LACERA
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Solid Growth

What's INSIDE?

2019
POPULAR ANNUAL FINANCIAL REPORT (PAFR)
For the Fiscal Year Ended June 30, 2019
Pension and OPEB Trust Funds of the County of Los Angeles, CA

Our long-term stability and fund health are based on our ability to evolve, embrace diversity, and maintain an environment conducive to growth.

Santos H. Kreimann
Chief Executive Officer

This Popular Annual Financial Report (PAFR) of the Los Angeles County Employees Retirement Association (LACERA) summarizes the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019; it does not replace the CAFR. Financial data presented herein is derived from the CAFR and prepared in accordance with the Governmental Accounting Standards Board's reporting guidelines and Generally Accepted Accounting Principles of the United States of America (GAAP). The CAFR is available at www.lacera.com/investments/Annual_Report/cafr.html.

ABOUT LACERA

In 1937, Los Angeles County established a pension trust fund to provide defined retirement and death benefits to eligible County employees. In 1938, LACERA was introduced to administer it. Since 1971, LACERA has also administered the Retiree Healthcare Benefits Program.

OUR SERVICES

LACERA is an independent governmental entity, separate and distinct from the County of Los Angeles (County), that administers and manages the retirement fund for the County and Outside Districts. We are one of the largest county retirement systems in the United States, and our mission is to produce, protect, and provide the promised benefits.

OUR MANAGEMENT

LACERA is governed by two boards. Both boards are composed of elected and appointed members. The LACERA Board of Retirement is responsible for the overall management of the retirement system and the LACERA-administered Retiree Healthcare Benefits Program (or Other Postemployment Benefits Program), which is subsidized by the County. The LACERA Board of Investments is responsible for establishing LACERA's investment policy and objectives, as well as exercising authority and control over the investment management of the fund.

INVESTMENTS

LACERA is responsible for the administration and investment of two separate funds (Fund or Funds): the County defined benefit retirement plan (Pension Plan or Plan), the assets of which provide retirement benefits for employees of the County and Outside Districts; and the LACERA Other Postemployment Benefits Trust (OPEB Trust or Trust), the assets of which are accumulated to provide benefits such as retiree healthcare for employees of the County, LACERA, and the Superior Court of California (Court).

Sunflowers were cultivated by Native Americans as early as 3,000 B.C., and may have been domesticated before corn.

Size of fund in 2010: $33.7 Billion

Size of fund in 2019: $58.4 Billion

ASSET ALLOCATION POLICY

In its role as a fiduciary, the LACERA Board of Investments adopts and periodically reviews distinct Investment Policy Statements (IPS), which provide an overall framework for the governance and management of the Pension Plan and the OPEB Trust assets. A fundamental principle that serves as the cornerstone of each Fund's IPS and implementation approach is that the Funds are managed for the sole benefit of LACERA's members.

An investment fund's strategic asset allocation policy is generally recognized to have the most impact on a fund's investment performance. During fiscal year 2018, the LACERA Board of Investments conducted a strategic asset allocation analysis for both the Pension Plan and OPEB Trust and approved updated investment return assumptions, additional investment strategies, and a new asset allocation overlay that will enhance the focus on risk management across both portfolios. During fiscal year 2019, LACERA staff worked together internally and closely with its external service providers to transition the new functional asset allocation strategy. By June 30, 2019, the new model was implemented, having completed the re-categorization of Pension Plan assets, repositioned assets where necessary, and updated communications to the LACERA Board of Investments pertinent to the new strategy.

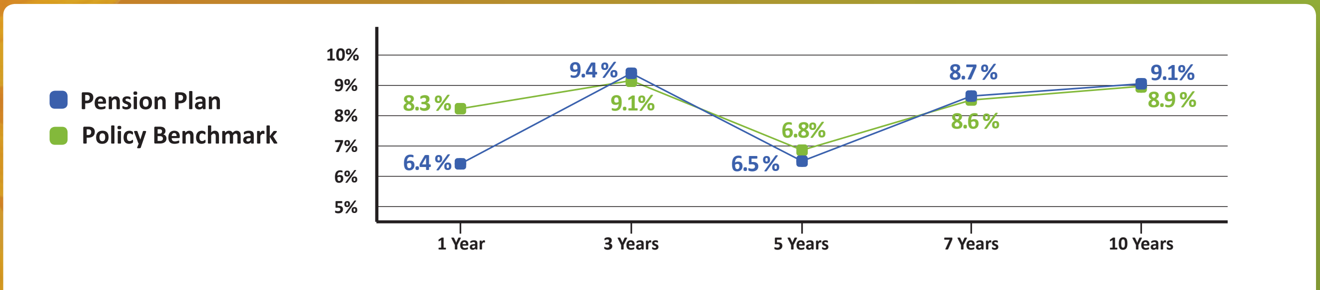
PENSION PLAN

ANNUAL RETURNS

For the fiscal year ended June 30, 2019, the Pension Plan returned 6.4 percent. LACERA aims to meet or exceed each Fund's benchmark over a full market cycle and actuarial expected return assumption over the long term. As illustrated below, the Pension Plan's return was below its policy benchmark for the past fiscal year but is modestly ahead of its benchmark and its actuarial expected return over most longer time periods. LACERA's goal is to meet or slightly exceed each Fund's policy benchmark over a full market cycle and, with respect to the Pension Plan, achieve its actuarial expected return assumption of 7.25 percent in the long term. All returns are net of fees. Historical performance for the Pension Plan for the fiscal year ended June 30, 2019 is presented below.

Annualized Total Returns (Net of Fees) — Pension Plan

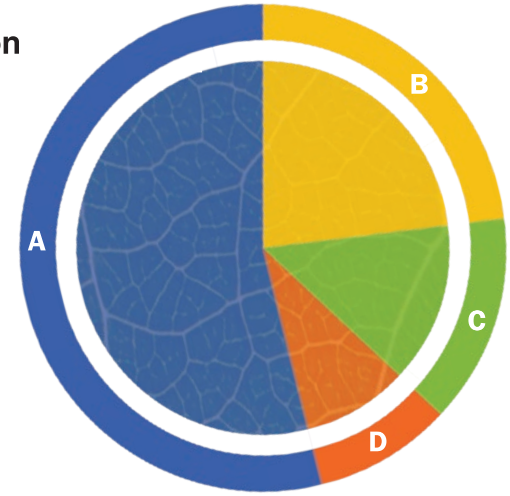
For the Fiscal Year Ended June 30, 2019



Pension Plan Actual Asset Allocation

As of June 30, 2019

- **A** Growth **54%**
- **B** Risk Reduction and Mitigation **23%**
- **C** Real Assets and Inflation Hedges **14%**
- **D** Credit **9%**

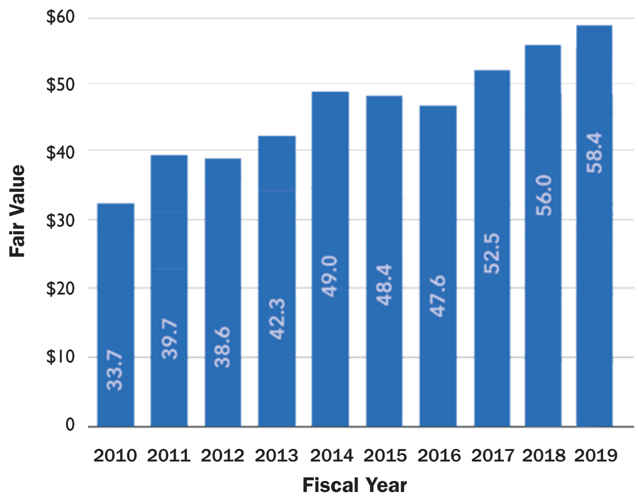


Over the last 10 years, LACERA's Pension Plan investment portfolio has nearly doubled in size from over $33.7 billion to $58.4 billion. The LACERA Board of Investments strives to implement policies that position the portfolio for continued long-term growth.

Growth of Investments — Pension Plan

For the Last 10 Fiscal Years Ended June 30

(Dollars in Billions)



FIDUCIARY NET POSITION RESTRICTED FOR BENEFITS

As of June 30, 2019, the Fiduciary Net Position Restricted for Benefits totaled $58.3 billion, and represents the assets available for future payments to retirees and their beneficiaries. This amount represents an increase of $2.0 billion, or 3.5 percent, from the prior year.

The primary sources that finance the promised benefits LACERA provides are investment income and the collection of member (employee) and plan sponsors (employers) retirement contributions.

For fiscal year 2019, Total Additions amounted to $5.5 billion, achieved through investment returns and retirement contributions.

The primary uses of LACERA's assets include the payment of promised benefits to members and their beneficiaries, the refund of contributions to terminated employees, and the cost of administering the Plan. Total Deductions for fiscal year 2019 amounted to $3.5 billion.

Additions and Deductions in Fiduciary Net Position — Pension Plan

For the Fiscal Years Ended June 30, 2019, 2018, and 2017

(Dollars in Millions)

	2019	2018	2017
Contributions	$2,304	$2,116	$1,858
Net Investment Income /(Loss)	3,181	4,722	6,136
Total Additions/(Declines)	**$5,485**	**$6,838**	**$7,994**
Benefits and Refunds	($3,407)	($3,203)	($3,030)
Administrative Expenses and Miscellaneous	(83)	(79)	(67)
Total Deductions	**($3,490)**	**($3,282)**	**($3,097)**
Net Increase/(Decrease)	1,995	3,556	4,897
Fiduciary Net Position Beginning of Year	56,300	52,744	47,847
Fiduciary Net Position at End of Year	**$58,295**	**$56,300**	**$52,744**

FUNDED STATUS

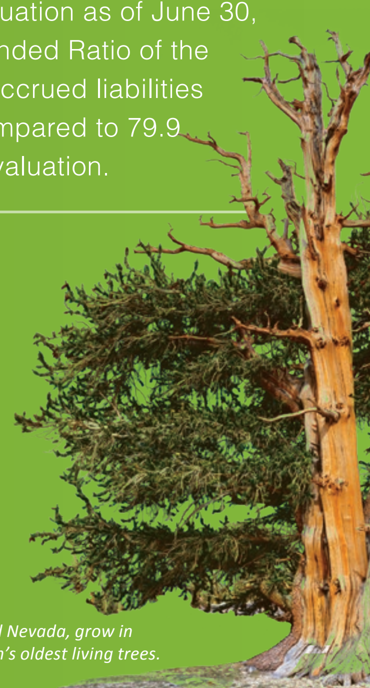
In order to determine whether the Net Position Restricted for Benefits will be sufficient to meet future obligations, an independent actuary conducts an actuarial valuation to calculate the actuarial funded status of the Pension Plan and measure the Pension Plan's funding progress. An actuarial valuation is similar to an inventory process. On the valuation date, the assets available for the payment of the promised benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future promised benefits expected to be paid for each member. The purpose of the valuation is to determine future contribution amounts required from the members and the plan sponsors to pay all expected future promised benefits. Under the terms of the LACERA Board of Investments' Retirement Benefit Funding Policy, changes to the employer contribution rates are recommended by the actuary to ensure liabilities not funded through portfolio earnings and employee contributions are satisfied.

LACERA's independent consulting actuary, Milliman, performed the latest actuarial valuation as of June 30, 2018 and determined that the Funded Ratio of the actuarial assets to the actuarial accrued liabilities increased to 80.6 percent, as compared to 79.9 percent as of the June 30, 2017 valuation.

LACERA Funded Ratio

For the Last Five Actuarial Valuations

Valuation Date	Funded Ratio
June 30, 2018	80.6 %
June 30, 2017	79.9 %
June 30, 2016	79.4 %
June 30, 2015	83.3 %
June 30, 2014	79.5 %

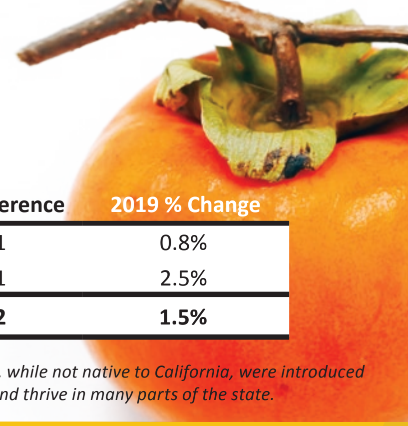


Bristlecone pines, found in California and Nevada, grow in inhospitable conditions and are the earth's oldest living trees.

LACERA Membership

As of June 30, 2019 and 2018

	2019	2018	2019 Difference	2019 % Change
Active Members	107,814	106,943	871	0.8%
Retired Members	66,502	64,881	1,621	2.5%
Total Membership	**174,316**	**171,824**	**2,492**	**1.5%**



Asian persimmons, while not native to California, were introduced in the mid-1800s and thrive in many parts of the state.

COST-OF-LIVING ADJUSTMENTS

LACERA members may receive more than one type of cost-of-living adjustment (COLA).

COLA ("April 1st COLA"): By law, LACERA retirement and survivor allowances are subject to an annual cost-of-living adjustment (COLA). The adjustment is driven by changes in the cost of living over the previous 12-month period as of December 31.

Each year, the LACERA Board of Retirement is required to review the Bureau of Labor Statistics Consumer Price Index for all Urban Consumers in the Los Angeles-Long Beach-Anaheim metro area to determine whether there has been an increase or decrease in the cost of living over the prior year. The difference is reflected as a percentage. The maximum allowable COLA adjustment is determined by the provisions of each LACERA retirement plan. Plan A allows a maximum adjustment of 3 percent; the other LACERA plans allow a maximum of 2 percent.

By law, LACERA applies the percentage of annual increase or decrease in the cost of living, rounded to the nearest one-half of one percent, to each total retirement and survivor allowance. Any percentage above the maximum allowable amount is added to the COLA Accumulation to supplement future COLA benefits. The adjustment is effective annually on April 1 and begins with April allowances. Members who retired prior to April 1 and eligible survivors of members who died prior to April 1 are eligible for a COLA.

On February 1, 2019, the LACERA Board of Retirement approved the maximum allowable COLA increases based on retirement plan for retirees and eligible survivors, which was effective April 1, 2019.

Plan E COLA: Effective June 4, 2002, Plan E members and their survivors are also eligible for a COLA. Until 2002, only contributory members were eligible. 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.

ANNUAL BUDGET

For fiscal year 2019, the LACERA Boards of Retirement and Investments jointly approved the $88.6 million annual operating budget. The actual expenditures were $82.9 million, which represents approximately 0.14 percent of total Net Position Restricted for Benefits in fiscal year 2019.

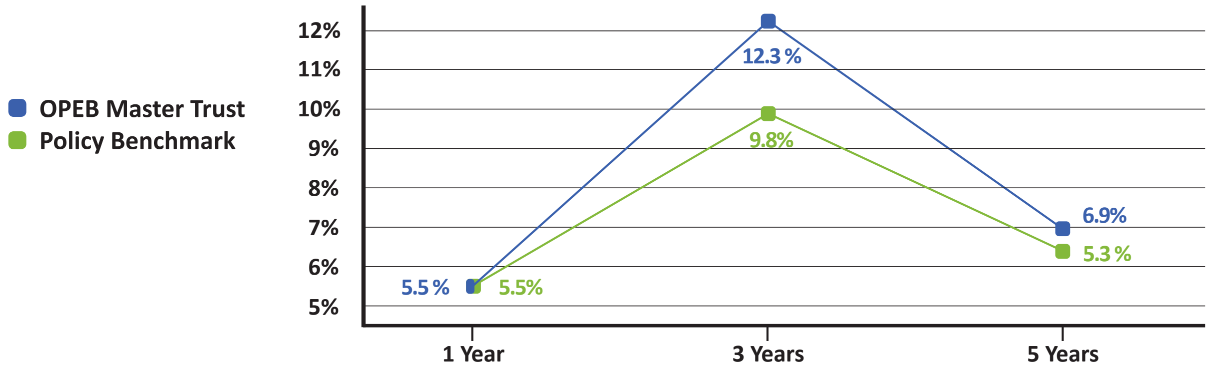
OPEB TRUST

ANNUAL RETURNS

For the fiscal year ended June 30, 2019, the OPEB Trust matched its policy benchmark's return of 5.5 percent during the past fiscal year and exceeded its actuarial expected return for the three-year and five-year periods. All returns are net of fees. Historical performance for the OPEB Trust for the fiscal year ended June 30, 2019 is presented on the next page.

Annualized Total Returns (Net of Fees) — OPEB Trust

For the Fiscal Year Ended June 30, 2019

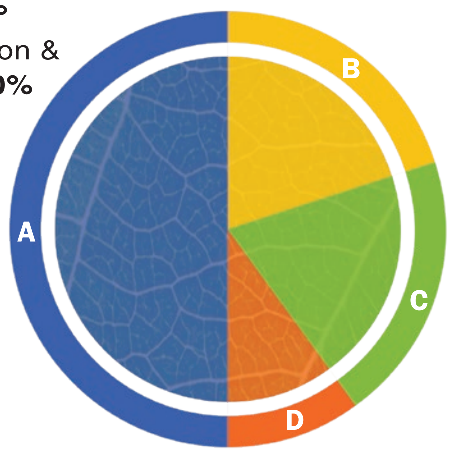


The LACERA Board of Investments' revised asset allocation policy divides the OPEB Trust into four broad functional categories and contains both existing and new asset classes that align with the purpose of each investment portfolio approach and style. The revised allocation model expands the asset class diversification of the portfolio and is intended to provide enhanced risk-adjusted returns over a full market cycle.

OPEB Trust Asset Allocation

As of June 30, 2019

- **A** Growth **50%**
- **B** Credit **20%**
- **C** Real Assets and Infation Hedges **20%**
- **D** Risk Reduction & Mitigation **10%**



The birch bolete is common in the Northern Hemisphere, but grows only in association with birch trees, hence its name.

The County and other plan sponsors continue to fund the current ongoing OPEB Program benefits due on a "pay-as-you-go" basis. In addition, plan sponsors made regular contributions to the OPEB Trust, which are accumulated and invested to offset future benefit liabilities.

Contributions — OPEB Trust

For the Fiscal Years Ended June 30, 2019 and 2018

(Dollars in Thousands)

	2019	2018
Los Angeles County	$230,495	$120,796
LACERA	940	491
Superior Court	4,178	2,016
Total Contributions[1]	**$235,613**	**$123,303**

[1]Contributions are limited to OPEB Trust prefunding and exclude pay-as-you-go contributions as included in OPEB Trust employer contributions in the Statement of Changes in Fiduciary Net Position.

The OPEB Trust has more than doubled over the past five years due to contributions from the County, LACERA, and the Superior Court, as well as investment earnings. The Fair Values include net investment income of $62.1 million and administrative expenses of $0.2 million as of June 30, 2019. The total Net Position Restricted for Benefits for the OPEB Trust as of the fiscal year ended June 30, 2019 is $1.2 billion.

Growth of Investments — OPEB Trust

For the Last Five Fiscal Years Ended June 30

(Dollars in Thousands)

Accomplishments

Administrative Services **348,740** Pieces of Mail Processed	**Administrative Services** **891,151** Member Documents Scanned & Indexed	**Benefits** **68,200** Monthly Retirement Allowances Paid	**Benefits** **3,061** New Retirees	**lacera.com My LACERA** **77,962** Registered Members	**lacera.com My LACERA** **179,000** Visits
lacera.com My LACERA **206,512** Retirement Benefit Estimates	**Member Services** **467** Workshop & Benefits Fairs (18,812 Attendees)	**Member Services** **20,533** One-on-One Counseling Sessions	**Member Services** **120,323** Call Center Phone Calls	**Retiree Healthcare** **58,298** Call Center Phone Calls	**Retiree Healthcare** **52,216** Annual Healthcare Packets Mailed

Award for Outstanding Achievement in Popular Annual Financial Reporting

For the 21st consecutive year, the Government Finance Officers Association of the United States and Canada (GFOA) gave an Award for Outstanding Achievement in Popular Annual Financial Reporting to LACERA for its Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2018. This prestigious national award recognizes conformance with the highest standards of creativity, presentation, understandability, and reader appeal for state and local government popular reports, and is valid for one year. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA for consideration again this year.

Board Members

ALAN J. BERNSTEIN
Chair
Board of Retirement
Term Expires 2019
Board of Investments
Term Expires 2021
Appointed by Board of Supervisors

VIVIAN H. GRAY
Board of Retirement
Term Expires 2021
Elected by General Members

DAVID GREEN
Board of Investments
Term Expires 2020
Elected by General Members

JAMES P. HARRIS
Board of Retirement
Term Expires 2020
Elected by Retired Members

SHAWN R. KEHOE
Chair
Board of Investments
Term Expires 2019
Board of Retirement
Term Expires 2019
Elected by Safety Members

KEITH KNOX
Board of Retirement
Board of Investments
Acting County Treasurer and Tax Collector
Ex-Officio Member

WAYNE MOORE
Secretary
Board of Investments
Term Expires 2020
Appointed by Board of Supervisors

DAVID L. MUIR
Board of Investments
Term Expires 2020
Elected by Retired Members

RONALD A. OKUM
Vice Chair
Board of Investments
Term Expires 2019
Board of Retirement
Term Expires 2021
Appointed by Board of Supervisors

WILLIAM R. PRYOR
Board of Retirement Alternate Member
Term Expires 2019
Elected by Safety Members

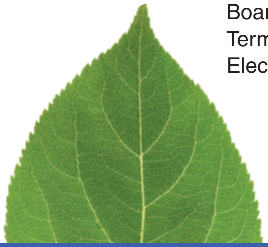
LES ROBBINS
Vice Chair
Board of Retirement
Term Expires 2020
Elected by Retired Members

GINA V. SANCHEZ
Board of Investments
Term Expires 2020
Appointed by Board of Supervisors

HERMAN B. SANTOS
Board of Retirement
Term Expires 2020
Board of Investments
Term Expires 2021
Elected by General Members

THOMAS WALSH
Board of Retirement
Term Expires 2020
Appointed by Board of Supervisors

GINA ZAPANTA-MURPHY
Secretary
Board of Retirement
Term Expires 2020
Appointed by Board of Supervisors



Executive Officers

Santos H. Kreimann
Chief Executive Officer

JJ Popowich
Assistant Executive Officer