,542 |
| Hungarian Forint | 226 | 2,163 | 2,389 |
| Norwegian Krone | 1,661 | 149 | 1,810 |
| Polish Zloty | 755 | 5,086 | 5,841 |
| Romanian Leu | — | 1,749 | 1,749 |
| Russian Ruble | 2,718 | 5,032 | 7,750 |
| Swedish Krona | 7,927 | 163 | 8,090 |
| Swiss Franc | 20,835 | — | 20,835 |

| Currency | Equity | Fixed Income | Total |
|---|---|---|---|
| MIDDLE EAST | | | |
| Egyptian Pound | 151 | — | 151 |
| Iraqi Dinar | — | 269 | 269 |
| Israeli New Shekel | 1,812 | 92 | 1,904 |
| Qatari Rial | 830 | — | 830 |
| Saudi Riyal | 2,340 | — | 2,340 |
| Turkish Lira | 453 | 1,759 | 2,212 |
| UAE Dirham | 528 | — | 528 |
| **Total Investment Securities Subject to Foreign Currency Risk** | **$327,702** | **$78,951** | **$406,653** |

## NOTE H — Securities Lending Program

The Board of Investments' policies authorize LACERA to participate in a securities lending program. Securities lending is an investment management activity that mirrors the fundamentals of a loan transaction. Securities are lent to brokers and dealers (borrower), and in turn, LACERA receives cash and non-cash collateral. When cash collateral is received, the income that is generated from securities lending has two sources: lending and reinvestment. LACERA pays the borrower interest on the collateral and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. When non-cash collateral is received, the borrower pays a fee for borrowing the security.

During the last fiscal year, LACERA's securities lending program was managed by two parties: LACERA's custodian bank, State Street Bank and Trust, and a third-party lending agent, Goldman Sachs Agency Lending (GSAL). State Street Bank and Trust lent LACERA's non-U.S. equities, U.S. Treasury, and U.S. Agency securities. GSAL lent LACERA's U.S. equities and corporate bonds. During fiscal year 2021, GSAL was terminated, and its program was transferred to State Street Bank and Trust. By the end of June 2021, State Street Bank and Trust was the sole manager of LACERA's securities lending program. Collateralization is set on non-U.S. loans at 105 percent and on U.S. loans at 102 percent of the market value of securities on loan.

State Street Global Advisors invests the collateral received from the lending programs. The collateral is invested in short-term highly liquid instruments. The maturities of the investments made with cash collateral typically do not match the maturities of their securities loans. Loans are marked to market daily, so that if the market value of a security on loan rises, LACERA receives additional collateral. Conversely, if the market value of a security on loan declines, then the borrower receives a partial return of the collateral. Earnings generated in excess of the interest paid to the borrowers represent net income. LACERA shares this net income with the lending agent based on contractual agreements.

Under the terms of the lending agreements, the lending agent provides borrower default indemnification in the event a borrower does not return securities on loan. The terms of the lending agreements entitle LACERA to terminate all loans upon the occurrence of default and purchase a like amount of "replacement securities" when loaned securities are not returned. LACERA does not have the ability to pledge assets received as collateral without a borrower default. In the event the purchase price of replacement securities exceeds the amount of collateral, the lending agent is liable to LACERA for the difference, plus interest. Either LACERA or the borrower of the security can terminate a loan on demand.

At fiscal year-end, LACERA had no credit risk exposure to borrowers, because the amount of collateral received exceeded the value of securities on loan. LACERA had no losses on securities lending transactions resulting from the default of a borrower for the fiscal years ended June 30, 2021 and 2020.

As of June 30, 2021, the fair value of securities on loan was $3.4 billion, with a value of cash collateral received of $1.2 billion and non-cash collateral of $2.3 billion. As of June 30, 2020, the fair value of securities on loan was $1.7 billion, with a value of cash collateral received of $1.2 billion and non-cash collateral of $587.5 million. LACERA's income, net of expenses from securities lending, was $4.8 million and $4.9 million for the fiscal years ended June 30, 2021 and 2020, respectively.

*The following table shows the fair value of securities on loan, cash and non-cash collateral received as well as the calculated mark.*

## Securities Lending

*As of June 30, 2021 and 2020*

(Dollars in Thousands)

| | 2021 | | | |
|---|---|---|---|---|
| **Securities on Loan** | **Fair Value of Securities on Loan** | **Cash Collateral Received** | **Non-Cash Collateral Received** | **Calculated Mark[1]** |
| U.S. Equity | $1,505,009 | $110,975 | $1,495,387 | ($2,885) |
| U.S. Fixed Income | 1,237,110 | 1,034,611 | 238,468 | 1,661 |
| Non-U.S. Equity | 609,309 | 52,942 | 600,317 | (1,902) |
| **Total** | **$3,351,428** | **$1,198,528** | **$2,334,172** | **($3,126)** |

| | 2020 | | | |
|---|---|---|---|---|
| **Securities on Loan** | **Fair Value of Securities on Loan** | **Cash Collateral Received** | **Non-Cash Collateral Received** | **Calculated Mark[1]** |
| U.S. Equity | $610,659 | $621,794 | $— | $— |
| U.S. Fixed Income | 625,588 | 494,950 | 156,849 | (91) |
| Non-U.S. Equity | 457,198 | 60,630 | 430,620 | 463 |
| **Total** | **$1,693,445** | **$1,177,374** | **$587,469** | **$372** |

[1]Calculated mark is performed daily, and it is the amount LACERA will collect from the borrower (if the amount is positive) or pay to the borrower (if the amount is negative) to bring the collateralization to appropriate levels based on market value.

## NOTE I — Derivative Financial Instruments

LACERA's Investment Policy Statement and Manager Guidelines allow the use of derivatives by certain investment managers. Derivatives are financial instruments that derive their value, usefulness, and marketability from an underlying instrument that represents direct ownership of an asset or an obligation of an issuer whose payments are based on or derived from the performance of some agreed-upon benchmark. Generally, investment guidelines require managers to mark to market derivative positions daily and trade with counterparties with a credit rating of A3/A-, as defined by Moody's Investors Service (Moody's) and Standard & Poor's (S&P), respectively. Gains and losses from derivatives are included in net investment income. The following types of derivatives are permitted: futures, currency forwards, options, and swaps. Given that hedge fund managers may already have discretion to use derivatives in the funds they manage, derivatives for hedge fund investments are discussed in Note O — Hedge Fund Investments.

### Futures

Futures are financial agreements to buy or sell an underlying asset at a specified future date and price. Futures are standardized instruments traded on organized exchanges, and they are marked-to-market daily. The futures exchange reduces counterparty credit risk by acting as a central counterparty. It does this by collecting a daily margin payment from one trade participant and crediting it to the other, based on price changes in the underlying asset.

### Currency Forwards

Similar to futures agreements, forwards represent an agreement to buy or sell an underlying asset at a specified future date and price. However, forwards are non-standardized agreements tailored to each specific transaction. Payment for the transaction is generally delayed until the settlement or expiration date. Forward contracts are privately negotiated and do not trade on a centralized exchange; therefore, they are considered over-the-counter instruments. Currency forward contracts are used to manage currency exposure, implement the passive currency hedge, and facilitate the settlement of international security purchases and sales.

## Currency Forwards Analysis

*As of June 30, 2021*
(Dollars in Thousands)

| Currency Name | Options | Currency Forward Contracts: Net Receivables | Currency Forward Contracts: Net Payables | Swaps | Total Exposure |
|---|---|---|---|---|---|
| Australian Dollar | $1 | ($424) | $7,728 | $– | **$7,305** |
| Brazilian Real | 9 | – | – | – | **9** |
| British Pound Sterling | – | (2,854) | 6,832 | 30 | **4,008** |
| Canadian Dollar | – | (166) | 983 | – | **817** |
| Danish Krone | – | (84) | 2,002 | – | **1,918** |
| Euro | 90 | (1,472) | 29,289 | – | **27,907** |
| Hong Kong Dollar | – | (1) | 68 | – | **68** |
| Israeli New Shekel | – | 2 | (83) | – | **(82)** |
| Japanese Yen | – | (2,011) | 21,898 | – | **19,887** |
| New Zealand Dollar | – | (52) | 289 | – | **237** |
| Norwegian Krone | – | (84) | 871 | – | **787** |
| Singapore Dollar | – | (6) | 423 | – | **416** |
| South Korean Won | 22 | – | – | – | **22** |
| Swedish Krona | – | (270) | 2,732 | – | **2,462** |
| Swiss Franc | 7 | (280) | 3,386 | – | **3,113** |
| Malaysian Ringgit | 11 | – | – | – | **11** |
| **Total** | **$141** | **($7,702)** | **$76,418** | **$30** | **$68,885** |

Note: This Currency Forwards Analysis table does not include holdings within a commingled investment structure.

## Options

An option contract is a type of derivative in which a buyer (purchaser) has the right, but not the obligation, to buy or sell a specified amount of an underlying security at a fixed price by exercising the option before its expiration date. The seller (writer) has an obligation to buy or sell the underlying security if the buyer decides to exercise the option.

## Swaps

A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. The cash flows exchanged by the counterparties are tied to a notional amount. A swap agreement specifies the time period over which the periodic payments will be exchanged. The fair value represents the gains or losses since the prior mark-to-market.

*The following Investment Derivatives schedule reports the fair value balances, changes in fair value, and notional amounts of derivatives outstanding as of and for the year ended June 30, 2021, classified by type, not including holdings within a commingled investment structure.*

## Investment Derivatives

*As of June 30, 2021*

(Dollars in Thousands)

| Derivative Type | Net Appreciation/ (Depreciation) in Fair Value | Fair Value | Notional Value (Dollars) | Notional Shares (Units) |
|---|---|---|---|---|
| Commodity Futures Long | $671,603 | $— | $— | 414,163 |
| Commodity Futures Short | (154,718) | — | — | (13,512) |
| Credit Default Swaps Bought | (431) | — | — | — |
| Credit Default Swaps Written | 1,042 | 8 | 800 | — |
| Fixed Income Futures Long | (37,523) | — | — | 1,789,512 |
| Fixed Income Futures Short | 6,349 | — | — | (31,234) |
| Fixed Income Options Bought | (57) | 30 | — | 256 |
| Fixed Income Options Written | 1,266 | (2) | — | (3,041) |
| Foreign Currency Futures Long | 296 | — | — | — |
| Foreign Currency Futures Short | (2,062) | — | — | (50,200) |
| Futures Options Bought | (2,504) | — | — | 5 |
| Futures Options Written | 2,622 | (731) | — | (7,623) |
| FX Forwards | (125,521) | 68,715 | 6,764,216 | — |
| Index Futures Long | 173,784 | — | — | 125 |
| Index Futures Short | (358,936) | — | — | (677) |
| Index Options Written | (258) | (554) | — | (235) |
| Pay Fixed Interest Rate Swaps | 20,602 | — | — | — |
| Receive Fixed Interest Rate Swaps | (7,029) | (71) | 17,509 | — |
| Rights | 2,192 | 949 | 1,257 | — |
| Total Return Swaps Bond | (22) | (3) | 107 | — |
| Total Return Swaps Equity | 157,357 | 6,214 | (493,146) | — |
| Warrants | 348 | 317 | 6,404 | — |
| **Total** | **$348,400** | **$74,872** | **$6,297,147** | **2,097,539** |

All investment derivative positions are included as part of Investments at Fair Value in the Statement of Fiduciary Net Position. All changes in fair value are reported as part of Net Appreciation/(Depreciation) in Fair Value of Investments in the Statement of Changes in Fiduciary Net Position.

Investment information was provided by LACERA's investment managers and custodian bank, State Street Bank and Trust.

## Counterparty Credit Risk

LACERA is exposed to counterparty credit risk on investment derivatives that are traded over the counter and are reported in asset positions. Derivatives exposed to counterparty credit risk include currency forward contracts and certain swap agreements. To minimize counterparty credit risk exposure, LACERA's investment managers continually monitor credit ratings of counterparties. In addition, collateral provided by the counterparty reduces LACERA's counterparty credit risk exposure. Should there be a counterparty failure, LACERA would be exposed to the loss of the fair value of derivatives that have unrealized gains and any collateral provided to the counterparty, net of applicable netting arrangements. LACERA requires investment managers to have master agreements in place that permit netting in order to minimize credit risk. Netting arrangements provide LACERA with a legal right of setoff in the event of bankruptcy or default by the counterparty.

*The following schedule displays the fair value of investments with each counterparty's S&P, Fitch, and Moody's credit rating by counterparty's name alphabetically.*

## Counterparty Credit Risk Analysis

*As of June 30, 2021*

(Dollars in Thousands)

| Counterparty Name | Total Fair Value | S&P Rating | Fitch Rating | Moody's Rating |
|---|---|---|---|---|
| Bank Of America, N.A. | $37 | A+ | AA | Aa2 |
| Bank of New York | 2 | A | AA- | A1 |
| Barclays Bank PLC Wholesale | 2 | A | A+ | A1 |
| BNP Paribas, S.A. | 3,944 | A+ | A+ | Aa3 |
| Citibank N.A. | 1,506 | A+ | A+ | Aa3 |
| Credit Suisse International | 12,148 | A+ | A | Aa3 |
| Credit Suisse Securities (USA) LLC | 192 | A+ | A | Aa3 |
| Deutsche Bank AG | 12,672 | BBB+ | BBB | A3 |
| Goldman Sachs Bank USA | 189 | BBB+ | A | A2 |
| Goldman Sachs International | 18,057 | A+ | A+ | A1 |
| HSBC Bank USA | 68 | A+ | AA- | Aa3 |
| JP Morgan Chase Bank, N.A. | 1,302 | A+ | AA | Aa2 |
| Macquarie Bank Limited | 914 | A+ | A | A2 |
| Merrill Lynch International | 423 | A- | AA- | A2 |
| Morgan Stanley and Co. International PLC | 2 | BBB+ | A | A1 |
| Morgan Stanley Capital Services Inc | 102 | BBB+ | A | A1 |
| Morgan Stanley Co Incorporated | 105 | BBB+ | A | A1 |
| Natwest Markets Plc | 11,852 | A- | A+ | A3 |
| State Street Bank and Trust Company | 197 | AA- | AA | Aa3 |
| Toronto Dominion Bank | 5 | AA- | AA- | Aa3 |
| UBS AG | 12,881 | A+ | AA- | Aa3 |
| Westpac Banking Corporation | 10,898 | AA- | A+ | Aa3 |
| **Total** | **$87,498** | | | |

## Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate swaps are an example of an investment that has a fair value that is highly sensitive to interest rate changes. These investments are disclosed in the following table, not including holdings within a commingled investment structure.

### Interest Rate Risk Analysis

*As of June 30, 2021*

(Dollars in Thousands)

| | | | | Investments Maturity (in Years) | | | |
|---|---|---|---|---|---|---|---|
| **Investment Type** | **Notional Value (Dollar)** | **Notional Shares (Units)** | **Fair Value** | **Less Than 1** | **1 - 5** | **6 - 10** | **More than 10** |
| Credit Default Swaps Written | $800 | – | $8 | $– | $– | $– | $8 |
| Fixed Income Options Bought | – | 256 | 30 | – | 30 | – | – |
| Fixed Income Options Written | – | (3,041) | (2) | – | (1) | – | (1) |
| Receive Fixed Interest Rate Swaps | 17,509 | – | (71) | – | 202 | (272) | – |
| Total Return Swaps Bond | 107 | – | (3) | (3) | – | – | – |
| Total Return Swaps Equity | (493,146) | – | 6,214 | 6,103 | 111 | – | – |
| **Total** | **($474,730)** | **(2,785)** | **$6,177** | **$6,100** | **$342** | **($272)** | **$7** |

## NOTE J — Special Purpose Entities

### Real Estate Investments

LACERA maintains several different types of special purpose entities (SPEs) in its investment portfolio which are legal structures created to hold one or more real estate assets. The Investment Policy Statement approved by the Board of Investments allows investment managers to leverage the properties with debt that is included in property liabilities.

As of June 30, 2021, there were 34 title holding corporations (THCs) and 48 limited liability companies (LLCs) contained within the LACERA real estate portfolio. As of June 30, 2020, the portfolio held 41 THCs and 56 LLCs.

The total fair values of assets invested in THCs and LLCs as of June 30, 2021 and June 30, 2020, were $3.8 billion and $3.7 billion, respectively.

### Debt Program

The LACERA Board of Investments approved investable equity commitments of $500 million and $300 million, respectively, to managers for the Debt Program which are Barings LLC and Quadrant Real Estate Advisors LLC. Barings, LLC has an additional $30 million commitment for the purpose of backstopping a subscription facility, though this equity is considered non-investable.

Portfolio net assets increase when new loans are originated from LACERA's portfolio, and such assets decrease when loans are paid back by the borrower. The total fair values of assets invested in these two Debt Program accounts as of June 30, 2021 and June 30, 2020 were $157 million and $192 million, respectively.

In September 2020, the Board of Investments hired State Street Bank and Trust to maintain the book of record for Real Estate and Debt Program assets. As of June 30, 2021, the accounting and performance data had been uploaded and included in State Street Bank's information technology platforms.

Real Estate and Debt Program assets are also disclosed in Note P — Fair Value.

As presented in the Investment Section, Real Estate and Debt Program assets are included in the following functional category portfolios: Growth, Credit, and Real Assets and Inflation Hedges.

For additional information regarding LACERA's investment portfolio and functional categories, see the Investment Section.

# NOTE K — Related Party Transactions

## Office Lease

In 1991, LACERA, as the sole shareholder, formed a title holding corporation (THC) to acquire Gateway Plaza, a 273,546 square foot 13-story office building located in Pasadena, California, which serves as the LACERA headquarters. At that time, LACERA entered into its original lease agreement with the THC to occupy approximately 85,000 square feet of office space. Under the terms of the original lease and the subsequent 16 amendments, which expired on December 31, 2020, LACERA did not pay rent for the office space it occupied. Instead, LACERA was credited with the entire payment of base rent due each month. However, LACERA was required to pay its proportionate share of the building's operating costs and property taxes as defined in the lease agreement.

During 2021 fiscal year, LACERA entered into the 17th Amendment with the THC to occupy 125,559 square feet of office space. The new lease agreement extended the term of the lease for an additional 60-month period, commencing on January 1, 2021 and ending on December 31, 2025. Under the new lease agreement, LACERA is required to pay monthly rent for the new term with a three-month period rent abatement from January 1, 2021 to March 31, 2021. The rent amounts are based on the current market rate for comparable space. In addition, as defined in the new lease agreement, LACERA is required to pay its proportionate share of the increase in the building's operating costs and property taxes over its base year.

Total rent expenses charged to LACERA were approximately $2.9 million and $2.3 million for the fiscal years ended June 30, 2021 and June 30, 2020, respectively.

## NOTE L — Administrative Expenses

The LACERA Board of Retirement and Board of Investments annually adopt the operating budget for the administration of LACERA. The administrative expenses are charged against the investment earnings of the Pension Plan.

Beginning with the fiscal year ended June 30, 2012, LACERA implemented a provision of the CERL that shifted the administrative budget limitation from an asset-based cap to a liability-based cap. This CERL provision states that the annual budget for administrative expenses of a CERL pension plan may not exceed 0.21 percent of the actuarial accrued liability of the plan.

Expenses for computer software, hardware, and computer technology consulting services relating to such expenditures are included in the cost of administration, although they need not be included under CERL. Pursuant to the CERL, the cost of internal legal representation secured by the Board of Retirement and Board of Investments from LACERA's Legal Office, other than representation concerning investment of monies, is not to exceed 0.01 percent of retirement benefits plan assets in any budget year. LACERA's costs for such legal representation are within the statutory limit and included in administrative expenses.

Under applicable sections of the CERL, both LACERA Boards approved the operating budgets for fiscal years ended June 30, 2021 and June 30, 2020, which were prepared based upon the 0.21 percent CERL limit. For these years, LACERA's approved operating budgets were well below the statutory limit, and the actual amounts spent were less than the approved budgets.

Due to the crisis caused by the COVID-19 pandemic, in April 2020, the Chief Executive Officer requested approval from the Board of Retirement granting emergency purchasing authority, up to and including a total of $1 million above his existing authority, for goods and services deemed necessary to address the COVID-19 emergency. Expenditures are subject to consultation with the Board of Retirement Chair and Vice Chair and are to be reported to the full Board with notification to the Board of Investments. This recommendation was adopted and authority granted covering a period of 180 days and was not renewed. For the fiscal years ended June 30, 2021 and June 30, 2020, the expenses incurred within the allowed timeframe and under the emergency purchasing authority totaled $288 thousand and $225 thousand, respectively, for providing goods and services to evaluate and provide LACERA staff with the necessary information technology structure and equipment to work remotely as well as software upgrades to migrate to cloud computing services.

In addition, under existing procurement and purchasing guidelines, LACERA's incurred expenses to address urgent operating needs due to the COVID-19 pandemic for minor technological equipment upgrades, office sanitization, and cleaning supplies were $59,000 and $253,000 for the fiscal years ended June 30, 2021 and June 30, 2020. Total expenses for goods and services to address operational needs resulting from COVID-19 amounted to $347,000 and $478,000 for the fiscal years ended June 30, 2021 and June 30, 2020. Even with the consequential emergency spending increase, which was included with all other administrative expenses, LACERA's expenditures remained within the operating budget and did not exceed the statutory limit.

Beginning with the operating budget for the fiscal year ended June 30, 2021, LACERA implemented a staggered budget development approach by obtaining Board approval of an operating budget before the start of the new fiscal year and then completing a mid-year budget amendment during the fiscal year for the Boards' approval. This staggered approach enables executive leadership the opportunity to realign resources with the strategic direction of the organization and support the management team in implementing new or urgent initiatives that might occur during the year.

*The following budget-to-actual analysis of administrative expenses schedule is based upon the mid-year budget amendment for the fiscal year ended June 30, 2021, as approved by the LACERA governing boards, in comparison to actual administrative expenses. For the fiscal year ended June 30, 2020, the operating budget adopted at the beginning of the year applied to the entire fiscal year.*

## Budget-to-Actual Analysis of Administrative Expenses

*As of June 30, 2021 and 2020*

(Dollars in Thousands)

| | 2021 | 2020 |
|---|---|---|
| **Basis for Budget Calculation, Actuarial Accrued Liability[1]** | **$74,635,840** | **$68,527,354** |
| Maximum Allowable for Administrative Expenses | **156,735** | 143,907 |
| **Total Statutory Budget Appropriation** | **$156,735** | **$143,907** |
| Operating Budget Request | **100,291** | 94,600 |
| Administrative Expenses | **(90,586)** | (85,384) |
| **Underexpended Operating Budget** | **$9,705** | **$9,216** |
| Administrative Expenses | **90,586** | 85,384 |
| Basis for Budget Calculation, Actuarial Accrued Liability[1] | **$74,635,840** | $68,527,354 |
| **Administrative Expenses as a Percentage of the Basis for Budget Calculation** | **0.12%** | **0.12%** |
| Limit per CERL | **0.21%** | 0.21% |
| Administrative Expenses | **90,586** | 85,384 |
| Net Position Restricted for Benefits | **$73,012,026** | $58,510,408 |
| **Administrative Expenses as a Percentage of Net Position Restricted for Benefits** | **0.12%** | **0.15%** |

[1]The 2021 and 2020 budget calculations are based on the Pension Plan actuarial accrued liability, as of June 30, 2019 and June 30, 2018, respectively.

# NOTE M — Commitments and Contingencies

## Litigation

LACERA is a defendant in various lawsuits and other claims arising in the ordinary course of its operations. The management and legal counsel of LACERA estimate the ultimate outcome of such litigation will not have a material effect on LACERA's financial statements.

## Securities Litigation

In 2001, the LACERA Board of Investments adopted a Securities Litigation Policy in response to incidents of corporate corruption, fraud, and misconduct at publicly traded companies held by LACERA in its investment portfolio. The policy requires LACERA's Legal Office to monitor securities fraud class actions and to actively pursue recovery of LACERA's losses in accordance with the policy.

In 2010, the U.S. Supreme Court held that certain fraud provisions of the U.S. securities laws could not be applied to securities purchased outside the U.S. Therefore, the LACERA Board of Investments adopted a global policy to ensure that LACERA continues to meet its fiduciary duty by identifying, monitoring, and evaluating securities actions in which the fund has an interest, both foreign and domestic, and pursuing such claims when and in a manner the LACERA Board of Investments determines is in the best interest of the fund.

Compliance with the Securities Litigation Policy is part of the efforts of the LACERA Board of Investments, with the assistance of the LACERA Legal Office, to protect the financial interests of LACERA and its members.

## LEASES

### Equipment

LACERA leases equipment under lease agreements that expire over the next five years. The annual commitments and operating expenses for such equipment leases were approximately $211,000 and $236,000 for the fiscal years ended 2021 and 2020, respectively.

### Office Lease

The LACERA office space lease agreement was originally entered in January 1991. Subsequent amendments were made with the latest one dated December 23, 2020. LACERA entered into the 17th Amendment and extended the terms with an expiration date of December 31, 2025.

LACERA's lease agreement is also discussed in Note K — Related Party Transactions. The total rent expenses for leasing the building premises are $2.9 million and $2.3 million in fiscal years 2021 and 2020, respectively.

## Capital Commitments

LACERA real estate, private equity, hedge fund, and activist investment managers identify and acquire investments on a discretionary basis. Investment activity is approved by the LACERA Board of Investments and controlled by investment management agreements that identify limitations on each investment manager's discretion. Such investment activities are further restricted by the amount of capital allocated or committed to each manager.

As of June 30, 2021, outstanding capital commitments to the various investment managers, as approved by the LACERA Board of Investments, totaled $7.7 billion.

## NOTE N — Other Post-Employment Benefits (OPEB) Program

### Program Description

In April 1982, the County adopted an ordinance pursuant to the County Employees Retirement Law of 1937 (CERL) that provided for a retiree healthcare insurance program and death/burial benefits for retired employees and their eligible dependents. In 1982, the County and LACERA entered into an agreement whereby LACERA would administer the program subject to the terms and conditions of the agreement. In 1994, the County amended the agreement to continue to support LACERA's retiree insurance benefits program, regardless of the status of active member insurance.

In June 2014, the LACERA Board of Retirement approved the County's request to modify the agreement to create a new retiree healthcare benefits program in order to lower its costs. Structurally, the County segregated all the then-current retirees and employees into the LACERA-administered Retiree Healthcare Benefits Program (Tier 1) and placed all employees hired after June 30, 2014 into the Los Angeles County Retiree Healthcare Benefits Program (Tier 2). On June 17, 2014, the Los Angeles County Board of Supervisors adopted changes to Los Angeles County Code Title 5 - Personnel, which established the benefit provisions for the Tier 2 program.

One difference included in this modification involves LACERA's administrative responsibility for the Retiree Healthcare Program. Under Tier 1, LACERA will continue its agreed-upon role as Program Administrator for retiree healthcare benefits as governed by the 1982 Agreement. Under the Tier 2 program, LACERA is responsible for administering this program; however, the County has the option to choose another organization to administer Tier 2. Since inception, OPEB Program liabilities and costs were determined within a cost-sharing plan structure, rather than separately for each employer. In July 2018, the OPEB Program, in which Los Angeles County, LACERA, Superior Court, and the Outside Districts participate, was restructured as an agent multiple-employer defined benefit OPEB plan (agent plan).

### Membership

Employees are eligible for the OPEB Program if they are members of LACERA and retire from the County of Los Angeles, Superior Court, LACERA, or a participating Outside District. Healthcare benefits are also offered to qualifying survivors of deceased retired members and qualifying survivors of deceased active employees who were eligible to retire at the time of death. Eligibility to receive a pension benefit is a prerequisite for retiree healthcare and death benefits; therefore, eligibility and qualifications applicable to retiree healthcare and death/burial benefits are substantially similar to pension benefits. The Summary of Major OPEB Program Provisions is available by contacting LACERA or visiting the LACERA website for additional information.

### LACERA Membership — OPEB Medical and Dental/Vision Benefits

*As of June 30, 2021 and 2020*

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Medical | Dental/ Vision | Medical | Dental/ Vision |
| Retired Participants | | | | |
| Retired Members and Survivors | 52,832 | 54,262 | 52,336 | 53,705 |
| Spouses and Dependents | 26,867 | 30,825 | 26,785 | 30,668 |
| **Total Retired** | **79,699** | **85,087** | **79,121** | **84,373** |
| Inactive Members — Vested | 8,714 | 8,714 | 8,657 | 8,657 |
| Active Members — Vested[1] | 74,434 | 74,434 | 73,522 | 73,522 |
| **Total Membership Eligible for Benefits** | **162,847** | **168,235** | **161,300** | **166,552** |

[1]Active members include terminated members who are vested (deferred) and eligible to receive OPEB benefits. Active members exclude non-vested (inactive) members who are ineligible for OPEB benefits.

## LACERA Membership — OPEB Death/Burial Benefits

*As of June 30, 2021 and 2020*

| | 2021 | 2020 |
|---|---|---|
| Retired with Eligibility for Death/Burial Benefits[2] | **60,097** | 58,738 |
| **Total Retired** | **60,097** | 58,738 |
| Inactive Members — Vested | **8,714** | 8,657 |
| Active Members — Vested[1] | **74,434** | 73,522 |
| **Total Membership Eligible for Benefits** | **143,245** | 140,917 |

[1]Active members include terminated members who are vested (deferred) and eligible to receive OPEB benefits. Active members exclude nonvested (inactive) members who are ineligible for OPEB benefits.
[2]Survivors, spouses and dependents are not eligible for death benefits.

## Benefit Provisions

The OPEB Program offers members an extensive choice of medical plans as well as two dental/vision plans. The medical plans are either HMOs or indemnity plans, and some are designed to work with Medicare benefits, such as the Medicare Supplement or Medicare HMO plans. Coverage is available regardless of preexisting medical conditions. Under the Tier 2 benefits structure, retirees who are eligible for Medicare are required to enroll in that program. Medicare-eligible retirees/survivors and their covered dependents must enroll in Medicare Parts A and B and in a Medicare HMO plan or Medicare Supplement plan under the Tier 2 program.

### Medical and Dental/Vision

Program benefits are provided through third-party insurance carriers with the participant's cost for medical and dental/vision insurance varying according to the years of retirement service credit with LACERA, the plan selected, and the number of eligible dependents covered. The County contribution subsidizing the participant's cost starts at 10 years of eligible service credit in the amount of 40 percent of the lesser of the benchmark plan rate or the premium of the plan in which the retiree is enrolled. For each year of eligible retirement service credit earned beyond 10 years, the County contributes 4 percent per year, up to a maximum of 100 percent for a member with 25 years of service credit. The County contribution can never exceed the premium of the benchmark plans. Members are responsible for premium amounts above the benchmark plans, including those with 25 or more years of service credit.

Under the Tier 1 benefits structure, the County subsidy is based on the coverage elected by the retiree. The benchmark plans are Anthem Blue Cross Plans I and II for medical and Cigna Indemnity Dental/Vision for dental and vision plans. Under Tier 2, the County subsidy is based on retiree/survivor-only coverage. Tier 2 medical benchmark plans are Anthem Blue Cross Plans I and II for Medicare-ineligible members, Anthem Blue Cross Plan III for Medicare-eligible members, and Cigna Indemnity Dental/Vision for dental and vision plans.

### Medicare Part B

The County reimburses the member's and/or eligible dependent's Medicare Part B Premium (up to the standard rate only) paid by the member to Social Security for Part B coverage, subject to annual approval by the County Board of Supervisors. Eligible members and their dependents must be currently enrolled in both Medicare Part A and Medicare Part B and enrolled in a LACERA-administered Medicare HMO Plan or Medicare Supplement Plan and meet all of the qualifications. Under the Tier 2 benefits structure, the County reimburses for Medicare Part B (at the standard rate) for eligible members or eligible survivors only.

### Disability

If a member is granted a service-connected disability retirement and has less than 13 years of service, the County contributes the lesser of 50 percent of the benchmark plan rate or the premium of the plan in which the retiree is enrolled. Under the Tier 2 program, the benchmark plan rate is based on retiree-only premiums. A member with 13 years of service credit receives a 52 percent subsidy. This percentage increases 4 percent for each additional completed year of service, up to a maximum of 100 percent.

**Death/Burial Benefit**

There is a one-time lump-sum $5,000 death/burial benefit payable to the designated beneficiary upon the death of a retired member, paid by LACERA and then reimbursed to LACERA by the County. Active and vested terminated (deferred) members are eligible for this benefit once they retire. Spouses and dependents are not eligible for this benefit upon their death.

**Healthcare Reform**

In March 2010, President Obama signed into law the Affordable Care Act (ACA). The ACA impacts the County's future healthcare liabilities. Estimated ACA fees are included in the OPEB liabilities. However, as a retiree-only group plan, LACERA is exempt from many of the provisions implemented thus far, including these significant provisions:

- Dependent coverage for adult children up to age 26
- Elimination of lifetime maximum limits
- No cost-sharing for approved preventive services

In December 2019, the Further Consolidated Appropriations Act (H.R. 1865) repealed the excise tax and health insurer fee beginning in the calendar year 2021 and extended the Patient-Centered Outcomes Research Institute (PCORI) Fee through 2029. The OPEB assumptions for the July 1, 2020 valuation reflect the exclusion of the excise tax and only reflect the health insurer fees for calendar year 2020.

**Eligible dependent child age limit increased to age 26**: The plan sponsor, the County of Los Angeles, approved an extension of the dependent children age limit up to age 26 under the Retiree Healthcare Program, regardless of a dependent child's marital or student status. This is a result of Senate Bill (SB) 1088. Until July 1, 2014, SB 1088 exempted retiree-only plans, such as LACERA's from this provision. It required health plan carriers to offer the coverage to dependents up to age 26 but does not obligate the plan sponsor, the County of Los Angeles, to pay for coverage up to age 26. However, effective March 9, 2015, the County determined that it would pay for dependent coverage up to age 26 within the existing OPEB Program provisions, as described below under Contributions Authority.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — OPEB PROGRAM

### Basis of Presentation

OPEB activity at LACERA is reported within two distinct funds, the OPEB Custodial Fund and the OPEB Trust Fund, in accordance with GASB Statement Number 74 (GASB 74).

The OPEB Custodial Fund accounts for assets held in a fiduciary capacity that are not held in a trust. The funds held within the OPEB Custodial Fund do not meet the definition of a qualifying OPEB Trust under GASB 74 and are not used to reduce the employers' total OPEB liability. However, the ownership of the OPEB Custodial Fund belongs to the County, Superior Court, LACERA, and the participating Outside District employers. Assets and liabilities are recorded using the economic resources measurement focus and accrual basis of accounting. Receivables include contributions due as of the reporting date. Payables include premium payments and refunds due to members and accrued investment and administrative expenses.

The OPEB valuation groups the agents using the following structure. There is a total of three agents participating in the OPEB Trust who are included in the seven agents of the OPEB Program. The most recent OPEB Experience and Assumption Study report, prepared as of July 1, 2020, includes the population of all participating agents.  Separate liabilities are calculated for the agents participating in the OPEB Trust and the OPEB Program.

## Agent and Agent Grouping

**OPEB Trust**

*County, Superior Court and LACERA*

**OPEB Program**[1]

*County, Superior Court, LACERA, SCAQMD, LACOE, LAFCO, LLCD*

[1]South Coast Air Quality Management District (SCAQMD), Los Angeles County Office of Education (LACOE), Local Agency Formation Commission for the County of Los Angeles (LAFCO), and Little Lake Cemetery District (LLCD).

## OPEB Trust — Agent Plan

The County, Superior Court, and LACERA have established separate accounts within the LACERA OPEB Trust to prefund their own OPEB Program liabilities. For better precision in allocating and accounting for these liabilities, as of July 1, 2018, the OPEB Program transitioned from a cost-sharing plan structure to an agent multiple-employer plan (agent plan) structure. Under the previous cost-sharing plan structure, OPEB Program liabilities and costs were determined with respect to the total LACERA OPEB Program, rather than separately for each employer. An agent plan structure, however, determines program liabilities and costs directly by employer and allocates shared expenses to each employer. This provides employers with liability and cost information that is more precise for their active, vested-terminated, and retiree population, which helps them make informed decisions to manage these OPEB costs. In addition, assets, while commingled for investment purposes, are separately tracked for each participating employer. The July 1, 2018 OPEB valuation marked the first actuarial valuation performed under an agent plan reflecting the funding information at the individual agent (employer) level.

For additional information pertaining to the OPEB Trust, see Note Q.

## Investment Valuation

Investments are carried at fair value, which are derived from quoted market prices. For publicly traded securities and issues of the United States Government and its agencies, the most recent sales price as of fiscal year-end is used.

## Contributions Authority

Pursuant to the 1982, 1994, and 2014 agreements between the County and LACERA, the parties agreed to the continuation of the post-retirement health insurance benefits then in existence. The County agreed to subsidize a portion of the insurance premiums of certain retired members and their eligible dependents based on the member's length of service. The County further agreed to maintain the status quo of existing benefits provided to participants. As part of the 2014 Agreement, the County modified the existing healthcare benefits plan, which created a new benefit structure, the Tier 2 program, for all employees hired after June 30, 2014. LACERA agreed not to change retired members' contributions toward insurance premiums or modify medical benefit levels without the County's prior consent.

## Premium Payments

During the fiscal years ended June 30, 2021 and 2020, respectively, premium payments of $654.3 million and $627.2 million were made to insurance carriers. These premiums were funded by employer subsidy payments of $605.7 million and participant payments of $48.6 million for the fiscal year ended 2021. The employer subsidy payments for the fiscal year ended 2020 were $578 million with participant payments of $49.2 million.

In addition, $80.1 million and $9.3 million was funded by employer subsidy payments for Medicare Part B reimbursements and death/burial benefits, respectively, for the fiscal year ended June 30, 2021 and $73.6 million and $8.1 million for these benefits, respectively, during the fiscal year ended June 30, 2020.

A premium holiday is a temporary period in which the monthly premium costs for both the Program Sponsor (County) and affected members are waived. Affected members are those retirees/survivors enrolled in certain medical and dental/vision benefit plans who also pay their share of the monthly premiums. There were no premium holidays during the fiscal years ended June 30, 2021 and 2020.

## NOTE O — Hedge Fund Investments

LACERA's Investment Policy Statement establishes the portfolio framework for and role of the hedge funds program. The hedge fund category of investments is composed of strategies that may: 1) invest in securities within LACERA's existing asset classes or across multiple asset classes, 2) have an absolute return objective, and 3) include the ability to use specialized techniques, such as leverage and short-selling, and instruments such as derivatives.

At the beginning of the fiscal year, LACERA employed one hedge fund of funds manager, Grosvenor Capital Management (GCM), and one credit fund of funds manager, Grosvenor Capital Management. During the prior fiscal year, LACERA initiated the full redemption of the GCM hedge fund of funds' portfolios. Furthermore, the GCM credit fund of funds portfolio entered its distribution phase in the prior fiscal year. Both portfolios began returning cash during the current fiscal year ended June 30, 2021, in alignment with the liquidity terms of the portfolios or underlying managers. GCM is managing the redemption process of the GCM portfolios.

During the fiscal year, LACERA added three investment managers to the direct hedge funds portfolio and redemption began for one of the investment managers. As of June 30, 2021, the portfolio contains eight direct hedge fund investments.

The investment performance for this strategy is measured separately from other asset classes. The fair values of assets invested in hedge funds as of June 30, 2021 and June 30, 2020, were $2.7 billion and $2.2 billion, respectively.

Hedge fund assets are also disclosed in Note P — Fair Value.

The GCM hedge funds of funds portfolio and Direct portfolio reside within Diversified Hedge Funds under the Risk Reduction and Mitigation functional asset category of LACERA's Total Fund. The GCM credit portfolio resides within Illiquid Credit under the Credit functional asset category. For additional information regarding LACERA's investment portfolio and functional categories, see the Investment Section.

## NOTE P — Fair Value of Investments

For the fiscal year ended June 30, 2016, LACERA adopted GASB Statement Number 72, Fair Value Measurement and Application. GASB Statement Number 72 was issued to address accounting and financial reporting issues related to fair value measurements and disclosures. LACERA categorizes its fair value measurements within the fair value hierarchy established by Generally Accepted Accounting Principles in the United States of America (U.S. GAAP or GAAP). The hierarchy is based on the valuation inputs used to measure the fair value of the investment securities and assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Certain investments held by LACERA are valued at net asset value (NAV) per share when an investment does not have a readily determined fair value, provided that the NAV is calculated and used as a practical expedient to estimate fair value in accordance with the requirements of GAAP.

## Equity and Fixed Income Securities

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

## Hedge Fund, Private Equity, Real Estate, Equity, and Fixed Income Funds

Investments in hedge fund, private equity, real estate, equity, and fixed income funds are valued at estimated fair value, as determined in good faith by the general partner (GP), in accordance with GAAP fair value principles in instances where no observable public market values are available. Investments that are estimated at fair value are initially valued at cost with subsequent adjustments that reflect third-party transactions, financial operating results, and other factors deemed relevant by the GP. These assets are reported by LACERA based on the practical expedient allowed under GAAP. In instances where observable public market values are available for the underlying securities held, fair value is determined by the fund's administrator using independent pricing sources.

## Real Estate Separate Account Investments

Investments in real estate are valued at estimated fair value, as determined in good faith by the investment manager. These investments are initially valued at cost, with subsequent adjustments that reflect third-party transactions, financial operating results, and other factors deemed relevant by the investment manager. Properties are subject to independent third-party appraisals every year.

*LACERA has the following recurring fair value measurements as of June 30, 2021 and 2020:*

## Investments and Derivatives Measured at Fair Value — Pension Plan

*As of June 30, 2021*

(Dollars in Thousands)

| Investments by Fair Value Level | Total | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|---|---|---|---|---|
| **Fixed Income Securities** | | | | |
| Asset-Backed Securities | $251,781 | $— | $251,623 | $158 |
| Corporate and Other Credit | 2,762,494 | — | 2,703,495 | 58,999 |
| Municipal / Revenue Bonds | 8,396 | — | 8,396 | — |
| Non-U.S. Fixed Income | 435,728 | — | 426,142 | 9,586 |
| Private Placement Fixed Income | 1,369,866 | — | 1,369,866 | — |
| U.S. Government Agency | 1,197,014 | — | 1,197,014 | — |
| U.S. Treasuries | 3,301,874 | — | 3,301,874 | — |
| Pooled Investments | 1,157,533 | 1,157,533 | — | — |
| Whole Loan Mortgages | 16,352 | — | — | 16,352 |
| **Total Fixed Income Securities** | **$10,501,038** | **$1,157,533** | **$9,258,410** | **$85,095** |
| **Equity Securities** | | | | |
| Non-U.S. Equity | $10,892,501 | $10,887,549 | $1,078 | $3,874 |
| Pooled Investments | 403,341 | 403,341 | — | — |
| U.S. Equity | 16,244,834 | 16,222,153 | 11,306 | 11,375 |
| **Total Equity Securities** | **$27,540,676** | **$27,513,043** | **$12,384** | **$15,249** |
| **Collateral from Securities Lending** | **$1,198,528** | **$—** | **$1,198,528** | **$—** |
| **Total Investments by Fair Value Level** | **$39,240,242** | **$28,670,576** | **$10,469,322** | **$100,344** |
| **Investments Measured at Net Asset Value (NAV)** | | | | |
| Fixed Income | $10,570,090 | | | |
| Equity | 2,165,195 | | | |
| Hedge Funds | 2,748,465 | | | |
| Private Equity | 11,471,947 | | | |
| Real Estate | 5,294,150 | | | |
| **Total Investments Measured at NAV** | **$32,249,847** | | | |
| **Total Investments** | **$71,490,089** | | | |
| **Derivatives** | | | | |
| Foreign Exchange Contracts | $68,715 | $— | $68,715 | $— |
| Foreign Fixed Income Derivatives | 3,217 | (1) | 3,218 | — |
| Foreign Equity Derivatives | 968 | 968 | — | — |
| U.S. Equity Derivatives | (997) | (997) | — | — |
| U.S. Fixed Income Derivatives | 2,970 | 29 | 2,941 | — |
| **Total Derivatives** | **$74,873** | **($1)** | **$74,874** | **$—** |

## Investments Measured at Net Asset Value — Pension Plan

*As of June 30, 2021*
(Dollars in Thousands)

| | Fair Value | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Commingled Fixed Income Funds[1] | $10,570,090 | $525,114 | Daily, Monthly or Not Eligible | 1-60 days or N/A |
| Commingled Equity Funds[2] | 2,165,195 | — | Daily, Monthly or Not Eligible | 1-60 days or N/A |
| Hedge Funds[3] | 2,748,465 | — | Daily, Monthly, Quarterly, Semi-Annual, Annual; Self-Liquidating | 5-180 days |
| Private Equity[4] | 11,471,947 | 6,219,655 | Not Eligible | N/A |
| Real Estate[4] | 5,294,150 | 971,004 | Quarterly or Not Eligible | 30 days+ or N/A |
| **Total Investments Measured at NAV** | **$32,249,847** | | | |

[1]**Commingled Fixed Income Funds**: Eight fixed income funds are considered commingled in nature. They are valued at the net asset value (NAV) of units held at the end of the period based upon the fair value of the underlying investments. Most of the funds are highly liquid within one month; two of the funds representing 3 percent of Commingled Fixed Income assets have liquidity available at the end of the fund terms which range from three to seven years.

[2]**Commingled Equity Funds**: Five equity funds are considered commingled in nature. They are valued at the NAV of units held at the end of the period based upon the fair value of the underlying investments. Most of the funds are highly liquid within one month; three of these funds representing 5 percent of Commingled Equity assets have liquidity subject to lock-up periods that limit or prohibit redemptions for the next three to four years.

[3]**Hedge Funds**: This portfolio consists of eight current funds and two fund of funds. Hedge fund investments are valued at NAV per share. When considering liquidity terms of the eight current funds, 76 percent of the fund assets are available within 12 months; these funds provide daily, monthly, quarterly, semi-annual, or annual liquidity. Some of these funds are subject to redemption notices that extend the time frame to receive redemptions beyond the next 12 months. The remaining 24 percent of fund assets are in funds that offer periodic liquidity that extends beyond the next 12 months.

LACERA's Hedge Funds portfolio invests in the following strategies:

- (a) Macro and Tactical Trading: This strategy makes investments based on analyses and forecasts of macroeconomic trends, including governmental and central bank policies, fiscal trends, trade imbalances, interest rate trends, inter-country relations, and economic and technical analysis.
- (b) Equity Long/Short: This strategy purchases and/or sells equities based on fundamental and/or quantitative analysis and other factors.
- (c) Credit: This strategy includes long-biased credit, long/short credit, structured credit, and mortgage credit.
- (d) Relative Value: This strategy's focus is to benefit from valuation discrepancies that may be present in related financial instruments by purchasing and/or shorting these instruments.
- (e) Multi-Strategy: This strategy aims to pursue varying strategies to diversify risks and reduce volatility.
- (f) Event Driven: This strategy seeks to gain an advantage from pricing inefficiencies that may occur in the onset or aftermath of a corporate action or related event.

[4]**Private Equity and Real Estate Funds**: LACERA's Private Equity portfolio consists of 254 funds, investing primarily in buyout funds, with some exposure to venture capital, special situations, fund of funds, real assets, and co-investments. Due to contractual limitations, none of the funds are currently eligible for redemption. One of the funds may be eligible for redemption after three years, while the remaining 253 funds are ineligible for up to 10 years. The Real Estate portfolio, composed of 23 commingled funds, invests in both U.S. and Non-U.S. commercial real estate. The fair values of these funds have been determined using net assets valued at the end of the period and net assets valued one quarter in arrears plus current quarter cash flows. Three out of 23 Real Estate funds are eligible for redemption depending upon the availability of cash for redemptions in the fund. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to 10 years. For Real Estate investments held in separate accounts and debt program investments, see Note J — Special Purpose Entities.

## Investments and Derivatives Measured at Fair Value — Pension Plan

*As of June 30, 2020*

(Dollars in Thousands)

| Investments by Fair Value Level | Total | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|---|---|---|---|---|
| **Fixed Income Securities** | | | | |
| Asset-Backed Securities | $223,901 | $– | $223,662 | $239 |
| Corporate and Other Credit | 2,898,210 | – | 2,861,134 | 37,075 |
| Municipal/Revenue Bonds | 48,943 | – | 48,943 | – |
| Non-U.S. Fixed Income | 700,145 | – | 700,145 | – |
| Private Placement Fixed Income | 1,578,050 | – | 1,578,050 | – |
| U.S. Government Agency | 1,923,653 | – | 1,923,653 | – |
| U.S. Treasuries | 1,858,678 | – | 1,858,678 | – |
| Pooled Investments | 1,060,424 | 1,060,424 | – | – |
| Whole Loan Mortgages | 22,090 | – | – | 22,090 |
| **Total Fixed Income Securities** | **$10,314,094** | **$1,060,424** | **$9,194,265** | **$59,404** |
| **Equity Securities** | | | | |
| Non-U.S. Equity | $7,212,668 | $7,209,653 | $3,015 | $– |
| Pooled Investments | 404,964 | 404,964 | – | – |
| U.S. Equity | 14,003,325 | 13,994,266 | 3,666 | 5,394 |
| **Total Equity Securities** | **$21,620,957** | **$21,608,883** | **$6,681** | **$5,394** |
| **Collateral from Securities Lending** | **$1,177,374** | **$–** | **$1,177,374** | **$–** |
| **Total Investments by Fair Value Level** | **$33,112,425** | **$22,669,307** | **$10,378,320** | **$64,798** |
| **Investments Measured at Net Asset Value (NAV)** | | | | |
| Fixed Income | $8,486,033 | | | |
| Equity | 1,709,262 | | | |
| Hedge Funds | 2,193,437 | | | |
| Private Equity | 7,141,781 | | | |
| Real Estate | 5,128,771 | | | |
| **Total Investments Measured at NAV** | **$24,659,284** | | | |
| **Total Investments** | **$57,771,709** | | | |
| **Derivatives** | | | | |
| Foreign Exchange Contracts | ($63,545) | $– | ($63,545) | $– |
| Foreign Fixed Income Derivatives | 2,744 | (92) | 2,835 | – |
| Foreign Equity Derivatives | 546 | 546 | – | – |
| U.S. Equity Derivatives | 1,475 | 1,475 | – | – |
| U.S. Fixed Income Derivatives | (24,689) | 45 | (24,735) | – |
| **Total Derivatives** | **($83,469)** | **$1,974** | **($85,445)** | **$–** |

## Investments Measured at Net Asset Value — Pension Plan

*As of June 30, 2020*
(Dollars in Thousands)

| | Fair Value | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Commingled Fixed Income Funds[1] | $8,486,033 | $662,967 | Daily, Monthly or Not Eligible | 1-60 days or N/A |
| Commingled Equity Funds[2] | 1,709,262 | — | Daily, Monthly or Not Eligible | 1-60 days or N/A |
| Hedge Funds[3] | 2,193,437 | — | Daily, Monthly, Quarterly, Semi-Annual, Annual; Self-Liquidating | 5-180 days |
| Private Equity[4] | 7,141,781 | 4,680,875 | Not Eligible | N/A |
| Real Estate[4] | 5,128,771 | 961,383 | Quarterly or Not Eligible | 30 days+ or N/A |
| **Total Investments Measured at NAV** | **$24,659,284** | | | |

[1]**Commingled Fixed Income Funds**: Nine fixed income funds are considered commingled in nature. They are valued at the net asset value (NAV) of units held at the end of the period based upon the fair value of the underlying investments. Most of the funds are highly liquid within one month; two of the funds representing 3 percent of Commingled Fixed Income assets have liquidity available at the end of the fund terms which range from three to seven years.

[2]**Commingled Equity Funds**: Six equity funds are considered commingled in nature. They are valued at the NAV of units held at the end of the period based upon the fair value of the underlying investments. Most of the funds are highly liquid within one month; three of the funds representing 5 percent of Commingled Equity assets have liquidity available subject to lock-up periods that limit or prohibit redemptions for the next three to four years.

[3]**Hedge Funds**: The portfolio consists of eight current funds and two fund of funds. LACERA initiated a full redemption of the two fund of funds during the 2019-2020 fiscal period. Hedge fund investments are valued at NAV per share. When considering liquidity terms of the eight current funds, 76 percent of the fund assets are available within 12 months; these funds provide daily, monthly, quarterly, semi-annual, or annual liquidity. Some of these funds are subject to redemption notices that extend the time frame to receive redemptions beyond the next 12 months. The remaining 24 percent of fund assets are in funds that offer periodic liquidity that extends beyond the next 12 months.

LACERA's Hedge Funds portfolio invests in the following strategies:

- (a) Macro and Tactical Trading: This strategy makes investments based on analyses and forecasts of macroeconomic trends, including governmental and central bank policies, fiscal trends, trade imbalances, interest rate trends, inter-country relations, and economic and technical analysis.
- (b) Equity Long/Short: This strategy purchases and/or sells equities based on fundamental and/or quantitative analysis and other factors.
- (c) Credit: This strategy includes long-biased credit, long/short credit, structured credit, and mortgage credit.
- (d) Relative Value: This strategy's focus is to benefit from valuation discrepancies that may be present in related financial instruments by purchasing and/or shorting these instruments.
- (e) Multi-Strategy: This strategy aims to pursue varying strategies diversify risks and reduce volatility.
- (f) Event Driven: This strategy seeks to gain an advantage from pricing inefficiencies that may occur in the onset or aftermath of a corporate action or related event.
- (g) Commodities: This strategy invests across the global commodity markets based on an analysis of factors, including supply and demand, legislative and environmental policies, trends in growth rates and resource consumption, global monetary and trade policy, geopolitical events, and technical factors.

[4]**Private Equity and Real Estate Funds**: LACERA's Private Equity portfolio consists of 224 funds, investing primarily in buyout funds, with some exposure to venture capital, special situations, fund of funds, and co-investments. Due to contractual limitations, none of the 224 funds are eligible for redemption for up to 10 years. The Real Estate portfolio, composed of 23 funds, invests in both U.S. and non-U.S. commercial real estate. The fair values of these funds have been determined using net assets valued one quarter in arrears plus current quarter cash flows. Three out of 23 funds are eligible for redemption depending upon the availability of cash for redemptions in the fund. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to 10 years. For Real Estate investments held in separate accounts and debt program investments, see Note J — Special Purpose Entities.

## Investments Measured at Fair Value — OPEB Trust

*As of June 30, 2021*

(Dollars in Thousands)

| Investments by Fair Value Level | Total | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|---|---|---|---|---|
| **Fixed Income Securities** | | | | |
| Pooled Investments | $237,868 | $237,868 | $– | $– |
| **Total Fixed Income Securities** | **$237,868** | **$237,868** | **$–** | **$–** |
| **Total Investment by Fair Value Level** | **$237,868** | **$237,868** | **$–** | **$–** |
| **Investments Measured at Net Asset Value (NAV)** | | | | |
| Fixed Income | $656,332 | | | |
| Equity | 1,145,218 | | | |
| Real Estate Investment Trust (REIT) | 219,190 | | | |
| **Total Investments Measured at NAV** | **$2,020,740** | | | |
| **Total Investments** | **$2,258,608** | | | |

## Investments Measured at Fair Value — OPEB Trust

*As of June 30, 2020*

(Dollars in Thousands)

| Investments by Fair Value Level | Total | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|---|---|---|---|---|
| **Fixed Income Securities** | | | | |
| Pooled Investments | $147,703 | $147,703 | $– | $– |
| **Total Fixed Income Securities** | **$147,703** | **$147,703** | **$–** | **$–** |
| **Total Investment by Fair Value Level** | **$147,703** | **$147,703** | **$–** | **$–** |
| **Investments Measured at Net Asset Value (NAV)** | | | | |
| Fixed Income | $422,672 | | | |
| Equity | 755,005 | | | |
| Real Estate Investment Trust (REIT) | 142,775 | | | |
| **Total Investments Measured at NAV** | **$1,320,452** | | | |
| **Total Investments** | **$1,468,155** | | | |

## Investments Measured at Net Asset Value — OPEB Trust

*As of June 30, 2021*

(Dollars in Thousands)

| Investments by Fair Value Level | Fair Value | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| **Fixed Income Securities** | | | | |
| Commingled Fixed Income Funds | $656,332 | $— | Daily, Monthly | 1-30 days or N/A |
| Commingled Equity Fund | 1,145,218 | — | Daily, Monthly | 1-30 days or N/A |
| Real Estate Investment Trust (REIT) | 219,190 | — | Daily, Monthly | 1-30 days or N/A |
| **Total Investments Measured at NAV[1]** | **$2,020,740** | | | |

[1]**Commingled Funds**: The OPEB Master Trust is invested in eight funds that are considered commingled in nature. They are valued at the net asset value (NAV) of units held at the end of the period based upon the fair value of the underlying investments. Most of the funds are highly liquid within one month.

## Investments Measured at Net Asset Value — OPEB Trust

*As of June 30, 2020*

(Dollars in Thousands)

| Investments by Fair Value Level | Fair Value | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| **Fixed Income Securities** | | | | |
| Commingled Fixed Income Funds | $422,672 | $— | Daily, Monthly | 1-30 days or N/A |
| Commingled Equity Fund | 755,005 | — | Daily, Monthly | 1-30 days or N/A |
| Real Estate Investment Trust (REIT) | 142,775 | — | Daily, Monthly | 1-30 days or N/A |
| **Total Investments Measured at NAV[1]** | **$1,320,452** | | | |

[1]**Commingled Funds**: The OPEB Master Trust is invested in eight funds that are considered commingled in nature. They are valued at the net asset value (NAV) of units held at the end of the period based upon the fair value of the underlying investments. Most of the funds are highly liquid within one month.

## Investments Measured at Fair Value — OPEB Custodial Fund

*As of June 30, 2021*

(Dollars in Thousands)

| Investments by Fair Value Level | Total | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|---|---|---|---|---|
| **Fixed Income Securities** | | | | |
| Asset-Backed Securities | $9,948 | $– | $9,948 | $– |
| Private Placement Fixed Income | 4,798 | – | 4,798 | – |
| Corporate and Other Credit | 26,272 | – | 26,272 | – |
| U.S. Treasuries | 99,075 | – | 99,075 | – |
| **Total Fixed Income Securities** | **$140,093** | **$–** | **$140,093** | **$–** |
| **Total Investments by Fair Value Level** | **$140,093** | **$–** | **$140,093** | **$–** |

## Investments Measured at Fair Value — OPEB Custodial Fund

*As of June 30, 2020*

(Dollars in Thousands)

| Investments by Fair Value Level | Total | Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
|---|---|---|---|---|
| **Fixed Income Securities** | | | | |
| Asset-Backed Securities | $11,590 | $– | $11,590 | $– |
| Private Placement Fixed Income | 5,756 | – | 5,756 | – |
| Corporate and Other Credit | 33,553 | – | 33,553 | – |
| U.S. Treasuries | 78,197 | – | 78,197 | – |
| **Total Fixed Income Securities** | **$129,096** | **$–** | **$129,096** | **$–** |
| **Total Investments by Fair Value Level** | **$129,096** | **$–** | **$129,096** | **$–** |

# NOTE Q — Other Post-Employment Benefits (OPEB) Trust

## Establishment of Los Angeles County (County) OPEB Trust

Pursuant to the California Government Code, the County established an irrevocable, tax-exempt OPEB Trust, which LACERA administers, for the purpose of holding and investing assets to prefund the Retiree Healthcare Benefits Program and apply globally where appropriate. In May 2012, the County Board of Supervisors approved entering into a trust and investment services agreement with the LACERA Board of Investments to serve as trustee and investment manager.

The County began funding the OPEB Trust in an effort to reduce its OPEB unfunded liability. It provides a framework whereby the County contributes to the Trust with regular frequency and may transition, over time, to a prefunding model from the existing pay-as-you-go model, which uses current budgeted assets to pay benefits. The County OPEB Trust does not modify the participating employers' existing benefit programs.

The County OPEB Trust serves as a funding tool for the participating employers to hold and invest assets that can be used to pay expenses associated with future OPEB benefits, such as medical, dental, and vision provided by the Retiree Healthcare Program including the retiree death/burial benefit. Participating employers will be responsible for and have full discretion over the timing of payments into the Trust. The use of those assets is restricted for OPEB purposes as defined in the trust agreement. There are only two participating employers in the County OPEB Trust: Los Angeles County and LACERA.

## Establishment of Los Angeles Superior Court (Court) OPEB Trust

Similar to the OPEB Trust established by the County, the Court followed the County's lead and established a separate OPEB trust fund, the Court OPEB Trust. Pursuant to the California Government Code, the Court established an irrevocable OPEB trust for the purpose of holding and investing assets to prefund the Retiree Healthcare Program, which LACERA administers. In April 2016, the Judicial Council of California approved the Court's request to establish a qualified irrevocable trust, as well as use of LACERA's Board of Investments as the trustee and investment services provider for the prefunding of the Court's OPEB liabilities.

In May 2016, to conform the language of the County OPEB trust agreement to the language of the Court's OPEB trust agreement, the Board of Supervisors approved the First Amendment to the Trust and Investment Services Agreement for the County of Los Angeles OPEB Program between the County and LACERA. This amendment permits the pooling of County and Court OPEB Trust assets solely for investment purposes.

In June 2016, similar to the County, the Court entered into a trust and investment services agreement with the LACERA Board of Investments.

## OPEB Master Trust

In July 2016, LACERA's Board of Investments adopted the OPEB Master Trust Declaration and unitization of County and Court OPEB Trust investments. As trustee of the separate OPEB Trusts established by the County and the Court, the Board of Investments has sole and exclusive authority, control over, and responsibility for directing the investment and management of the Master OPEB Trust assets.

A unitized fund structure may allow for synergy from the shared economy and leveraged investment opportunities for greater diversification of assets. Unitization also provides participants the ability to pool assets and resources while retaining total fund and functional category values and reporting for each participant. This approach can offer administrative efficiency, potential cost savings, and permit flexibility in asset allocation. The unitized structure preserves the ability to base investments on the individual needs of each participating employer.

## Funding Policy

In June 2015, the Board of Supervisors approved the countywide budget with a dedicated funding policy for the OPEB liability using a multi-year approach to enhance the County's OPEB Trust funding in a consistent manner.

Under the County OPEB Trust, LACERA is defined as a "Contributing Employer." Separate accounts are maintained for the contributions and expense obligations of the County and LACERA. Since inception, LACERA participated in lock-step funding with the County on a pro rata basis. LACERA's budget includes provisions for its pro rata share of OPEB Trust contributions. In December 2015, the LACERA Boards adopted the LACERA OPEB Funding Policy allowing LACERA to prefund its portion of retiree healthcare benefits in sync with the County, while also allowing LACERA to prefund its portion of the liability separately. LACERA is not legally obligated, under the Trust or otherwise, to match the County's funding practices, but such a course of action, which has been followed in the past, reduces LACERA's share of healthcare liabilities.

The Court continues to pay its OPEB liability on a pay-as-you-go basis. Although the Court has not adopted a formal OPEB funding policy, when budgeted surplus funds are available at fiscal year end, the Court may earmark such excess funds in its discretion from year to year as OPEB Trust contributions.

## INVESTMENT POLICIES — OPEB MASTER TRUST

**Investment Policy**

The allocation of investment assets within the OPEB Master Trust are approved by the OPEB Trustee, the LACERA Board of Investments. As outlined in the OPEB Master Trust Investment Policy Statement, assets are managed on a total return basis with the overall goal to provide employees and retirees of the OPEB Trust with post-employment healthcare benefits as promised, via a long-term investment program.

**Target Allocation**

The Board's revised asset allocation policy, adopted in December 2017, divides the Trust into four broad functional categories and contains asset classes that align with the purpose of each function. The Board has approved target weights at both the functional category and asset class level to provide for diversification of assets in an effort to meet the OPEB Program's actuarial assumed rate of return, consistent with market conditions and risk control. The functional categories have target weights of 50 percent in Growth, 20 percent in Credit, 10 percent in Risk Reduction and Mitigation, and 20 percent in Inflation Hedges, respectively. The Board approved a new strategic asset allocation for the OPEB Trust at it's June 2021 Board meeting. Transition to the first phase of the revised target allocation will begin in the upcoming fiscal year.

## Schedule of Target Allocation

*As of June 30, 2021*

| Asset Class | Target Allocation | |
|---|---|---|
| **Growth** | **50.0%** | |
| Global Equity | | 50.0% |
| **Credit** | **20.0%** | |
| High Yield Bonds | | 6.0% |
| Bank Loans | | 10.0% |
| EM Local Currency Bonds | | 4.0% |
| **Risk Reduction & Mitigation** | **10.0%** | |
| Cash | | 2.0% |
| Investment Grade Bonds | | 8.0% |
| **Real Assets & Inflation Hedges** | **20.0%** | |
| TIPS | | 6.0% |
| Real Estate Investment Trusts (REITs) | | 10.0% |
| Commodities | | 4.0% |

**Investment Concentrations**
At June 30, 2021, the OPEB Master Trust held approximately 49.7 percent in Growth, 20.5 percent in Credit, 10.3 percent in Risk Reduction and Mitigation, and 19.5 percent in Real Assets and Inflation Hedges. In addition, the OPEB Master Trust did not hold investments in any one issuer that would represent 5 percent or more of the OPEB Master Trust Fiduciary Net Position Restricted for Benefits.

**Money-Weighted Rate of Return**
For the fiscal year ended June 30, 2021, the annual money-weighted rate of return on OPEB Trust investments, net of OPEB Trust investment expense, was 28.2 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts. Historical returns will be presented as they become available in the Schedule of Investment Returns — OPEB Program presented in the Required Supplementary Information section of this report.

**Contributions**
The participating employers historically discharged their current premium subsidy obligations on a pay-as-you-go basis. LACERA bills the healthcare premiums to the participating employers and members and receives reimbursement on a monthly basis. The County, Superior Court, and LACERA use the OPEB Trust as a mechanism to prefund these obligations, depositing monies into the irrevocable OPEB Trust, earning interest and investment income, and dispersing in accordance with the terms of the Trust Agreement. Plan members are required to pay the difference between the employer-paid subsidy and the actual premium cost.

During fiscal years ended June 30, 2021 and 2020, the County, Superior Court, and LACERA made total prefunding contributions to the OPEB Trust of $362.7 million and $248.2 million respectively, in excess of the pay-as-you-go amounts, both of which are recorded as revenue within the OPEB Trust.

## Contributions — OPEB Trust

*For the Fiscal Years Ended June 30, 2021 and 2020*
(Dollars in Thousands)

| | 2021 | **2020** |
|---|---|---|
| Los Angeles County | **$357,269** | $246,197 |
| LACERA | **1,477** | 1,029 |
| Superior Court | **3,955** | 1,000 |
| **Total Contributions[1]** | **$362,701** | $248,226 |

[1]Contributions presented here are limited to OPEB Trust prefunding from plan sponsors. OPEB Trust employer contributions presented in the Statement of Changes in Fiduciary Net Position include pay-as-you-to contributions per GASB reporting requirements. Please see Note B — Summary of Significant Accounting Policies for additional information.

**Administration**
The OPEB Trust administration costs include payments for investment management fees, custodial fees, and overhead charged by LACERA for administering the OPEB Trust Fund. Expenses totaled $1.6 million and $1.1 million for fiscal years ended June 30, 2021 and 2020, respectively. The increase was due to asset rebalancing and the addition of new investment accounts. These costs are paid from premiums, which include a flat administrative charge of $8 per contract per month, and the administrative fee is included in the premium payments.

## Expenses — OPEB Trust

*For the Fiscal Years Ended June 30, 2021 and 2020*

| | 2021 | | | | |
|---|---|---|---|---|---|
| | Management Fees | Custodial Fees | Consultant Fees | Administrative Expenses | Total |
| Los Angeles County | $669,831 | $261,863 | $53,222 | $448,203 | $1,433,119 |
| LACERA | 2,635 | 1,031 | 209 | 27,088 | $30,963 |
| Superior Court | 19,390 | 7,448 | 1,569 | 108,352 | 136,759 |
| **Total Expenses** | **$691,856** | **$270,342** | **$55,000** | **$583,643** | **$1,600,841** |

| | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Management Fees | Custodial Fees | Consultant Fees | Legal Fees | Misc. Fees | Administrative Expenses | Total |
| Los Angeles County | $447,823 | $320,269 | $52,937 | $9,334 | $121 | $184,738 | $1,015,222 |
| LACERA | 1,742 | 1,244 | 206 | 37 | 8 | 12,315 | 15,552 |
| Superior Court | 15,670 | 11,360 | 1,857 | 296 | 32 | 49,264 | 78,479 |
| **Total Expenses** | **$465,235** | **$332,873** | **$55,000** | **$9,667** | **$161** | **$246,317** | **$1,109,253** |

### Fund Values

OPEB Trust Fund additions include contributions from participating employers and investment income. Deductions include redemptions, investment expenses, and administrative expenses. The OPEB Trust Fund values were as follows:

## Fund Values — OPEB Trust

*As of June 30, 2021 and 2020*
(Dollars in Thousands)

| | 2021 | | |
|---|---|---|---|
| | Book Value | Unrealized Investment Appreciation | Fair Value |
| Los Angeles County | $1,678,203 | $557,611 | $2,235,814 |
| LACERA | 6,629 | 2,181 | 8,810 |
| Superior Court | 45,340 | 16,863 | 62,203 |
| **Total Balance** | **$1,730,172** | **$576,655** | **$2,306,827** |

| | 2020 | | |
|---|---|---|---|
| | Book Value | Unrealized Investment Appreciation | Fair Value |
| Los Angeles County | $1,307,750 | $133,648 | $1,441,398 |
| LACERA | 5,124 | 514 | 5,638 |
| Superior Court | 41,150 | 4,442 | 45,592 |
| **Total Value** | **$1,354,024** | **$138,604** | **$1,492,628** |

## NOTE R — Global Pandemic

### LACERA Members

LACERA's Executive Office identified the coronavirus COVID-19 pandemic as a serious health threat and took immediate action. During the current fiscal year, the Member Service Center (MSC), remained closed with plans to re-open for in-person appointments, at the beginning of the new fiscal year. LACERA provided customer service through the Call Center and virtual appointments. All members who elected to retire by March 31 were processed and included in the April month-end benefits payroll cycle. LACERA introduced a drop box available outside the office building lobby, which allowed members to physically drop off important documents that are received and processed by LACERA staff.

### LACERA Staff

The Investment Office and FASD tightened their partnership to ensure that investment transactions were completed timely, accurately, and with the proper security controls. Routine processes were executed throughout the pandemic period, including payment of investment management fees and organizational expenses, collection of contributions from plan sponsor employers and employees, and completion of daily ad-hoc requests to issue member benefits. The members received their monthly promised benefits in spite of altered working conditions caused by the pandemic.

New tools provided all of the existing resources remotely and radically expanded communication facilities and group meeting capabilities. Information technology professionals focused on providing access while implementing strict safety and security precautions. As always, member data security remained a top priority at LACERA.

LACERA followed guidelines promulgated by federal, state, and local officials including the Los Angeles County Department of Public Health, County Human Resources Department, and the City of Pasadena. To protect the health and safety of LACERA staff, protocols were established and remain in effect for employees who do report to LACERA's offices regularly. LACERA made personal protective equipment available, distributed sanitation products, and installed thermometers and directional signage throughout the organization. By the end of the 2021 fiscal year, LACERA had developed plans for staff to return to the office under strict protocols including hybrid scheduling and social distancing guidelines. Preliminary target dates were established and subsequently moved forward due to member and employee health and safety concerns.

### LACERA Leadership

LACERA received continuous guidance and oversight from the trustees of both LACERA's governing Boards, the Board of Retirement and the Board of Investments. Both Boards conducted their open public meetings by teleconference pursuant to the California Governor's Executive Order No. N-29-20. LACERA's financial position at the end of June is significantly positive. Pension plan and OPEB Program plan sponsors provided regularly scheduled contributions and the investment portfolio generated substantial returns, which fund the retirement benefits and provide retiree healthcare for members. The organization's administrative budgeted expenditures and financial flows, including the ability to pay benefits, remained consistent with prior years.

## NOTE S — Subsequent Events

Subsequent events have been evaluated by management through October 13, 2021, which is the date the financial statements were issued.

## Schedule of Net Pension Liability[1]

*For the Fiscal Years Ended June 30*

(Dollars in Thousands)

| | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Total Pension Liability | **$80,303,904** | $76,579,594 | $70,309,252 | $67,057,218 |
| Less: Fiduciary Net Position | **(73,012,026)** | (58,510,408) | (58,294,837) | (56,299,982) |
| **Net Pension Liability** | **$7,291,878** | $18,069,186 | $12,014,415 | $10,757,236 |
| Fiduciary Net Position as a Percentage of Total Pension Liability | **90.92%** | 76.40% | 82.91% | 83.96% |
| Covered Payroll[2] | **$9,062,051** | $8,724,151 | $8,370,050 | $7,957,981 |
| Net Pension Liability as a Percentage of Covered Payroll | **80.47%** | 207.12% | 143.54% | 135.18% |

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Total Pension Liability** | $64,031,677 | $58,528,457 | $56,570,520 | $54,977,021 |
| **Less: Fiduciary Net Position** | (52,743,651) | (47,846,694) | (48,818,350) | (47,722,277) |
| **Net Pension Liability** | $11,288,026 | $10,681,763 | $7,752,170 | $7,254,744 |
| Fiduciary Net Position as a Percentage of Total Pension Liability | 82.37% | 81.75% | 86.30% | 86.80% |
| Covered Payroll[2] | $7,637,032 | $7,279,777 | $6,949,420 | $6,672,886 |
| Net Pension Liability as a Percentage of Covered Payroll | 147.81% | 146.73% | 111.55% | 108.72% |

**Total Pension Liability**

The Total Pension Liability (TPL) was determined by an actuarial valuation as of the valuation date, based on the discount rate and actuarial methods and assumptions noted below, and was then projected forward to the measurement date taking into account any significant changes between the valuation date and the fiscal year-end as prescribed by GASB Statement Number 67.

[1]Trend Information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.

[2]In accordance with GASB Statement Number 82, Covered Payroll is the payroll on which contributions are based.

## Schedule of Net Pension Liability[1] continued

*For the Fiscal Years Ended June 30*

(Dollars in Thousands)

| | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Discount Rate | **7.13%** | 7.13% | 7.38% | 7.38% |
| Long-Term Expected Rate of Return, Net of Expenses | **7.00%** | 7.00% | 7.25% | 7.25% |
| Municipal Bond Rate | **N/A** | N/A | N/A | N/A |

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Discount Rate | 7.38% | 7.63% | 7.63% | 7.63% |
| Long-Term Expected Rate of Return, Net of Expenses | 7.25% | 7.50% | 7.50% | 7.50% |
| Municipal Bond Rate | N/A | N/A | N/A | N/A |

### Discount Rate

Milliman's January 2020 Investigation of Experience analysis was used to develop the 7.13 percent assumption used for the current reporting date. This is equal to the 7 percent long-term investment return assumption adopted by the Board of Investments (net of investment and administrative expenses), plus 0.13 percent assumed administrative expenses.

The plan's projected Fiduciary Net Position, after reflecting employee and employer contributions, was expected to be sufficient to make all future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the TPL is equal to the long-term expected rate of return, plus administrative expenses.

### Other Key Actuarial Assumptions

Except as noted above, the actuarial assumptions used to calculate the TPL as of the June 30, 2021 measurement date are the same as those used in the June 30, 2020 actuarial funding valuation, which are both based on the June 30, 2019 actuarial experience study.

| | | | | |
|---|---|---|---|---|
| Valuation Date | **June 30, 2020** | June 30, 2019 | June 30, 2018 | June 30, 2017 |
| Measurement/Reporting Date | **June 30, 2021** | June 30, 2020 | June 30, 2019 | June 30, 2018 |

| | | | | |
|---|---|---|---|---|
| Valuation Date | June 30, 2016 | June 30, 2015 | June 30, 2014 | June 30, 2013 |
| Measurement/Reporting Date | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |

For Other Actuarial Methods and Assumptions, see Notes to the Required Supplementary Information.

[1]Trend Information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.

## Schedule of Changes in Net Pension Liability and Related Ratios[1]

*For the Fiscal Years Ended June 30*

(Dollars in Thousands)

| | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Total Pension Liability | | | | |
| Service Cost | **$1,499,597** | $1,301,460 | $1,239,396 | $1,220,274 |
| Interest on Total Pension Liability | **5,433,409** | 5,154,164 | 4,916,804 | 4,699,493 |
| Effect of Plan Changes | **—** | — | — | — |
| Effect of Assumption Changes or Inputs | **—** | 2,626,103 | — | — |
| Effect of Economic/Demographic (Gains) or Losses | **605,566** | 794,955 | 502,989 | 309,149 |
| CalPERS Transfer | **—** | — | — | — |
| Benefit Payments and Refund of Contributions | **(3,814,262)** | (3,606,340) | (3,407,155) | (3,203,375) |
| Net Change in Total Pension Liability | **$3,724,310** | $6,270,342 | $3,252,034 | $3,025,541 |
| **Total Pension Liability — Beginning** | **76,579,594** | 70,309,252 | 67,057,218 | 64,031,677 |
| **Total Pension Liability — Ending (a)** | **$80,303,904** | $76,579,594 | $70,309,252 | $67,057,218 |
| Fiduciary Net Position | | | | |
| Contributions: Employer[2] | **$2,012,877** | $1,800,137 | $1,668,151 | $1,524,823 |
| Contributions: Metropolitan Transportation Authority | **—** | — | — | — |
| CalPERS Transfer | **—** | — | — | — |
| Contributions: Member[2] | **760,994** | 659,296 | 635,415 | 591,262 |
| Net Investment Income[3] | **15,615,699** | 1,432,547 | 3,163,618 | 4,705,949 |
| Net Miscellaneous Income | **2,680** | 1,985 | 5,626 | 5,163 |
| Benefit Payments and Refund of Contributions | **(3,814,262)** | (3,606,340) | (3,407,155) | (3,203,375) |
| Administrative Expenses[3] | **(76,370)** | (72,054) | (70,800) | (67,491) |
| Net Change in Fiduciary Net Position | **$14,501,618** | $215,571 | $1,994,855 | $3,556,331 |
| **Fiduciary Net Position — Beginning** | **58,510,408** | 58,294,837 | 56,299,982 | 52,743,651 |
| **Fiduciary Net Position — Ending (b)** | **$73,012,026** | $58,510,408 | $58,294,837 | $56,299,982 |
| **Net Pension Liability — Ending (a) - (b)** | **$7,291,878** | $18,069,186 | $12,014,415 | $10,757,236 |
| Fiduciary Net Position as a Percentage of Total Pension Liability | **90.92%** | 76.40 % | 82.91% | 83.96% |
| Covered Payroll[4] | **$9,062,051** | $8,724,151 | $8,370,050 | $7,957,981 |
| Net Pension Liability as a Percentage of Covered Payroll | **80.47%** | 207.12% | 143.54% | 135.18% |

[1] Trend Information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.

[2] In accordance with GASB Statement Number 82, employer pick-up contributions are classified as Member Contributions.

[3] In accordance with GASB Statement Number 67, investment related costs are reported as Investment Expense.

[4] In accordance with GASB Statement Number 82, Covered Payroll is the payroll on which contributions are based.

## Schedule of Changes in Net Pension Liability and Related Ratios[1] continued

*For the Fiscal Years Ended June 30*

(Dollars in Thousands)

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Total Pension Liability | | | | |
| Service Cost | $1,106,755 | $1,069,328 | $1,024,288 | $1,009,834 |
| Interest on Total Pension Liability | 4,393,712 | 4,214,834 | 4,073,299 | 3,957,030 |
| Effect of Plan Changes | — | — | — | — |
| Effect of Assumption Changes or Inputs | 3,079,892 | — | — | — |
| Effect of Economic/Demographic (Gains) or Losses | (47,506) | (437,039) | (736,010) | — |
| CalPERS Transfer | — | — | 332 | — |
| Benefit Payments and Refund of Contributions | (3,029,633) | (2,889,186) | (2,768,410) | (2,662,401) |
| Net Change in Total Pension Liability | $5,503,220 | $1,957,937 | $1,593,499 | $2,304,463 |
| **Total Pension Liability — Beginning** | 58,528,457 | 56,570,520 | 54,977,021 | 52,672,558 |
| **Total Pension Liability — Ending (a)** | $64,031,677 | $58,528,457 | $56,570,520 | $54,977,021 |
| Fiduciary Net Position | | | | |
| Contributions: Employer[2] | $1,331,357 | $1,403,709 | $1,455,718 | $1,281,795 |
| Contributions: Metropolitan Transportation Authority | 2 | 3 | 25 | — |
| CalPERS Transfer | — | — | 332 | — |
| Contributions: Member[2] | 526,579 | 498,083 | 480,158 | 477,648 |
| Net Investment Income[3] | 6,129,300 | 80,588 | 1,989,358 | 6,910,439 |
| Net Miscellaneous Income | 6,182 | 2,792 | 1,483 | — |
| Benefit Payments and Refund of Contributions | (3,029,633) | (2,889,186) | (2,768,410) | (2,662,401) |
| Administrative Expenses[3] | (66,830) | (67,645) | (62,591) | (58,723) |
| Net Change in Fiduciary Net Position | $4,896,957 | ($971,656) | $1,096,073 | $5,948,758 |
| **Fiduciary Net Position — Beginning** | 47,846,694 | 48,818,350 | 47,722,277 | 41,773,519 |
| **Fiduciary Net Position — Ending (b)** | $52,743,651 | $47,846,694 | $48,818,350 | $47,722,277 |
| **Net Pension Liability — Ending (a) - (b)** | $11,288,026 | $10,681,763 | $7,752,170 | $7,254,744 |
| Fiduciary Net Position as a Percentage of Total Pension Liability | 82.37% | 81.75% | 86.30% | 86.80% |
| Covered Payroll[4] | $7,637,032 | $7,279,777 | $6,949,420 | $6,672,886 |
| Net Pension Liability as a Percentage of Covered Payroll | 147.81% | 146.73% | 111.55% | 108.72% |

[1]Trend Information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.

[2]In accordance with GASB Statement Number 82, employer pick-up contributions are classified as Member Contributions.

[3]In accordance with GASB Statement Number 67, investment related costs are reported as Investment Expense.

[4]In accordance with GASB Statement Number 82, Covered Payroll is the payroll on which contributions are based.

## Changes in Pension Plan Assumptions

In addition to the annual valuations, LACERA requires its actuary to review the reasonableness of the economic and demographic actuarial assumptions every three years. An experience study was performed by the consulting actuary for the three-year period ended June 30, 2019. This review, commonly referred to as the investigation of experience or experience study, is accomplished by comparing actual experience during the preceding three years to what was expected to happen according to the actuarial assumptions. Based upon the experience study, the actuary determines whether changing the assumptions or methodology will better project benefit liabilities and asset growth. At the January 2020 Board of Investments meeting, the Board adopted new valuation assumptions with the approval of the 2019 experience study report. Those assumptions were used to prepare both the June 30, 2019 and the June 30, 2020 actuarial valuation reports.

Assumption changes from the June 30, 2016 experience study report are also presented below to meet GASB 67 requirements to disclose significant assumptions and other inputs to measure and report the Total Pension Liability over a 10-year period. These assumptions were adopted by the Board of Investments at their December 2016 meeting.

## 2019 Assumption Changes

The Board adopted a decrease in the investment return assumption to 7 percent. The CPI assumption of 2.75 percent and general wage growth assumption of 3.25 percent remained unchanged.

New mortality tables based on recently published tables that are specific to public plans' general and safety members, with adjustments to match LACERA experience, were adopted. The MP-2014 Ultimate Projection Scale was retained and reflects the gradual year-to-year improvement in mortality that is expected to occur in the future. This is sometimes referred to as "generational mortality." Mortality rates are based on the Pub-2010 mortality tables and include projections for expected future mortality improvement using the MP-2014 Ultimate Projection Scale.

## 2016 Assumption Changes

The Board adopted a decrease in the investment return assumption to 7.25 percent, a decrease in the CPI assumption to 2.75 percent, and a corresponding decrease in the general wage growth assumption to 3.25 percent.

An increase in life expectancies was adopted. Various rates are based on the RP-2014 Healthy and Disabled Annuitant mortality tables and include a projection for expected future mortality improvement using 100 percent of the MP-2014 Ultimate Projection Scale.

## Schedule of Employer Contributions History — Pension Plan

*Last 10 Fiscal Years*

(Dollars in Thousands)

| | 2021[2] | 2020[2] | 2019[2] | 2018[2] | 2017[1,2] |
|---|---|---|---|---|---|
| Actuarially Determined Contributions | **$2,012,877** | $1,800,137 | $1,668,151 | $1,524,823 | $1,331,357 |
| Contributions in Relation to Actuarially Determined Contributions | **2,012,877** | 1,800,137 | 1,668,151 | 1,524,823 | 1,331,357 |
| Contribution Deficiency/(Excess) | **$—** | $— | $— | $— | $— |
| Covered Payroll[3] | **$9,062,051** | $8,724,151 | $8,370,050 | $7,957,981 | $7,637,032 |
| Contributions as a Percentage of Covered Payroll | **22.21%** | 20.63% | 19.93% | 19.16% | 17.43% |

| | 2016[2] | 2015[2] | 2014[2] | 2013[1] | 2012 |
|---|---|---|---|---|---|
| Actuarially Determined Contributions | $1,403,709 | $1,455,718 | $1,281,795 | $1,172,014 | $1,078,929 |
| Contributions in Relation to Actuarially Determined Contributions | 1,403,709 | 1,455,718 | 1,281,795 | 1,172,014 | 1,078,929 |
| Contribution Deficiency/(Excess) | $— | $— | $— | $— | $— |
| Covered Payroll[3] | $7,279,777 | $6,949,420 | $6,672,886 | $6,595,902 | $6,619,816 |
| Contributions as a Percentage of Covered Payroll | 19.28% | 20.95 % | 19.21% | 17.77% | 16.30% |

[1]Portion of contributions fulfilled by transfers from County Contribution Credit Reserve: $21,891 (FYE 2017, Superior Court) and $448,819 (FYE 2013, County).

[2]In accordance with GASB Statement Number 82, employer pick-up contributions are classified as Member Contributions.

[3]In accordance with GASB Statement Number 82, Covered Payroll is the payroll on which contributions are based.

See Notes to Required Supplementary Information for actuarial funding valuation assumptions used to calculate the actuarially determined contributions.

## Schedule of Investment Returns — Pension Plan[1]

*For the Fiscal Years Ended June 30*

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|
| Annual Money-Weighted Rate of Return (Net of Investment Expense)[2] | **25.2%** | 1.4% | 5.5% | 9.0% | 12.7% | 0.7% | 4.1% | 17.2% |

[1]Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.

[2]Money-Weighted Rate of Return is calculated as the internal rate of return on Pension Plan investments, net of investment expenses.

# Notes to Required Supplementary Information — Pension Plan

## Actuarial Methods and Significant Assumptions

The actuarial assumptions used to determine Pension Plan liabilities and employer and employee contributions are based on the results of the 2019 triennial investigation of experience (experience study).

The June 30, 2020 actuarial valuation prepared by the consulting actuary reaffirmed all assumptions adopted by the LACERA Board of Investments in January 2020. The LACERA Board of Investments approved a three-year phase-in of the changes to employer contribution rates.

**Key Methods and Significant Assumptions**[1]

| Description | Method |
|---|---|
| **Valuation Timing** | Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. Contributions calculated for the June 30, 2020 valuation are applied for the fiscal year July 1, 2021 to June 30, 2022. |
| **Actuarial Cost Method** | Entry age normal. |
| **Investment Rate of Return** | Future investment earnings are assumed to accrue at an annual rate of 7 percent, compounded annually, net of both investment and administrative expenses. This rate was adopted beginning with the June 30, 2019 valuation. |
| **Consumer Price Index** | Increase of 2.75 percent per annum. This rate was adopted beginning with the June 30, 2016 valuation. |
| **Wage Increases** | Rates of annual salary increases assumed for the purpose of the valuation range from 3.51 percent to 12.54 percent. In addition to increases in salary due to promotions and longevity, the increases include an assumed 3.25 percent per annum rate of increase in the general wage level of membership. |
| **Asset Valuation Method** | Assets are valued using a five-year smoothed method based on the difference between expected market value and actual market value. The recognition method is non-asymptotic, and there is no minimum or maximum corridor applied. |
| **Amortization Method** | The Unfunded Actuarial Accrued Liability (UAAL) is amortized as a level percentage of pay. Effective June 30, 2019, existing UAAL layers as of June 30, 2018 are amortized over their remaining periods, not to exceed 22 years. Each new layer effective on or after June 30, 2019 is amortized over a 20-year period. The UAAL contribution rate calculated in the June 30, 2020 funding valuation includes 12 layers. |

[1] Assumptions applied to funding valuation calculations may vary with those applied to GASB 67 calculations.

**Key Methods and Significant Assumptions continued**[1]

| Description | Method |
|---|---|
| **Retirement Age** | A schedule of the probabilities of employment termination based on age due to a particular cause is used. For additional information, see the Probability of Occurrence tables in the Actuarial Section. |
| **Cost-of-Living Adjustments (COLAs)** | Post-retirement benefit increases of either 2.75 percent or 2 percent per year are assumed for the valuation in accordance with the benefits provided. This rate was adopted beginning with the June 30, 2016 valuation. |
| **Mortality** | Various rates based on Pub-2010 mortality tables and using the MP-2014 Ultimate Projection Scale. See the June 30, 2019 actuarial funding valuation report for details. |
| **Recognition of Inflows/Outflows** | |
| **Gains or Losses** | |
| **Investment** | Straight-line amortization over five years. |
| **Economic/Demographic** | Straight-line amortization over expected working life. |
| **Assumption Changes or Inputs** | Straight-line amortization over expected working life. |

[1]Assumptions applied to funding valuation calculations may vary with those applied to GASB 67 calculations.

## Schedule of Investment Returns — OPEB Program[1]

*For the Fiscal Years Ended June 30*

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| Annual Money-Weighted Rate of Return (Net of Investment Expense)[2] | **28.2%** | 0.5 % | 6.0% | 10.0% | 16.0% |

[1]Trend Information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.

[2]Money-Weighted Rate of Return is calculated as the internal rate of return on OPEB Trust investments, net of investment expenses.

## Administrative Expenses — Pension Plan

*For the Fiscal Years Ended June 30, 2021 and 2020*

(Dollars in Thousands)

| | 2021 | 2020 |
|---|---|---|
| **Personnel Services** | | |
| Salaries and Wages | **$43,845** | $42,554 |
| Employee Benefits | **26,138** | 24,023 |
| **Total Personnel Services** | **$69,983** | $66,577 |
| **Consultant & Professional Services** | | |
| County Department Services | **$346** | $281 |
| External Audit Fees | **315** | 481 |
| Legal Consultants | **1,179** | 1,532 |
| Professional Services | **438** | 363 |
| Temporary Personnel Services | **3,796** | 2,749 |
| **Total Consultant & Professional Services** | **$6,074** | $5,406 |
| **Operating Expenses & Equipment** | | |
| Administrative Support | **$183** | $221 |
| General Expenses | **733** | 864 |
| Computer Software | **2,826** | 2,050 |
| Disability Medical Service Fees | **1,631** | 2,043 |
| Educational Expenses | **742** | 772 |
| Equipment | **1,720** | 945 |
| Facilities Operations | **3,750** | 2,973 |
| Insurance | **761** | 593 |
| Printing | **796** | 790 |
| Postage | **758** | 1,163 |
| Telecommunications | **605** | 550 |
| Transportation and Travel | **24** | 437 |
| **Total Operating Expenses & Equipment** | **$14,529** | $13,401 |
| **Total Administrative Expenses** | **$90,586** | $85,384 |

## Schedule of Investment Expenses

*For the Fiscal Years Ended June 30, 2021 and 2020*

(Dollars in Thousands)

| | Pension Plan | | OPEB Master Trust | | OPEB Custodial Fund | |
|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| **Investment Management Fees** | | | | | | |
| Cash and Short-Term | **$447** | $818 | **$12** | $12 | **$25** | $22 |
| Commodity | **4,029** | 3,813 | **111** | 77 | **—** | — |
| Global Equity | **38,304** | 48,077 | **229** | 133 | **—** | — |
| Fixed Income | **89,294** | 27,687 | **1,468** | 1,014 | **82** | 74 |
| Hedge Fund | **83,130** | 49,768 | **—** | — | **—** | — |
| Private Equity | **207,193** | 165,842 | **—** | — | **—** | — |
| Real Estate | **39,195** | 54,571 | **107** | 71 | **—** | — |
| **Total Investment Management Fees[1]** | **$461,592** | $350,576 | **$1,927** | $1,307 | **$107** | $96 |
| **Other Investment Expenses** | | | | | | |
| Consultants | **$2,846** | $2,989 | **$55** | $55 | **$—** | $— |
| Custodian | **2,504** | 2,624 | **270** | 333 | **11** | 29 |
| Legal Counsel | **1,263** | 189 | **—** | 10 | **—** | — |
| Other[2] | **27,582** | 3,490 | **—** | — | **—** | — |
| **Total Other Investment Expenses** | **$34,195** | $9,292 | **$325** | $398 | **$11** | $29 |
| **Total Fees & Other Investment Expenses** | **$495,787** | $359,868 | **$2,252** | $1,705 | **$118** | $125 |

[1]Difference in management fee expense from the Statement of Changes in Fiduciary Net Position are due to the inclusion of incentive fees and carry allocations in the schedule above. These incentive fees and carry allocations are deducted from investment income in the Statement of Changes in Fiduciary Net Position.

[2]Includes $20 million hold back by a private equity general partner for potential tax liability and near-term expenses.

## Schedule of Payments to Consultants — Pension Plan

*For the Fiscal Years Ended June 30, 2021 and 2020*

(Dollars in Thousands)

| | 2021 | 2020 |
|---|---|---|
| **Actuarial** | | |
| Actuarial Valuations and Consulting Services | **$248** | $397 |
| **Audit** | | |
| External Audit Services | **$314** | $481 |
| **Legal** | | |
| Investment Legal Counsel | **$1,263** | $189 |
| Legislative Consulting | **256** | 261 |
| Other Legal Services | **923** | 1,272 |
| **Subtotal** | **$2,442** | $1,722 |
| **Management** | | |
| Management and Human Resources Consulting | **$23** | $69 |
| Information Technology Consulting | **47** | 1 |
| **Subtotal** | **$70** | $70 |
| **Total Payments to Consultants** | **$3,074** | $2,670 |

Note: For fees paid to investment professionals, refer to Schedule of Investment Management Fees in the Investment Section.