Financial Section

Design trends serve as captivating visual reflections of the prevailing mood, values, and technology of an era, providing a lens into the culture's collective aspirations.

Late 1930s to Mid-1940s

LACERA was founded at the tail-end of the Art Deco era—a style characterized by bold geometry, tiered designs, and lavish materials and ornamentation—and the emergence of the Streamline Moderne movement, which emphasized a modern, aerodynamic aesthetic celebrating the efficiency of the machine age. From the Great Depression to World War II, cultural trends of the time leaned heavily into escapist entertainment like Hollywood musicals, swinging jazz and big bands, and poignant stories of perseverance and triumph, exemplified by the legendary racehorse Sea Biscuit.

Social Security and a multitude of pension systems, including LACERA, were created during this period of significant economic and social changes, acknowledging the need to financially support public workers.

LACERA Milestones

1937: County Employees Retirement Law (CERL) created.

L.A. County pension trust fund to provide defined retirement, disability, and death benefits established.

1938: LACERA and Board of Retirement established.

LACERA's first office is located in the historic Hall of Records in Downtown Los Angeles.

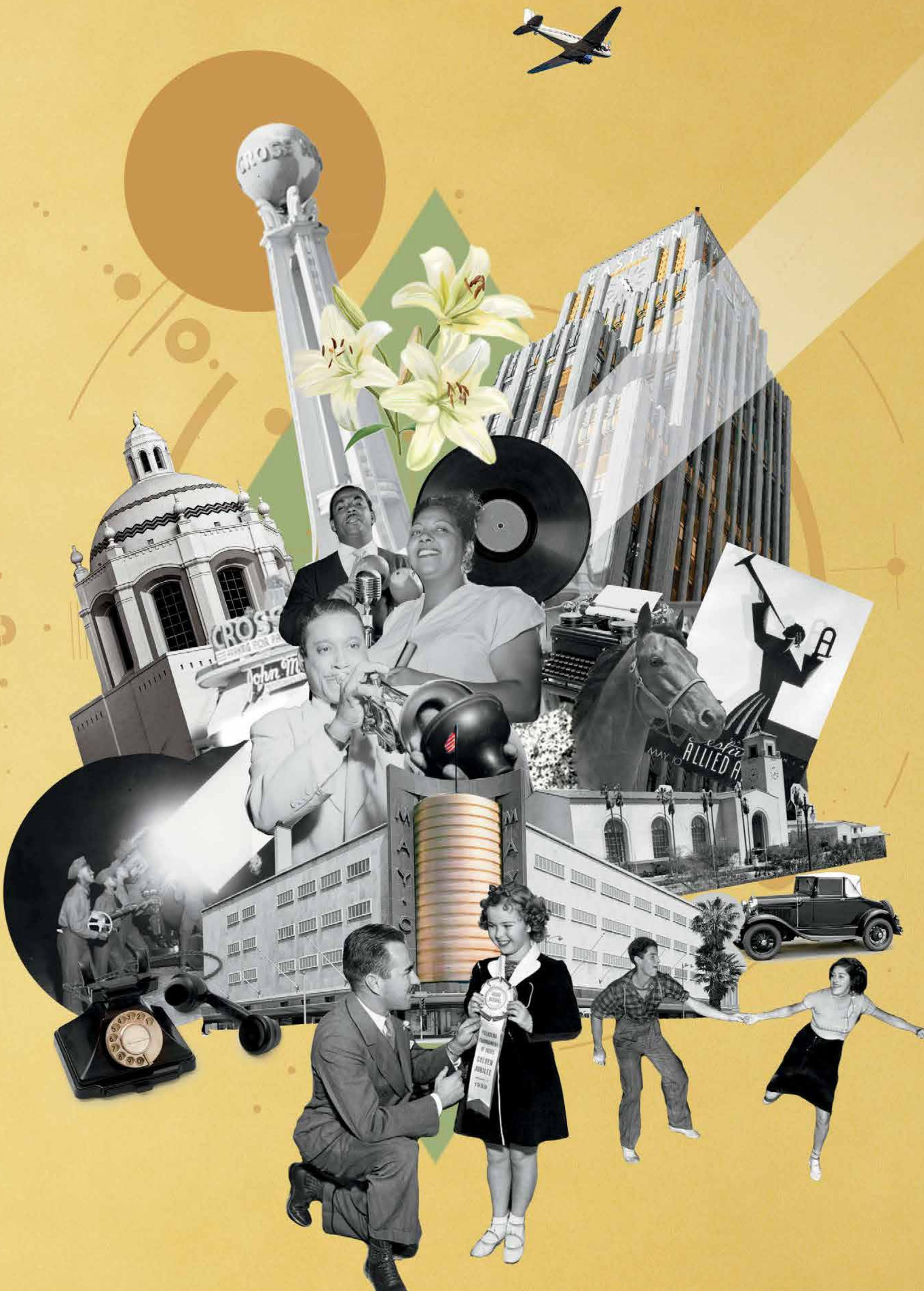
County Treasurer and Tax Collector H.L. Byram serves as the first Board of Retirement Chair (ex-officio), holding that position from 1938 to 1960.

Annual Report Figures

1938: Total assets of $5.86 million

$15,141 paid in retirement allowances

12,250 members; 38 retirees



Musician photos from the William P. Gottlieb Jazz Photograph Collection, Library of Congress, Music Division. Shirley Temple photo from the Herald Examiner Collection, Los Angeles Public Library.

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Independent Auditor's Report

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

Report on the Audits of the Financial Statements

Opinion

We have audited the financial statements of Los Angeles County Employees Retirement Association (LACERA) as of and for the years ended June 30, 2023 and 2022 and the related notes to the financial statements, which collectively comprise LACERA's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of LACERA as of June 30, 2023 and 2022 and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of LACERA and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As explained in Note P, the financial statements include investments valued at $26,849,000,000 (35 percent of net position) at June 30, 2023 and $23,369,200,000 (32 percent of net position) at June 30, 2022, 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's estimates are based on 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LACERA's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

Auditor’s Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing audits in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits 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 LACERA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LACERA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

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

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise LACERA's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.

Other Information

Management is responsible for the other information included in the Annual Comprehensive Financial Report. The other information comprises the introductory, investment, actuarial, and statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

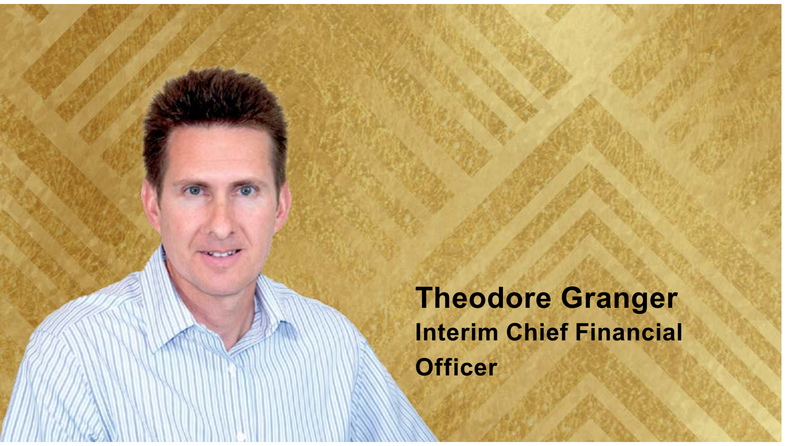
In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2023 on our consideration of LACERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LACERA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LACERA's internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 13, 2023, except for the introductory section, as identified in the table of contents of our report, as to which the date is December 1, 2023.

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 fiscal years ended June 30, 2023 and June 30, 2022. 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 the 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, 2023 Statement of Fiduciary Net Position, totaled $73.9 billion, which is an increase of $3.6 billion or 5.1 percent from June 30, 2022.
- Total additions, as reflected in the Statement of Changes in Fiduciary Net Position, were $8.0 billion, an increase of $6.5 billion, which is 459.3 percent more than the amounts realized in 2022, primarily due to higher investment activity income.
- Total deductions, as reflected in the Statement of Changes in Fiduciary Net Position, totaled $4.4 billion, an increase of $249 million or 6.0 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, 2022, and determined the funded status of the Pension Plan (the ratio of actuarial value of assets to actuarial accrued liabilities) to be 79.6 percent versus 79.3 percent as of June 30, 2021. The 0.3 percentage point increase in funded ratio was primarily due to the recognition of deferred investment gains from prior years and employer contributions to amortize the Unfunded Actuarial Accrued Liability (UAAL). This increase was partially offset by the less-than-assumed investment return for fiscal year 2021-2022, actuarial assumption and method changes, and both CPI and retiree COLAs greater than assumed.
- The Net Pension Liability, provided in accordance with Governmental Accounting Standards Board Statement Number 67 (GASB 67), was $14.6 billion for the fiscal year ended June 30, 2023. This represents an increase of $1.0 billion from June 30, 2022, when the liability was $13.6 billion. The increase of the Net Pension Liability was primarily caused by changes in the actuarial assumptions and methods used as inputs in calculating future liabilities. As of June 30, 2023, the most recent measurement date, the Pension Plan's Fiduciary Net Position was 83.5 percent of the Total Pension Liability, a decrease from 83.8 percent as measured for the previous fiscal year ended 2022. The decrease in this ratio was due to the growth in the Total Pension Liability outpacing the growth in the Pension Plan's Fiduciary Net Position.

Other Post-Employment Benefits (OPEB) Program

- The OPEB Trust Fiduciary Net Position increased by $697.7 million, primarily due to investment gains for the fiscal year. The balance available to fund future OPEB liabilities as of June 30, 2023 increased by 29.1 percent, totaling $3.1 billion as compared to $2.4 billion for the prior year as of June 30, 2022.
- The OPEB Custodial Fund captures the operating activity of the Retiree Healthcare Benefits Program, which is commonly referred to as the OPEB Program. The balance as of June 30, 2023, increased to approximately $206.2 million from the prior year, when the balance was $192.5 million for the fiscal year ended 2022. The increase of 7.1 percent or $13.7 million held on behalf of plan sponsors, after funding pay-as-you-go benefit costs, was primarily due to plan sponsor contributions and investment gains.

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 Trust, and OPEB Custodial Fund, 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 upcoming 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 same as the Fiduciary Net Position (the result of assets minus the liabilities), 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.

Pension Plan

Under the California Constitution, the County Employees Retirement Law of 1937 (CERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and other applicable law, LACERA administers a cost-sharing multiple employer defined benefit retirement plan (Pension Plan) for eligible employees of the County of Los Angeles (County), the Los Angeles Superior Court (Superior Court), LACERA, 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.

Other Post-Employment 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, also referred to as the Other Post-Employment Benefits Program (OPEB Program), offering a variety of medical and dental/vision healthcare plans for retired members and their eligible dependents, as well as death/burial benefits (for retired members only). In that same year, the County and LACERA entered into an Agreement whereby LACERA would administer the OPEB Program subject to the terms and conditions of the Agreement. In 1994, the County amended the Agreement to ensure that the OPEB Program will continue even if there are changes to or termination of the active employee health 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 and excluded the subsidy for their dependents to lower costs. Structurally, the County segregated all the then-current retirees and employees into the LACERA-administered OPEB Program (Tier 1) and placed all employees hired after June 30, 2014, into the newly established Los Angeles County OPEB Program (Tier 2).

Employees are eligible for the OPEB Program if they are members of LACERA and retire from the County of Los Angeles, the Superior Court, LACERA, or a participating outside district. The OPEB Program offers members a 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. Dependent subsidy eligibility differs between Tier 1 or Tier 2 enrollment.

OPEB Custodial Fund

The OPEB Custodial Fund reflects the annual financial activity of the OPEB Program for all participating employers, including those that have established OPEB advanced funding in the OPEB Trust at LACERA (i.e., County, Superior Court, and LACERA) and those that have not (i.e., the four outside districts). Plan sponsors and members provide monthly funding through the OPEB Custodial Funds using a pay-as-you-go methodology, which finances healthcare premiums including administrative fees, as well as other healthcare benefits provided by the OPEB Program. Depending on the member's years of service credit, retirees may qualify for employer-paid medical/dental insurance subsidies ranging from 40 percent up to 100 percent of the selected plan or benchmark plan premium. LACERA bills the healthcare premiums to the participating employers and members and receives reimbursement on a monthly basis. This subsidy, however, only covers dependents in Tier 1; dependents in Tier 2 are not covered. Plan members who do not qualify for the 100 percent subsidy based on their years of service are required to pay their unsubsidized percentage of the premium cost. LACERA maintains two investment accounts that hold excess balances from Retiree Healthcare operations, including administrative fees and insurance premium reserves. LACERA acts as a custodian for these funds on behalf of the plan sponsors and participants. The OPEB Custodial Fund is presented separately in the Statement of Fiduciary Net Position.

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 for 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 Trust's 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, other than costs LACERA pays for its own employees and their eligible dependents.

The Superior Court began prefunding its OPEB obligations through a Court OPEB Trust, which became effective and initially funded as of June 30, 2016. 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 combined assets and investment strategies for the County, LACERA, and the Court, and does not include funding from the four outside districts. LACERA administers the OPEB Master Trust as one investment pool.

The OPEB Trust is presented separately in the Statement of Fiduciary Net Position. LACERA's Board of Investments manages the OPEB Trust for the County, LACERA, and the Court, and utilizes an investment policy statement that defines the framework by which LACERA manages the assets of the OPEB Trust in order to fulfill its mission. The OPEB Trust's Fiduciary Net Position Restricted for Benefits at year-end serves to measure the effort in prefunding 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
Fiduciary 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 are available for retirement benefits. As of June 30, 2023, LACERA had Total Assets of $76.1 billion, which exceeded Total Liabilities of $2.3 billion, resulting in a Fiduciary Net Position Restricted for Benefits of $73.8 billion. This amount reflects an increase of $3.6 billion or 5.1 percent from the prior year, primarily due to investment earnings. As of the prior year June 30, 2022, LACERA had $72.6 billion of Total Assets, which was greater than $2.3 billion in Total Liabilities, resulting in a Fiduciary Net Position Restricted for Benefits of $70.3 billion. This amount reflects a decrease of $2.7 billion or 3.7 percent from the prior year 2021, due to negative investment earnings as well as annual fund deductions exceeding contributions.

Fiduciary Net Position Restricted for Benefits — Pension Plan

As of June 30, 2023, 2022, and 2021

(Dollars in Millions)

	2023	2022	2021	2023–2022 % Change	2022–2021 % Change
Investments	**$71,461**	$67,467	$70,298	5.9%	(4.0)%
Other Assets	**4,678**	5,172	5,066	(9.6)%	2.1%
Total Assets	**$76,139**	$72,639	$75,364	4.8%	(3.6)%
Total Liabilities	**(2,287)**	(2,349)	(2,352)	(2.6)%	(0.1)%
Fiduciary Net Position Restricted for Benefits	**$73,852**	**$70,290**	**$73,012**	**5.1%**	**(3.7)%**

Additions and Deductions to Fiduciary Net Position Restricted for Benefits

The primary sources that finance the promised pension benefits LACERA provides to members and their beneficiaries are investment earnings and the collection of employer and member retirement contributions. For fiscal years ended 2023 and 2022, Total Additions from these two sources amounted to $8.0 billion and $1.4 billion, respectively. The increase in Total Additions was due to an increase in investment income and appreciation of investment holdings during 2023. For the fiscal year ended 2021, Total Additions amounted to $18.4 billion. The differences between fiscal years 2022 and 2021 were primarily due to depreciation of investment holdings greater than investment income during 2022.

The net investment gain for fiscal year 2023 was approximately $4.9 billion, an increase of $6.4 billion from the 2022 fiscal year, when the net investment loss was $1.5 billion. This fiscal year's time-weighted investment return of 6.4 percent (net of fees) was lower than the actuarial assumed investment earnings rate of 7.0 percent, primarily due to a strong recovery in the equity market while other asset classes such as fixed income and real estate still faced economic headwinds. In fiscal year 2022, the net investment loss was $1.5 billion, $17.1 billion lower than the net investment gain in 2021. The fiscal year 2022 time-weighted investment return of 0.1 percent (net of fees) was lower than the actuarial assumed investment earnings rate of 7.0 percent, primarily due to challenging market conditions in the second half of fiscal year 2022, including war in Europe, high inflation, and an economic slowdown in China. 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, whereby each year's investment gains and losses are recognized over a five-year period.

To finance employer contributions that are due to LACERA, the County and the outside districts made monthly cash payments or semi-monthly contributions to coincide with the employee payroll cycle. For the fiscal years ended June 30, 2023, and 2022, 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 $4.4 billion for fiscal year 2023, an increase of $249 million or 6.0 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 retirement benefit payments, including cost-of-living adjustments, for the fiscal year ended June 30, 2023. These deductions totaled $4.1 billion for fiscal year 2022, an increase of $240 million or 6.1 percent from the prior year, 2021. The increase in deductions is partly attributable to an increase in the number of LACERA retirees and related increase in retirement benefit payments, including cost-of-living adjustments, for the fiscal year ended June 30, 2022.

Administrative and miscellaneous expenses also increased 13.0 percent from the fiscal years ended June 30, 2022 to June 30, 2023 due to scheduled salary and employee benefit increases, occupancy of previously vacant positions, an increase in computer software, equipment and facilities costs, and higher professional services fees, including legal, consulting, and disability medical services. Administrative and miscellaneous expenses also increased 9.9 percent from the fiscal years ended June 30, 2021 to June 30, 2022, primarily due to an increase in facilities operational costs, legal consulting costs, temporary personnel services, and scheduled salary and employee benefit increases.

For the fiscal years ended June 30, 2023 and 2022, the Fiduciary Net Position Restricted for Benefits had a net increase of $3.6 billion for 2023 and a $2.7 billion net decrease for 2022. These amounts represent the annual change in net position made available for additional investments, retirement benefit payments, and LACERA's cost of operations. The increase in Fiduciary Net Position for Benefits in fiscal year 2023 was due to the positive performance of LACERA's investment portfolio. The net decrease to the Fiduciary Net Position Restricted for Benefits from fiscal years ended June 30, 2021 to June 30, 2022 was $2.7 billion, which resulted primarily from annual retirement benefit and refund payments exceeding contributions and investment income.

Additions and Deductions in Fiduciary Net Position — Pension Plan

For the Fiscal Years Ended June 30, 2023, 2022, and 2021

(Dollars in Millions)

				2023–2022		2022–2021	
	2023	2022	2021	Difference	% Change	Difference	% Change
Contributions	**$3,095**	$2,959	$2,774	$136	4.6%	$185	6.7%
Net Investment Income/(Loss)	**4,861**	(1,536)	15,633	6,397	416.5%	(17,169)	(109.8)%
Total Additions/ (Declines)	**$7,956**	**$1,423**	**$18,407**	**$6,533**	**459.1%**	**($16,984)**	**(92.3)%**
Benefits and Refunds	**($4,281)**	($4,045)	($3,814)	($236)	5.8%	($231)	6.1%
Administrative Expenses and Miscellaneous	**(113)**	(100)	(91)	(13)	13.0%	(9)	9.9%
Total Deductions	**($4,394)**	**($4,145)**	**($3,905)**	**($249)**	**6.0%**	**($240)**	**6.1%**
Net Increase/(Decrease)	**$3,562**	($2,722)	$14,502	$6,284	230.9%	($17,224)	(118.8)%
Fiduciary Net Position Beginning of Year	**70,290**	73,012	58,510	(2,722)	(3.7)%	14,502	24.8%
Fiduciary Net Position at End of Year	**$73,852**	**$70,290**	**$73,012**	**$3,562**	**5.1%**	**($2,722)**	**(3.7)%**

Pension Plan Investment Structure

Meketa Investment Group (Meketa), LACERA's general investment consultant, along with Investment Office staff, 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 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 Plan 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. LACERA maintains a strategic allocation to cash that would allow it fund member benefit payments for three months in the event of a disaster.

During fiscal year 2021, strategic asset allocation reviews for LACERA's Pension Plan investments were completed. The Board approved revised target asset allocation weights for the Pension Plan in May 2021 and for the OPEB Trust in June 2021. The Pension Plan's new asset allocation weights were implemented as of October 2021. The next strategic asset allocation review cycle for the Pension Plan will commence after the 2023 fiscal year-end.

Pension Plan 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 individual entry age actuarial 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's 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, 2023 was $88.5 billion, or an increase of 5.4 percent from the Total Pension Liability of $83.9 billion as of June 30, 2022. The Net Pension Liability as of June 30, 2023 was $14.6 billion, representing an increase of 7.2 percent from the Net Pension Liability of $13.6 billion as of June 30, 2022. The Net Pension Liability increased by $1.0 billion because LACERA experienced a $3.6 billion increase in the Fiduciary Net Position, while the Total Pension Liability increased at a faster rate to $4.5 billion.

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, 2023 and 2022, the Fiduciary Net Position as a percentage of the Total Pension Liability is reported as 83.5 percent and 83.8 percent, respectively. The decrease for the fiscal year ended June 30, 2023 is due to the growth in the Total Pension Liability of $4.5 billion and a smaller increase in LACERA's Fiduciary Net Position of $3.6 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, investment activity, and benefit payments.

Net Pension Liability

As of June 30, 2023, 2022, and 2021

(Dollars in Millions)

				2023–2022		2022–2021	
	2023	**2022**	**2021**	**$ Change**	**% Change**	**$ Change**	**% Change**
Total Pension Liability	**$88,469**	$83,931	$80,304	$4,538	5.4%	$3,627	4.5%
Less: Fiduciary Net Position	**(73,852)**	(70,290)	(73,012)	(3,562)	5.1%	2,722	(3.7)%
Net Pension Liability	**$14,617**	**$13,641**	**$7,292**	**$976**	**7.2%**	**$6,349**	**87.1%**
Fiduciary Net Position as a Percentage of Total Pension Liability	**83.5%**	**83.8%**	**90.9%**	**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 for retiree healthcare. One is the OPEB Custodial Fund, used to pay premium costs and administrative expenses on a current and ongoing basis. The other is the OPEB Trust, containing contributions set aside by certain participating employers to prefund certain other current administrative costs and future costs.

Financial Analysis — OPEB Trust

As reflected in the OPEB Trust's Statement of Changes in Fiduciary Net Position, OPEB Trust additions included net investment gain of $247.5 million for the fiscal year ended June 30, 2023, which was the opposite of the prior year when the investment portfolio incurred a net loss of $288.5 million.

Deductions included $942 thousand for total administrative expenses, an increase of $343 thousand from the prior fiscal year resulting from adding new asset classifications to the investment portfolio requiring additional staff time. The OPEB Trust's Fiduciary Net Position Restricted for Benefits as of the fiscal year ended June 30, 2023, was $3.1 billion, representing a $697.7 million increase from last year primarily due to employer contributions and investment income. As of June 30, 2022, the total OPEB Trust Fiduciary Net Position Restricted for Benefits was $2.4 billion, which included deductions of $312 million for investment asset depreciation and $599 thousand for administrative expenses.

Employers provided OPEB Trust prefunding contributions of $451 million for fiscal year 2023, a 19.9 percent increase from $376 million for fiscal year 2022, 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 to accumulate and fund future benefits. GASB standards allow—for financial statement presentation only—pay-as-you-go activity from the OPEB Custodial Fund to be adjusted for and reported on the Statement of Changes in Fiduciary Net Position under the OPEB Trust. This adjustment increases Employer Contribution additions; however, pay-as-you-go contributions are not actually made to the OPEB Trust, but instead to the OPEB Custodial Fund. Correspondingly, OPEB Trust Service Benefit deductions were increased to reflect pay-as-you-go benefit payments made by employers through the OPEB Custodial Fund as OPEB benefits became due. Total OPEB Trust contributions including this adjustment were $1.2 billion for fiscal year 2023 and $1.1 billion for fiscal year 2022. 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

The OPEB Trust is also referred to as the OPEB Master Trust throughout the financial statements and accommodates commingling and coinvesting of the County, LACERA, and Court OPEB Trust funds. In June 2021, the LACERA Board of Investments adopted a revised asset allocation model that included new private market asset classes such as private equity, infrastructure, natural resources, illiquid credit, and real estate within the functional asset category structure. During the fiscal year ended 2023, LACERA selected an investment manager for this private market asset investment mandate. In January 2023, LACERA exercised its authority under the OPEB Trust to implement a unitized fund structure that allows for unitization of investments at the asset composite level while retaining individual net asset values for each participating employer.

Information related to the OPEB Trust is included in the Financial Section, Note Q — OPEB Trust and other financial statement 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 statement disclosures, as the OPEB Program administrator, were reduced to report limited investment return information in accordance with GASB Statement Number 74.

Financial Analysis — OPEB Custodial Fund

The OPEB Custodial Fund is used to pay benefit costs as incurred on an ongoing pay-as-you-go basis. As of June 30, 2023, the OPEB Custodial Fund's total assets exceeded total liabilities, resulting in a positive Fiduciary Net Position Restricted for Benefits of $206 million. This balance, where total assets of $304 million exceeded total liabilities of $98 million, represents accumulated balances of excess healthcare premiums held in reserve and rebates due to federal program participation, both of which can be used to offset future OPEB costs. These funds are held at LACERA on behalf of the employers. As of the end of the fiscal year June 30, 2022, the Fiduciary Net Position Restricted for Benefits was $193 million as a result of total assets, reported at $270 million, exceeding total liabilities of $77 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, 2023 and 2022, total additions were $820 million and $804 million, and total deductions amounted to $806 million and $778 million, respectively. This caused a $14 million and $26 million net increase in the Fiduciary Net Position Restricted for Benefits over the last two fiscal years, as contributions from employers and members exceeded the total of benefit costs and administrative expenses. The net increase for FY 2023 was less than the increase for FY 2022 because of higher service benefit payments and increased administrative expenses. The OPEB Custodial Fund generated a net investment gain of $2.8 million for the fiscal year ended June 30, 2023 and incurred $5.1 million of net investment loss for the fiscal year ended June 30, 2022.

PLAN ADMINISTRATION
LACERA Membership

The following table summarizes the changes in active and retired members over the last three years. Active members increased by 1,732 or 1.5 percent as of June 30, 2023, while there was an increase of 1,437 or 2.0 percent in retirees when comparing the two fiscal years ended June 30, 2023 and 2022. When comparing the two fiscal years ended June 30, 2022 and 2021, active members declined by 640 or 0.6 percent as of June 30, 2022, while there was an increase of 2,061 or 3.0 percent in retirees.

LACERA Membership

As of June 30, 2023, 2022, and 2021

				2023–2022		2022–2021	
	2023	**2022**	**2021**	**Difference**	**% Change**	**Difference**	**% Change**
Active Members[1]	**117,331**	115,599	116,239	1,732	1.5%	(640)	(0.6)%
Retired Members	**73,022**	71,585	69,524	1,437	2.0%	2,061	3.0%
Total Membership	**190,353**	**187,184**	**185,763**	**3,169**	**1.7%**	**1,421**	**0.8%**

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

ADMINISTRATIVE EXPENSES

The LACERA Board of Retirement and Board of 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 a mid-year operating budget review and amendment process to allow funding for urgent staffing changes and operating needs that may arise during the year. The Operating Budget information presented in these financial statements represents the amended budget amounts for the fiscal years ended June 30, 2023 and 2022. LACERA's annual budget plan controls administrative expenses and represents approximately 0.14 percent and 0.13 percent of the allowable basis for the budget calculation for the fiscal years ended June 30, 2023 and 2022, respectively. The actual administrative expenses were $112 million for 2023 compared to $100 million for 2022, a 12.0 percent increase. Factors contributing to the increase were employee salary and benefit growth, hiring of new employees to fill vacant positions, higher consulting and software licensing costs, and an increase in medical services fees for disability cases. For fiscal years ended June 30, 2022 and 2021, the actual administrative expenses were $100 million for 2022 compared to $91 million for 2021, a 9.9 percent increase. The rise in costs were due to the organization's addition of new staffing positions, successful efforts to fill vacant positions, employee salary and benefit increases, additional legal consulting costs, and an increase in operational costs due to a new office lease agreement.

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). CERL provides allowances for other administrative costs to be excluded from the 0.21 percent calculation, such as certain costs for legal representation and expenditures for information technology projects; however, 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 2023, 2022 and 2021. The AAL was used to calculate the statutory budget limit. For both years, LACERA's administrative expenditures were well below the legal maximum.

Analysis of Administrative Expenses

As of June 30, 2023, 2022, and 2021

(Dollars in Thousands)

	2023	2022	2021
Total Statutory Budget Appropriation	$171,986	$164,378	$156,735
Basis for Budget Calculation (Actuarial Accrued Liability)	81,898,044	78,275,175	74,635,840
Limit per CERL	**0.21%**	**0.21%**	**0.21%**
Administrative Expenses	$112,150	$100,121	$90,586
Basis for Budget Calculation (Actuarial Accrued Liability)	81,898,044	78,275,175	74,635,840
Administrative Expenses as a Percentage of the Basis for Budget Calculation	**0.14%**	**0.13%**	**0.12%**
Total Statutory Budget Appropriation	$171,986	$164,378	$156,735
Operating Budget Request	(127,767)	(114,807)	(100,291)
Underexpended Statutory Budget Appropriation	**$44,219**	**$49,571**	**$56,444**
Operating Budget Request	$127,767	$114,807	$100,291
Administrative Expenses	(112,150)	(100,121)	(90,586)
Underexpended Operating Budget	**$15,617**	**$14,686**	**$9,705**

ACTUARIAL FUNDING VALUATIONS

The actuarial funded status is used to determine whether the Fiduciary Net Position Restricted for Benefits will be sufficient to meet the Pension Plan's future obligations. 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 an actuarial valuation is to determine future contributions amounts needed by the employers (plan sponsors) and the employees (members) to provide all promised future benefits and to assess the Pension Plan's funded status. A valuation is performed annually, while an experience study is performed every three years, to review the actuarial 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 December 2022, the Board of Investments approved the exclusion of the Supplemental Targeted Adjustment for Retirees (STAR) Reserve balance from valuation assets as recommended by the consulting actuary in the 2022 experience study. The Board of Investments may approve future STAR COLA awards funded by the STAR Reserve balance. During the fiscal year, staff began reviewing the 2013 Funding Policy and will propose updates to the Board of Investments for consideration.

Consistent with the 2013 Funding Policy, an asset smoothing method is applied to actuarial investment gains and losses. Variances between the actuarially expected fair value of assets (computed based on investment performance at the actuarial assumed rate of return) and the actual fair 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. Adopted by the LACERA Board of Investments as a result of the 2022 triennial experience study, this asset valuation method was modified to include an offsetting of gains and losses prior to applying asset smoothing.

Actuarial Liabilities

Pursuant to the customary actuarial reporting timeline, the actuarial valuation as of June 30, 2023 is not yet available. Information is presented here based on the most recent actuarial valuation as of June 30, 2022. 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 $86.3 billion as of June 30, 2022. The actuarial value of valuation assets reported for fiscal year-end 2022 was $68.7 billion and is used to offset the AAL, with the difference referred to as the Unfunded Actuarial Accrued Liability (UAAL), which was reported at $17.6 billion as of June 30, 2022.

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. All amortization periods as of the June 30, 2021 valuation are 20 years or less. 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 Board of Investments last updated the amortization method based on the results of the 2019 investigation of experience report prepared by the consulting actuary. The 2022 investigation of experience report adds a modification where any increase in the UAAL due to changes in the benefit provisions would be amortized over a 10-year period.

Actuarial Assumptions

In December 2022, as a result of the most recent experience and assumption study completed as of June 30, 2022, the LACERA Board of Investments adopted to reaffirm the investment return assumption of 7.00 percent for the June 30, 2022 actuarial valuation due to capital market projections and economic forecasts reviewed at that time. Some changes to the actuarial assumptions included revising the rates of assumed merit salary increases, updating the assumed rates of service retirement to reflect a member's length of service in addition to their age, and refreshing the mortality improvement scale to the most recent publication. Employee and employer contribution rates were increased for the fiscal year beginning July 1, 2023, as a result of the actuarial assumption changes recommended by the consulting actuary in their 2022 experience study report adopted by LACERA's Board of Investments.

FUNDED RATIO, RATES OF RETURN, AND FAIR VALUE

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 can vary over time, cause fluctuations in Valuation Assets.

LACERA's independent consulting actuary, Milliman, performed the latest actuarial valuation as of June 30, 2022 and determined that the Pension Plan's Funded Ratio of the actuarial assets to the AAL increased to 79.6 percent as of that date, as compared to 79.3 percent as of the June 30, 2021 valuation.

The investment return on a market basis for 2022 resulted in a 0.3 percentage point increase in the Funded Ratio when applying the five-year actuarial asset smoothing method.

For the 2022 and 2021 fiscal year-end actuarial valuations, respectively, the Pension Plan investment portfolio returned 0.1 percent and 25.2 percent (both net of fees) on a time-weighted market basis, compared to the 7.0 percent investment return assumption effective since 2019. For June 30, 2022, when compared to the assumed rate of return, in total there was a $6.7 billion loss on the fair value of assets. Under the actuarial asset smoothing method, which recognizes investment gains and losses over a five-year period, the return on actuarial assets was 8.5 percent, equivalent to a gain of $1.0 billion relative to the assumed return of 7.0 percent.

The following table provides 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, 2023, the annual money-weighted rate of return on Pension Plan investments was 6.4 percent (net of fees), and the time-weighted return for the same period is 6.4 percent (net of fees). The annual 2023 Pension Plan valuation report is not yet available at this time.

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
2021	$70,297,718	25.2%	25.2%	10.4%	7.0%	79.3%
2022	$67,467,013	0.1%	0.6%	8.5%	7.0%	79.6%
2023[3]	**$71,460,616**	**6.4%**	**6.4%**	—	—	—

[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, 2023 is not yet available at this time.

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, 2023, 2022, and 2021, were 9.3 percent, (11.2) percent, and 28.4 percent respectively. As determined for the July 1, 2022 OPEB valuation, the OPEB Program's Funded Ratio of the actuarial assets to the AAL decreased to 10.4 percent, as compared to 10.9 percent reported in the July 1, 2021 valuation. The County, LACERA, and the Superior Court continued to provide OPEB Trust contributions, which increased prefunding assets and offset the AAL. The annual 2023 OPEB Program valuation report is not available as of this ACFR's publication.

LACERA OPERATIONS

The organization's mission to produce, protect, and provide the promised benefits remained in focus and was the driver of decisions. These financial statements contain fiscal results that prove LACERA's ability to serve members and administer the retirement system successfully throughout an ever-changing and fluctuating environment. LACERA's financial flows and operational approaches remained consistent as the fund collected contributions from members and plan sponsors; provided counseling and retirement services to members through multiple channels; successfully managed the pension fund investment portfolio, achieving returns that exceeded the total fund policy benchmark; and delivered retirement and retiree healthcare benefits to our members without fail. LACERA's governing Boards and executive teams stayed focused on organizational initiatives throughout the year and recently completed a strategic planning exercise to prepare for the future.

ACCOUNTING AND FINANCIAL REPORTING STANDARDS EFFECTIVE FOR THE FISCAL YEAR ENDED 2023

Subscription Based Information Technology Arrangements

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. This Statement is meant to enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and a subscription liability for a SBITA and to disclose essential information about the arrangement. LACERA considered the impact of GASB 96 provisions immaterial to its financial statements, including those in paragraph 15 and the disclosure requirements under paragraph 60, and decided not to implement the GASB 96 recognition and measurement criteria.

REQUESTS FOR INFORMATION

This annual 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, 2023 and 2022

(Dollars in Thousands)

	2023			2022		
	Pension Plan	OPEB Trust	OPEB Custodial Fund	Pension Plan	OPEB Trust	OPEB Custodial Fund
ASSETS						
Cash & Cash Equivalents						
Cash and Short-Term Investments	**$2,222,257**	**$70,347**	**$45,447**	$3,058,494	$49,413	$33,541
Cash and Short-Term Investments on Loaned Securities	**1,869,433**	**—**	**—**	1,401,077	—	—
Total Cash & Cash Equivalents	**$4,091,690**	**$70,347**	**$45,447**	**$4,459,571**	**$49,413**	**$33,541**
Receivables						
Contribution Receivable	**$127,192**	**$—**	**$—**	$119,635	$—	$—
Accounts Receivable - Sale of Investment	**233,150**	**467**	**7,502**	355,515	—	1,679
Accrued Interest and Dividends	**220,244**	**1,007**	**1,098**	226,861	78	599
Accounts Receivable - Other	**5,941**	**—**	**68,880**	10,227	—	62,553
Total Receivables	**$586,527**	**$1,474**	**$77,480**	**$712,238**	**$78**	**$64,831**
Investments at Fair Value						
Equity	**$27,130,122**	**$1,468,752**	**$—**	$24,464,720	$1,199,773	$—
Fixed Income	**17,921,557**	**1,241,233**	**181,677**	18,641,786	903,853	171,581
Private Equity	**13,894,495**	**—**	**—**	12,753,842	—	—
Real Estate	**5,109,454**	**311,966**	**—**	5,802,979	241,168	—
Hedge Funds	**4,890,856**	**—**	**—**	4,440,434	—	—
Real Assets	**2,514,132**	**—**	**—**	1,363,252	—	—
Total Investments at Fair Value	**$71,460,616**	**$3,021,951**	**$181,677**	**$67,467,013**	**$2,344,794**	**$171,581**
TOTAL ASSETS	**$76,138,833**	**$3,093,772**	**$304,604**	**$72,638,822**	**$2,394,285**	**$269,953**
LIABILITIES						
Accounts Payable - Purchase of Investments	**$332,063**	**$1,652**	**$7,546**	$835,073	$46	$2,794
Retiree Payable and Other	**2,259**	**—**	**441**	1,779	—	452
Accrued Expenses	**29,344**	**280**	**864**	63,266	137	679
Tax Withholding Payable	**43,525**	**—**	**—**	42,715	—	—
Obligations under Securities Lending Program	**1,869,433**	**—**	**—**	1,401,077	—	—
Accounts Payable - Other	**10,323**	**—**	**89,545**	5,300	—	73,518
TOTAL LIABLILITIES	**$2,286,947**	**$1,932**	**$98,396**	**$2,349,210**	**$183**	**$77,443**
FIDUCIARY NET POSITION RESTRICTED FOR BENEFITS	**$73,851,886**	**$3,091,840**	**$206,208**	**$70,289,612**	**$2,394,102**	**$192,510**

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, 2023 and 2022

(Dollars in Thousands)

	2023			2022		
	Pension Plan	OPEB Trust	OPEB Custodial Fund	Pension Plan	OPEB Trust	OPEB Custodial Fund
Additions						
Contributions						
Employer[1]	**$2,301,706**	**$1,196,205**	**$755,333**	$2,199,889	$1,097,284	$730,986
Member	**793,244**	**—**	**49,358**	758,632	—	49,061
Total Contributions	**$3,094,950**	**$1,196,205**	**$804,691**	**$2,958,521**	**$1,097,284**	**$780,047**
Investment Income						
From Investing Activities:						
Net Appreciation/(Depreciation) in Fair Value of Investments	**$1,943,783**	**$221,919**	**$1,920**	($6,717,556)	($312,330)	($5,435)
Investment Income/(Loss)	**3,087,891**	**26,681**	**1,047**	5,476,668	25,063	521
Total Investment Activities Income/(Loss)	**$5,031,674**	**$248,600**	**$2,967**	**($1,240,888)**	**($287,267)**	**($4,914)**
Less Expenses from Investment Activities:	**($189,484)**	**($1,112)**	**($147)**	($310,360)	($1,233)	($145)
Net Investment Activities Income/(Loss)	**$4,842,190**	**$247,488**	**$2,820**	**($1,551,248)**	**($288,500)**	**($5,059)**
From Securities Lending Activities:						
Securities Lending Income	**$63,652**	**$—**	**$—**	$12,294	$—	$—
Less Expenses from Securities Lending Activities:						
Borrower Rebates	**($47,869)**	**$—**	**$—**	$126	$—	$—
Management Fees	**(1,687)**	**—**	**—**	(1,317)	—	—
Total Expenses from Securities Lending Activities	**(49,556)**	**—**	**—**	(1,191)	—	—
Net Securities Lending Income/(Loss)	**$14,096**	**$—**	**$—**	**$11,103**	**$—**	**$—**
Total Net Investment Income/(Loss)	**$4,856,286**	**$247,488**	**$2,820**	**($1,540,145)**	**($288,500)**	**($5,059)**
Miscellaneous	**$5,009**	**$—**	**$12,363**	$4,117	$—	$29,496
Total Additions	**$7,956,245**	**$1,443,693**	**$819,874**	**$1,422,493**	**$808,784**	**$804,484**
Deductions						
Retiree Payroll	**$4,234,600**	**$—**	**$—**	$4,002,273	$—	$—
Service Benefits[1]	**—**	**745,013**	**793,711**	—	720,910	769,336
Administrative Expenses	**112,150**	**942**	**12,465**	100,121	599	9,237
Refunds	**43,412**	**—**	**—**	38,089	—	—
Lump Sum Death Benefits	**3,351**	**—**	**—**	4,205	—	—
Redemptions	**—**	**—**	**—**	—	—	—
Miscellaneous	**458**	**—**	**—**	219	—	—
Total Deductions	**$4,393,971**	**$745,955**	**$806,176**	**$4,144,907**	**$721,509**	**$778,573**
Net Increase/(Decrease) in Fiduciary Net Position	**$3,562,274**	**$697,738**	**$13,698**	**($2,722,414)**	**$87,275**	**$25,911**
Fiduciary Net Position Restricted for Benefits						
Beginning of Year	**$70,289,612**	**$2,394,102**	**$192,510**	**$73,012,026**	**$2,306,827**	**$166,599**
End of Year	**$73,851,886**	**$3,091,840**	**$206,208**	**$70,289,612**	**$2,394,102**	**$192,510**

[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 — Benefit Plan Descriptions

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, policies, and procedures 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 retirement 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 CERL that created a Retiree Healthcare Benefits Program. also referred to as the Other Post-Employment Benefits Program (OPEB Program). The program provides medical, dental, and vision insurance, including a subsidy for eligible dependents, as well as 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 1994, the County amended the agreement to ensure that the OPEB Program will continue even if there are changes to or termination of the active employee health insurance programs.

In June 2014, at the County's request, the LACERA Board of Retirement approved an amendment to the agreement that created a new retiree healthcare benefits program tier to lower costs by excluding the subsidy for dependents. 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.

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 OPEB 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 Deputy County Treasurer and Tax Collector serves as the acting ex-officio member, sitting in for the ex-officio trustee as needed.

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; retired members elect one trustee; and safety members elect one trustee. 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. The Deputy County Treasurer and Tax Collector serves as the acting ex-officio member, sitting in for the ex-officio trustee as needed. The Boards are jointly responsible for LACERA's budget, personnel classifications and salaries, and oversight of the Chief Executive Officer.

On October 18, 2021, the Los Angeles County Employees Retirement Association (LACERA) filed a lawsuit in Los Angeles Superior Court against the County of Los Angeles and the County Board of Supervisors regarding LACERA's ability to set classifications and salaries for its personnel. LACERA is a separate public agency from the County and provides independent administration of the County pension system, including its assets and the payment of benefits. LACERA seeks a court order confirming LACERA's authority and implementing critical personnel actions approved by the LACERA Boards that the County has blocked from becoming effective. In December 2022, the Superior Court denied LACERA's petition. In January 2023, LACERA filed an appeal with the Second District Court of Appeals, which remains pending.

The lawsuit filing and subsequent appeal will not affect contributions from the County, LACERA's assets, investments, or the timely delivery of benefits and services to its members and beneficiaries. The case does not have a material monetary impact to the County or LACERA and is posted on LACERA's website.

For additional disclosures regarding litigation, please see Note M — Commitments and Contingencies.

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 and other factors. 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, 2023 and 2022

	2023	2022
Active Members		
Vested	**75,388**	74,796
Non-Vested	**21,529**	21,756
Total Active Members	**96,917**	**96,552**
Inactive Members[1]		
Vested[2]	**9,612**	9,250
Non-Vested	**10,802**	9,797
Total Inactive Members	**20,414**	**19,047**
Total Active & Inactive Members	**117,331**	**115,599**
Retired Members		
Service	**52,415**	51,477
Disability	**10,737**	10,449
Survivors & Beneficiaries	**9,870**	9,659
Total Retired Members	**73,022**	**71,585**
Total Membership	**190,353**	**187,184**

[1] Inactive members are terminated/out-of-service.
[2] Includes deferred members.

INVESTMENTS

Pension Plan

Pension plan funding is 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 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 OPEB 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 established and 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 OPEB Program benefits which have 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.

In 2016, the County trust agreement was amended to permit the co-investment of the County and the Court's trust assets. The LACERA Board of Investments approved the formation of an OPEB Master Trust to commingle 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 OPEB Trusts described 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 active service credit hurdles.

LACERA maintains three primary accounts under the OPEB Custodial Fund: the OPEB Administrative Account, OPEB Premiums 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 Fund 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 investment 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 Administrative Account: This account is primarily used to fund the OPEB Program's operations. Additions include the Retiree Healthcare administrative fees collected from the County, LACERA, Superior Court, outside districts, and program member participants and interest income. Deductions include the Program's administrative expenses. The OPEB Program's administrative costs are paid for by the participating employers and members, not from the pension plan's assets except as to LACERA's share as a participating employer.

OPEB Premiums Account: This account is primarily used to fund the OPEB Program's healthcare benefits. Additions include the monthly health insurance premium subsidies collected from the County; health insurance premiums collected from LACERA, Superior Court, and the outside districts; premium payments collected from program participants; and interest income. Deductions include premium payments made to insurance carriers.

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 program participants. In 2013, the LACERA Board of Retirement adopted a policy that established an account balance minimum target amount, which is 20 percent of the total annual premium cost by plan for indemnity medical and dental/vision plans. As of fiscal years ended June 30, 2023 and 2022, the OPEB Reserve Account balance was in compliance with the Board's policy.

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 and posted on the LACERA website.

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. The difference between the current and previous year's CPI shows whether the cost-of-living has increased or decreased within 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 retired members, the LACERA Board of Retirement may grant a cost-of-living adjustment (COLA) increase for monthly retirement 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. 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 falls below the maximum amount. The Board of Retirement must approve COLAs.

LACERA members may receive more than one type of COLA:

Statutory COLA ("April 1 COLA")

The COLA percentage adjustment is effective annually on April 1. Contributory plan 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. The adjustment begins with the April 30 monthly allowance. The COLA provision was added to CERL in 1966, and LACERA's first COLA was granted July 1, 1967.

Plan E COLA

Effective June 4, 2002, Plan E noncontributory 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 adjustments, the CERL also provides the LACERA Board of Retirement the authority to grant supplemental cost-of-living adjustments for retirement benefits. Under this program, known as the STAR Program, excess earnings may be 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.

Annually, the Board of Retirement is required to consider STAR Program benefits eligibility, provided sufficient balances are available in the STAR Reserve. Ad hoc STAR benefits are payable only for the calendar year approved. Permanent STAR benefits become part of the member's retirement allowance and are payable for life.

Except for program year 2005, the LACERA Board of Retirement made the 2001 through 2009 and 2023 STAR benefits permanent at an 80 percent level, as authorized in the CERL. For program years 2010 through 2022, 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 its inception in 1990 to the present. Ad hoc STAR Program costs from 1990 through 2001 reduced the STAR Reserve by $556 million. Subsequently, except for program year 2005, the LACERA Board of Retirement made permanent the 2001 through 2009 and 2023 STAR benefits totaling $355 million, which was transferred to the Employer Reserve to invest and pay for permanent STAR benefits awarded. As of June 30, 2023, there is $612 million remaining in the STAR Reserve to fund future STAR Program 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 not included in a qualified trust or equivalent arrangement but conducted by LACERA on behalf of the County pursuant to the 1982 Agreement, as amended. 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 Board of Retirement and Board of Investments (Boards) in fulfilling their fiduciary oversight responsibilities for the organization's financial reporting process, values and ethics, internal controls, compliance with laws and regulations, and risk management.

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 which 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.

OPEB Trust financial activity includes receiving prefunding contributions provided by plan sponsors either quarterly or on an annual basis. The contributions are set aside and placed in trust to earn investment income and interest, which is held and used to provide future OPEB benefits at the plan sponsors' discretion. Investment income activity is reported in the OPEB Trust. For financial statement presentation purposes, GASB standards require that employer contributions within the OPEB Trust be increased by the monthly pay-as-you-go costs included as additions to the OPEB Trust, which will not be reimbursed to the employers using OPEB Trust assets. Matching expenses are charged as service benefits to the OPEB Trust through deductions, which also include administrative expenses (per paragraphs 28a and 31 of GASB 74). See Note Q for OPEB Trust prefunding contributions from participating employers.

The OPEB Custodial Fund captures the annual financial operating activity of the 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 benefit payments in subsequent fiscal years.

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 alterations and 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, 2023 and 2022 were $6.1 million and $5.4 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 on June 30, 2023 and 2022.

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 this category.

Real Estate Separate Account Investments

LACERA's real estate investments utilize several different types of legal structures called special purpose entities (SPEs), including title holding companies (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 presented as investments at fair value. For additional information, see Note J — Special Purpose Entities.

Fair Value of Investments

Investments are carried at fair value. Fair values for investments are derived by various methods, as summarized in the following chart. Note P — Fair Value of Investments includes additional detail regarding fair value methodology and should be referred to in conjunction with this table.

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 on June 30, 2023 and 2022.
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 value adjustments based on the investment 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 Companies 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 and Real Assets[1]	Fair value provided by investment managers as follows. 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. 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 forwards 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 of Investments.

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 of the liabilities for the benefits provided through the Pension Plan. The IPS 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 classifications (i.e., equity, fixed income, private equity, real estate, real assets, and hedge funds). In the following table and in the Investment Section, investment portfolio 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 general investment consultant Meketa Investment Group (Meketa) in March 2018, the Board of Investments approved the use of a functional framework developed by LACERA's Investments 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, generate returns, and optimize growth, while mitigating downside risk, ultimately to build a portfolio that can meet LACERA's future benefit obligations. 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, 2023 and 2022

Asset Class	2023 Target Allocation (Policy)	2023 Weighted Average Long-Term Expected Real Rate of Return (After Expected 2.75% Inflation Rate) (Geometric)	2022 Target Allocation (Policy)	2022 Weighted Average Long-Term Expected Real Rate of Return (After Expected 2.75% Inflation Rate) (Geometric)
Growth	**53.0%**	**6.2%**	**51.0%**	**5.5%**
Global Equity	32.0%	5.0%	34.0%	4.3%
Private Equity	17.0%	7.0%	14.0%	6.9%
Non-Core Private Real Estate	4.0%	6.5%	3.0%	6.7%
Credit	**11.0%**	**3.1%**	**11.0%**	**2.2%**
Liquid Credit	4.0%	2.2%	6.0%	1.5%
Illiquid Credit	7.0%	3.3%	5.0%	2.8%
Real Assets and Inflation Hedges	**17.0%**	**3.7%**	**17.0%**	**3.6%**
Core Private Real Estate	6.0%	3.2%	6.0%	3.3%
Natural Resources and Commodities	3.0%	3.9%	4.0%	3.7%
Infrastructure	5.0%	4.9%	4.0%	4.8%
TIPS	3.0%	0.1%	3.0%	(0.3)%
Risk Reduction and Mitigation	**19.0%**	**1.1%**	**21.0%**	**0.2%**
Investment Grade Bonds	7.0%	0.2%	13.0%	(0.3)%
Diversified Hedge Funds	6.0%	2.1%	5.0%	1.6%
Long-Term Government Bonds	5.0%	0.7%	2.0%	—%
Cash Equivalents	1.0%	(0.8)%	1.0%	(1.0)%

Target Allocation

The LACERA Board of Investments approved the current functional asset class allocation structure as a result of the asset allocation study completed by Meketa, LACERA's investment consultant, in 2018. The Board adopts asset allocation targets to provide for asset diversification in an effort to meet LACERA's actuarial assumed rate of return, consistent with market conditions and risk control. Per the Investment Policy Statement, a comprehensive asset allocation study is conducted every three to five years or at the Board's request. Meketa completed and the Board approved the most recent strategic asset allocation study in 2021, with the next asset allocation review cycle to follow the 2023 fiscal year-end.

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), investment 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.

GASB 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 reassessed 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 2023. See Milliman's Investigation of Experience for Retirement Benefit Assumptions report for the period July 1, 2019 to June 30, 2022 for more details. The consulting actuary's internal investment consultants review the long-term expected return assumption 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, and other measures of expected long-term returns.

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 Total Pension Liability (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, 2023 and 2022, were 6.4 percent and 0.6 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 (RSI) 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, 2023 and 2022, were 6.4 percent and 0.1 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 divides 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.

GASB PRONOUNCEMENTS

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 "SBITA's" in line with that of GASB 87, Leases. LACERA did not apply measurement and disclosure criteria under GASB 87.

LACERA completed an evaluation of GASB 96, Subscription Based Information Technology Arrangements (SBITAs), and determined that the application of GASB 96 was immaterial. Therefore, LACERA chose not to adopt the standard.

NOTE C — Pension Plan Contributions

Funding Policy

In December 2009, the LACERA Board of Investments adopted a Retirement Benefit Funding Policy (Funding Policy) to establish a funding goal, provide benefit security for LACERA members, and maintain stable employer contribution rates that are as low as practicably possible. In addition, the Funding Policy provides LACERA with guidance in performing interest crediting for reserve accounts and actuary direction in performing the plan's retirement benefit actuarial. 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), which restricted the ability to reduce employer contribution rates and redefined excess earning requirements. The Funding Policy requires actuarial valuations to be performed annually to determine employer and employee contribution rates.

Member and Employer Contribution 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 thereafter by the Los Angeles County Board of Supervisors. 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 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-specific 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 that varies by member class (General or Safety) 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 retirement benefits. 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 under these agreements are reported as member contribution amounts.

Contributory plan members are required to contribute between approximately 6 percent and 18 percent of their annual covered salary. On May 2, 2023, the Los Angeles County Board of Supervisors adopted new member contribution rates for all retirement plans, including both legacy and PEPRA plans, effective July 1, 2023.

The employer contribution rate is composed of a share of the normal cost and the UAAL amortization payment. The normal cost is the portion of the actuarial present value of retirement benefits attributable to a valuation year. The UAAL amortization payment reduces the funding shortfall related to liabilities accrued in the past that are not provided for by future normal costs. The employer normal cost rate from the latest actuarial valuation as of June 30, 2022 slightly increased from 10.88 percent to 11.12 percent, and the employers' required contribution rate to finance the UAAL increased from 13.58 percent to 14.72 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 were set to be amortized over a maximum 22-year period and now have a period of 20 years of less, so they are fully amortized no later than 2042.

At its March 2023 meeting, the BOI adopted an increase of 1.38 percent in the total employer contribution rate beginning July 1, 2023, as compared to the previous valuation as of June 30, 2021 (from 24.46 percent to 25.84 percent). Per the County Employees Retirement Law (CERL), the increase is effective within 90 days after fiscal year-end, between July 1 and September 29 each year. Los Angeles County implemented the new employer contribution rates for fiscal year 2023–2024 effective with the September 16 payroll cycle. The employer contribution rate increase can be primarily attributed to the 2022 triennial experience study and resulting assumption and method changes, the less-than-assumed investment return for fiscal year 2021-2022, and payroll growth being less than expected.

These factors were partially offset by the contribution rate-reducing impact of deferred investment gains from prior years.

Contribution Payments

For the fiscal years ended June 30, 2023 and 2022, Los Angeles County, including the Superior Court and LACERA, paid their employer contributions and withholding of employee pension plan contributions due to LACERA in the form of semi-monthly cash payments. The remaining outside districts with active members, Local Agency Formation Commission of the County of Los Angeles (LAFCO) and the Little Lake Cemetery District (LLCD), paid pension plan contributions due to LACERA in the form of monthly cash payments. For the fiscal years ended June 30, 2023 and 2022, employer contributions totaled $2.3 billion and $2.2 billion, in that order, and member contributions totaled $793 million and $759 million, respectively.

Pension Plan Contributions

For the Fiscal Years Ended June 30, 2023 and 2022
(Dollars in Thousands)

	2023	2022
Employers		
Los Angeles County[1]	**$2,216,111**	$2,122,282
Superior Court	**85,407**	77,450
Local Agency Formation Commission for the County of Los Angeles	**177**	148
South Coast Air Quality Management District[2]	**—**	—
Little Lake Cemetery District	**11**	9
Los Angeles County Office of Education[3]	**—**	—
Total Employer Contributions	**$2,301,706**	$2,199,889
Member Contributions[4]	**$793,244**	$758,632
Total Contributions	**$3,094,950**	$2,958,521

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

[2]South Coast Air Quality Management District has no active members contributing to the Pension Plan for the fiscal years ended 2023 and 2022.

[3]Los Angeles County Office of Education has no active members contributing to the Pension Plan for the fiscal years ended 2023 and 2022.

[4]In accordance with GASB Statement No. 82, payments made by an employer to satisfy member contribution requirements are classified as member contributions. These payments amounted to $37.5 million and $37.7 million for the fiscal years ended 2023 and 2022.

NOTE D — Pension Plan Reserves

LACERA includes Pension Plan 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 realized investment earnings. Deductions include annuity payments to retirees, contribution 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 realized investment 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

The STAR Reserve represents the balance available to fund future STAR Program benefit increases. During the fiscal years ended 1995 through 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 are 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 Program benefits at an 80 percent level, as authorized in the County Employees Retirement Law of 1937 (CERL). For program years 2010 through 2022, additional STAR benefits were not provided, since modest increases in the Consumer Price Index (CPI) percentage caused COLA Accumulation accounts to remain below the 20 percent threshold. When the COLA Accumulation accounts exceed 20 percent, the Board of Retirement, at its discretion, may grant STAR benefits. For STAR Program year 2023, the LACERA Board of Retirement approved the permanent STAR benefit award for certain members to restore their purchasing power at an 80 percent benefit level and to adjust their COLA Accumulation accounts to 20 percent.

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 that are payable only for the calendar year approved or permanent STAR benefits that become part of the member's retirement allowance for a lifetime.

Contingency Reserve

Contingency Reserve represents reserves accumulated for future earning deficiencies, investment losses, and other contingencies. Additions include realized investment earnings and other revenues. Deductions include investment expenses; administrative expenses; 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 LACERA's Board of Investments; and funding of the STAR Reserve when excess earnings are available and reducing the STAR Reserve when those additional benefits are authorized by LACERA's Board of Retirement. For the fiscal years ended June 30, 2023 and 2022, the net investment realized earnings were applied as interest credits to the Reserve accounts, leaving no available balances in the Contingency Reserve.

Pension Plan Reserves

As of June 30, 2023 and 2022

(Dollars in Thousands)

	2023	2022
Member Reserves	**$26,932,000**	$25,804,263
Employer Reserves	**32,504,476**	32,011,255
STAR Reserve	**611,544**	614,011
Contingency Reserve	**—**	—
Total Reserves at Book Value	**$60,048,020**	$58,429,529
Unrealized Investment Portfolio Appreciation	**$13,803,866**	$11,860,083
Total Reserves at Fair Value[1]	**$73,851,886**	$70,289,612

[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 are the basis for changes in employer and employee contribution rates for both PEPRA and legacy retirement plans necessary to properly fund the Pension Plan.

Upon completing the 2022 triennial experience study, LACERA's consulting actuary made recommendations, and the Board of Investments adopted some new assumptions beginning with the June 30, 2022 actuarial valuation. Some assumptions from prior experience studies were reaffirmed and carried forward, while other assumptions where changed—both of which were implemented with the 2022 valuation report. 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 benefits 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 investment 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. Benefit projections for financial reporting purposes are based on the adopted assumptions, actual Pension Plan demographics, and include the types of benefits provided at the time of each valuation.

The Total Pension Liability (TPL) as of June 30, 2023 was determined by completing a roll-forward calculation based on the actuarial valuation conducted as of June 30, 2022, using the following actuarial assumptions in accordance with the requirements of 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, 2022 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 funding valuation, refer to the Actuarial Section.

Actuarial Methods and Significant Assumptions

Description	Method
Actuarial Cost Method	Individual entry age.
Discount Rate	7.13 percent, net of Pension Plan investment expense, including inflation and addition of 0.13 percent administrative expense load. The 7.00 percent rate (net of all expenses) was adopted beginning with the June 30, 2019 valuation and reaffirmed in the 2022 triennial experience study.
Price Inflation	2.75 percent annual rate. This rate was adopted beginning with the June 30, 2016 valuation and reaffirmed in the 2022 triennial experience study.
General Wage Growth and Projected Salary Increases	General wage growth: 3.25 percent. Projected salary increases: 3.66 percent to 12.54 percent. This rate was adopted beginning with the June 30, 2016 valuation. The rate was reaffirmed in the 2022 triennial experience study.
Cost-of-Living Adjustments	Post-retirement COLA (cost-of-living adjustment) benefit increases of either 2.75 percent or 2 percent per year (a pro-rata portion for Plan E) are assumed. For the Total Pension Liability, STAR (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 benefits. See Note A — Benefit Plan Description for additional COLA and STAR information.
Mortality	Various rates based on the Pub-2010 mortality tables and using the MP–2021 Ultimate Projection Scale for expected future mortality improvement. This assumption was adopted with the June 30, 2022 valuation.

Other Key Assumptions

Other key actuarial assumptions used to calculate the TPL as of the June 30, 2023 and 2022 measurement dates are the same as used to prepare actuarial funding valuations for June 30, 2022 and 2021, respectively.

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 Fiduciary Net Position. For the Schedule of Net Pension Liability and Related Ratios and the Schedule of Changes in Net Pension Liability and Related Ratios, see the Required Supplementary Information (RSI) Section.

The NPL is an accounting measurement for financial statement reporting purposes. The funded status of the Pension Plan is calculated separately by the consulting actuary and the results along with other funding metrics are included in the actuarial funding valuation report. The NPL amounts at fiscal year-end June 30, 2023 and 2022 for the Pension Plan were as follows.

Schedule of Net Pension Liability

For the Fiscal Years Ended June 30, 2023 and 2022
(Dollars in Thousands)

	2023	2022
Total Pension Liability	**$88,469,442**	$83,931,424
Less: Fiduciary Net Position	**(73,851,886)**	(70,289,612)
Net Pension Liability	**$14,617,556**	$13,641,812
Fiduciary Net Position as a Percentage of Total Pension Liability	**83.48%**	83.75%

The TPL and NPL both increased due to the new assumptions and actuarial methods adopted for the June 30, 2022 experience study. These changes include updating the rates of assumed merit salary increases, updating the assumed rates of service retirement to reflect a member's length of service in addition to their age, and updating the mortality improvement scale to reflect the most recent mortality data.

GASB Discount Rate

Milliman's June 30, 2022 Investigation of Experience analysis confirmed the 7.13 percent investment return assumption used for the current reporting date. This is equal to the 7.00 percent long-term investment return assumption (net of investment expenses) adopted by the Board of Investments, 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, a separate calculation using the municipal bond rate is not required; the discount rate for calculating the TPL, as prescribed by GASB, is equal to the long-term expected rate of return plus administrative expenses.

GASB Discount Rate

For the Fiscal Years Ended June 30, 2023 and 2022

	2023	2022
GASB Discount Rate	**7.13 %**	7.13 %
Long-Term Expected Rate of Return, Net of Expenses	**7.00 %**	7.00 %
Municipal Bond Rate	**N/A**	N/A

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, 2023, 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, 2022, based on the 7.13 percent discount rate in effect for that year.

Sensitivity Analysis

For the Fiscal Years Ended June 30, 2023 and 2022

(Dollars in Thousands)

	2023			2022		
	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	$100,194,067	$88,469,442	$78,750,275	$95,318,250	$83,931,424	$74,528,252
Less: Fiduciary Net Position	(73,851,886)	(73,851,886)	(73,851,886)	(70,289,612)	(70,289,612)	(70,289,612)
Net Pension Liability/(Asset)	**$26,342,181**	**$14,617,556**	**$4,898,389**	**$25,028,638**	**$13,641,812**	**$4,238,640**

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 that is also 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 to LACERA 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 not reimbursed by the insurance companies. The reimbursements received are netted against the pension and annuity payments (i.e., Retiree Payroll) reported in LACERA’s financial statements. For the fiscal year ended June 30, 2023, LACERA paid $5.6 million to covered members and received $4.6 million in related reimbursements. For the fiscal year ended June 30, 2022, LACERA paid $7.2 million to covered members and received $6.0 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 the valuation liability includes only net benefits paid by LACERA.

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 Board of Investments establishes 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 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.

Investment policy statements recognize 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 manage 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. LACERA invests with Core investment grade bond managers. 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 contain almost 100 percent of bonds rated investment grade by the major credit rating agencies: Moody's, S&P Global Ratings (S&P), and Fitch.

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 may include limiting maximum exposure by issuer, industry, and sector, which result in well-diversified portfolios.

The following is a schedule for the year ended June 30, 2023 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 $10 million are excluded from this presentation.

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

As of June 30, 2023

(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	$5,565,802	$809,070	$—	$130,970	$1,293,657	$1,030	$91,385	$7,891,914	44.1%
Aa	—	—	5,129	21,880	61,540	635	21,854	111,038	0.6%
A	—	—	1,112	285,590	336,059	29,900	31,502	684,163	3.8%
Baa	—	—	—	310,753	359,095	23,429	50,271	743,548	4.2%
Ba	—	—	1,899	167,781	7,786	23,355	280,349	481,170	2.7%
B	—	—	—	868,205	—	90,284	507,379	1,465,868	8.2%
Caa	—	—	—	185,790	—	6,745	155,347	347,882	1.9%
Ca	—	—	—	5,995	—	—	2,183	8,178	— %
C	—	—	—	987	—	101	2,680	3,768	— %
Not Rated	—	464	—	209,735	5,773,745	48,102	142,088	6,174,134	34.5%
Total	**$5,565,802**	**$809,534**	**$8,140**	**$2,187,686**	**$7,831,882**	**$223,581**	**$1,285,038**	**$17,911,663**	**100.0%**

Note: Pooled Investments included within the Not Rated Quality Ratings represent investments in commingled funds. The Credit Quality Ratings table does not include holdings with commingled investment structures or structures that are not directly held in custody by LACERA's global custodian, State Street Bank and Trust Company.

The following is a schedule for the year ended June 30, 2022 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 $12 million are excluded from this presentation.

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

As of June 30, 2022

(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	6,255,435	879,227	—	155,890	1,305,060	1,512	160,929	$8,758,053	47.0%
Aa	—	—	5,371	31,004	61,253	2,179	22,574	$122,381	0.7%
A	—	—	2,927	437,487	319,064	30,212	29,468	$819,158	4.4%
Baa	—	—	2,233	353,497	384,886	51,425	85,349	$877,390	4.7%
Ba	—	—	—	224,737	7,231	41,726	308,352	$582,046	3.1%
B	—	—	—	1,148,664	—	161,666	579,043	$1,889,373	10.1%
Caa	—	—	—	180,953	—	10,911	179,499	$371,363	2.0%
Ca	—	—	—	527	—	11	3,552	$4,090	— %
C	—	—	—	913	—	—	181	$1,094	— %
Not Rated	—	538	—	227,747	4,718,362	42,658	215,661	$5,204,966	28.0%
Total	**$6,255,435**	**$879,765**	**$10,531**	**$2,761,419**	**$6,795,856**	**$342,300**	**$1,584,608**	**$18,629,914**	**100.0%**

Note: Pooled Investments included within the Not Rated Quality Ratings, represents investments in commingled funds. The Credit Quality Ratings table does not include holdings with commingled investment structures or structures that are not directly held in custody by LACERA's global custodian, State Street Bank and Trust Company.

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

As of June 30, 2023

(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	Pooled Investments	Total	Percentage of Portfolio
Aaa	$75,346	$—	$75,346	6.1%
Not Rated	—	1,165,887	1,165,887	93.9%
Total	**$75,346**	**$1,165,887**	**$1,241,233**	**100.0%**

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

As of June 30, 2022

(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	Pooled Investments	Total	Percentage of Portfolio
Aaa	$—	$—	$—	—%
Not Rated	—	903,853	903,853	100.0%
Total	**$—**	**$903,853**	**$903,853**	**100.0%**

Note: Pooled Investments included with the Not Rated Quality represents investments in commingled funds. All fixed income securities in the OPEB Trust were invested through commingled funds for fiscal year 2022. For fiscal year 2023, the OPEB Trust held fixed income securities.

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

As of June 30, 2023

(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	U.S. Govt. Agencies	Corporate Debt/ Credit Securities	Private Placement Fixed Income	Total	Percentage of Portfolio
Aaa	$152,704	$996	$1,291	$394	$155,385	85.5%
Aa	—	—	3,205	1,537	4,742	2.6%
A	—	—	19,208	993	20,201	11.2%
Not Rated	—	—	1,349	—	1,349	0.7%
Total	**$152,704**	**$996**	**$25,053**	**$2,924**	**$181,677**	**100.0%**

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

As of June 30, 2022

(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	U.S. Govt. Agencies	Corporate Debt/ Credit Securities	Private Placement Fixed Income	Total	Percentage of Portfolio
Aaa	$131,127	$1,703	$4,385	$719	$137,934	80.4%
Aa	—	—	3,848	1,661	5,509	3.2%
A	—	—	24,432	1,301	25,733	15.0%
Not Rated	—	—	2,405	—	2,405	1.4%
Total	**$131,127**	**$1,703**	**$35,070**	**$3,681**	**$171,581**	**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 clearing house 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 investment 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

For diversification purposes, all investment grade and liquid credit portfolios limit the exposure to a single issuer. This limitation is typically 5 percent, but does not apply to U.S. Treasury securities, government-guaranteed debt (including G-7 countries), agency debt, agency mortgage-backed securities, and approved commingled funds and fund-of-one vehicles.

As of June 30, 2023, 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, investment manager guidelines require that the duration of all investment grade bond portfolios must remain within a range centered around the duration of the benchmark index. This range is currently plus or minus 10 percent of the benchmark duration. The investment manager guidelines require that the duration of the U.S. long-term government bonds portfolio must remain within plus or minus 0.3 years of the duration of its benchmark index. 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, 2023 presents the duration by investment type. Whole loan mortgages included in the Pension Plan portfolio of $10 million are excluded from this presentation.

Duration in Fixed Income Securities — Pension Plan

As of June 30, 2023

(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	$5,565,802	11.82
U.S. Government Agency	809,533	4.29
Municipal/Revenue Bonds	8,141	10.47
Subtotal U.S. Treasuries, U.S. Government Agency, and Municipal Instruments	**$6,383,476**	
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	$196,008	2.03
Corporate and Other Credit	1,991,678	2.13
Pooled Funds	7,831,882	1.7
Subtotal Corporate Bonds and Credit Securities	**$10,019,568**	
Non-U.S. Fixed Income	$223,581	1.64
Private Placement Fixed Income	1,285,038	3.37
Subtotal Non-U.S. and Private Placement Securities	**$1,508,619**	
Total Fixed Income Securities	**$17,911,663**	

Note: The Duration table does not include holdings within commingled investment structures or structures that are not directly held in custody by LACERA's global custodian, State Street Bank and Trust Company.

[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, 2022 presents the duration by investment type. Whole loan mortgages included in the Pension Plan portfolio of $12 million are excluded from this presentation.

Duration in Fixed Income Securities — Pension Plan

As of June 30, 2022

(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	$6,255,435	11.94
U.S. Government Agency	879,765	4.26
Municipal/Revenue Bonds	10,531	11.07
Subtotal U.S. Treasuries, U.S. Government Agency, and Municipal Instruments	**$7,145,731**	
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	$243,612	1.98
Corporate and Other Credit	2,540,329	2.06
Fixed Income Swaps and Options	(22,523)	N/A
Pooled Funds	6,795,856	2.06
Subtotal Corporate Bonds and Credit Securities	**$9,557,274**	
Non-U.S. Fixed Income	$342,300	1.49
Private Placement Fixed Income	1,584,609	3.91
Subtotal Non-U.S. and Private Placement Securities	**$1,926,909**	
Total Fixed Income Securities	**$18,629,914**	

Note: The Duration table does not include holdings within commingled investment structures or structures that are not directly held in custody by LACERA's global custodian, State Street Bank and Trust Company.

[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, 2023

(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration[1]
U.S. Treasuries	$75,346	16.12
Pooled Investments	$1,165,887	3.32
Total Fixed Income Securities	**$1,241,233**	

[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, 2022

(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration[1]
U.S. Treasuries	$—	N/A
Pooled Investments	$903,853	3.24
Total Fixed Income Securities	**$903,853**	

[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, 2023

(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration[1]
U.S. Treasuries and U.S. Government Agency		
U.S. Treasuries	$152,703	2.01
U.S. Government Agency	996	0.78
Subtotal U.S. Treasuries, and U.S. Government Agency	**$153,699**	
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	$2,640	0.51
Corporate and Other Credit	22,413	1.15
Subtotal Corporate Bonds and Credit Securities	**$25,053**	
Private Placement Fixed Income	$2,925	0.68
Total Fixed Income Securities	**$181,677**	

[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, 2022

(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration[1]
U.S. Treasuries and U.S. Government Agency		
U.S. Treasuries	$131,127	1.86
U.S. Government Agency	1,703	1.23
Subtotal U.S. Treasuries, and U.S. Government Agency	**$132,830**	
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	$6,790	0.88
Corporate and Other Credit	28,280	1.69
Subtotal Corporate Bonds and Credit Securities	**$35,070**	
Private Placement Fixed Income	$3,681	1.46
Total Fixed Income Securities	**$171,581**	

[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 investment 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 that are denominated in foreign currency. 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. The OPEB Trust did not hold any non-U.S. investment securities as of June 30, 2023.

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

As of June 30, 2023

(Dollars in Thousands)

Currency	Equity	Fixed Income	Foreign Currency	Real Estate	Real Assets	Private Equity Investments	Forward Contracts	Total
AFRICA								
South African Rand	$79,420	$ —	$1,346	$ —	$ —	$ —	$ —	**$80,766**
AMERICAS								
Brazilian Real	137,294	—	2,195	—	—	—	—	**139,489**
Canadian Dollar	975,906	2,676	5,384	—	150,149	—	(9,163)	**1,124,952**
Chilean Peso	9,280	—	1,129	—	—	—	—	**10,409**
Colombian Peso	2,288	—	415	—	—	—	—	**2,703**
Mexican Peso	59,152	—	1,521	—	—	—	—	**60,673**
ASIA								
Australian Dollar	485,905	—	3,183	—	—	11,013	1,020	**501,121**
Chinese Renminbi	96,786	—	1,641	—	—	—	—	**98,427**
Hong Kong Dollar	663,581	—	2,826	—	—	—	183	**666,590**
Indonesian Rupiah	53,459	—	3,702	—	—	—	—	**57,161**
Japanese Yen	1,297,919	—	13,606	—	—	—	63,747	**1,375,272**
Malaysian Ringgit	31,769	—	1,859	—	—	—	—	**33,628**
New Zealand Dollar	11,375	—	497	—	—	—	133	**12,005**
Pakistani Rupee	—	—	28	—	—	—	—	**28**
Philippine Peso	13,232	—	406	—	—	—	—	**13,638**
Singapore Dollar	85,120	—	675	—	—	—	373	**86,168**
South Korean Won	275,212	—	3,092	—	—	—	—	**278,304**
Taiwan Dollar	327,583	—	7,229	—	—	—	—	**334,812**
Thai Baht	47,002	—	(165)	—	—	—	—	**46,837**
EUROPE								
British Pound Sterling	1,253,582	13,785	15,218	68	—	173,007	(16,208)	**1,439,452**
Czech Republic Koruna	4,069	—	421	—	—	—	—	**4,490**
Danish Krone	269,940	—	1,144	—	—	—	(114)	**270,970**
Euro	2,448,886	44,322	21,511	310,590	383,847	1,263,178	(2,674)	**4,469,660**
Hungarian Forint	4,643	—	343	—	—	—	—	**4,986**
Norwegian Krone	74,432	—	893	—	—	—	233	**75,558**
Polish Zloty	28,567	—	935	—	—	—	—	**29,502**
Russian Ruble	—	—	1,906	—	—	—	—	**1,906**
Swedish Krona	231,093	—	720	—	—	—	4,364	**236,177**
Swiss Franc	574,640	—	1,548	—	—	—	245	**576,433**
MIDDLE EAST								
Egyptian Pound	3,438	—	123	—	—	—	—	**3,561**
Israeli New Shekel	39,465	—	876	—	—	—	417	**40,758**
Kuwaiti Dinar	23,827	—	792	—	—	—	—	**24,619**
Qatari Rial	30,922	—	1,747	—	—	—	—	**32,669**
Saudi Riyal	6,220	—	—	—	—	—	—	**6,220**
Turkish Lira	19,948	—	438	—	—	—	—	**20,386**
UAE Dirham	40,609	—	201	—	—	—	—	**40,810**
Total Investment Securities Subject to Foreign Currency Risk	**$9,706,564**	**$60,783**	**$99,385**	**$310,658**	**$533,996**	**$1,447,198**	**$42,556**	**$12,201,140**

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

As of June 30, 2022

(Dollars in Thousands)

Currency	Equity	Fixed Income	Foreign Currency	Real Estate	Real Assets	Private Equity Investments	Forward Contracts	Total
AFRICA								
South African Rand	$69,825	$—	$—	$—	$—	$—	$—	**$69,825**
AMERICAS								
Brazilian Real	112,645	—	16	—	—	—	—	**112,661**
Canadian Dollar	1,137,585	2,809	139	—	—	—	9,570	**1,150,103**
Chilean Peso	7,402	—	—	—	—	—	—	**7,402**
Colombian Peso	3,410	—	—	—	—	—	—	**3,410**
Mexican Peso	40,657	—	13	—	—	—	—	**40,670**
ASIA								
Australian Dollar	491,289	1,362	388	—	—	6,076	19,148	**518,263**
Chinese Renminbi	74,796	—	—	—	—	—	—	**74,796**
Hong Kong Dollar	685,135	—	—	—	—	—	103	**685,238**
Indonesian Rupiah	39,514	—	—	—	—	—	—	**39,514**
Japanese Yen	1,072,284	—	1	—	—	—	60,069	**1,132,354**
Malaysian Ringgit	29,704	—	—	—	—	—	—	**29,704**
New Zealand Dollar	11,687	—	229	—	—	—	698	**12,614**
Philippine Peso	11,360	—	—	—	—	—	—	**11,360**
Singapore Dollar	68,379	—	7	—	—	—	914	**69,300**
South Korean Won	233,259	—	—	—	—	—	—	**233,259**
Taiwan Dollar	274,164	—	—	—	—	—	—	**274,164**
Thai Baht	35,390	—	—	—	—	—	—	**35,390**
EUROPE								
British Pound Sterling	1,039,875	15,545	8,072	387	—	133,152	33,291	**1,230,322**
Czech Republic Koruna	4,044	—	—	—	—	—	—	**4,044**
Danish Krone	191,042	—	1	—	—	—	1,957	**193,000**
Euro	1,737,692	121,041	14,562	316,344	142,469	910,380	28,222	**3,270,710**
Hungarian Forint	3,345	—	—	—	—	—	—	**3,345**
Norwegian Krone	78,572	—	—	—	—	—	2,964	**81,536**
Polish Zloty	11,781	—	—	—	—	—	—	**11,781**
Russian Ruble	31,651	—	—	—	—	—	—	**31,651**
Swedish Krona	188,247	—	—	—	—	—	8,410	**196,657**
Swiss Franc	459,145	—	—	—	—	—	3,875	**463,020**
MIDDLE EAST								
Egyptian Pound	2,259	—	—	—	—	—	—	**2,259**
Israeli New Shekel	58,557	—	512	—	—	—	1,831	**60,900**
Kuwaiti Dinar	13,986	—	—	—	—	—	—	**13,986**
Qatari Rial	24,773	—	—	—	—	—	—	**24,773**
Turkish Lira	7,552	—	—	—	—	—	—	**7,552**
UAE Dirham	32,384	—	—	—	—	—	—	**32,384**
Total Investment Securities Subject to Foreign Currency Risk	**$8,283,390**	**$140,757**	**$23,940**	**$316,731**	**$142,469**	**$1,049,608**	**$171,052**	**$10,127,947**

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.

State Street Bank and Trust is the sole manager of LACERA's securities lending program. Collateralization is set on non-U.S. loans at 105 percent minimum, and on U.S. loans at 102 percent minimum of the fair value of the securities on loan.

State Street Global Advisors (SSGA) invests the cash 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 fair value of a security on loan rises, LACERA receives additional collateral. Conversely, if the fair 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 to LACERA, which 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, 2023 and 2022.

As of June 30, 2023, the fair value of securities on loan was $3.8 billion, with a value of cash collateral received of $1.9 billion and non-cash collateral of $2.0 billion. As of June 30, 2022, the fair value of securities on loan was $3.7 billion, with a value of cash collateral received of $1.4 billion and non-cash collateral of $2.5 billion. LACERA's investment income, net of expenses from securities lending, was $14.1 million and $11.1 million for the fiscal years ended June 30, 2023 and 2022, respectively.

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

Securities Lending

As of June 30, 2023 and 2022

(Dollars in Thousands)

	2023				
Securities on Loan	**Fair Value of Securities on Loan**	**Cash Collateral Received**	**Non-Cash Collateral Received**	**Calculated Mark[1]**	**Collateral Percent[2]**
U.S. Equity	$2,332,066	$1,561,245	$840,301	$18,375	103.8%
U.S. Fixed Income	927,308	233,202	743,620	4,685	105.8%
Non-U.S. Equity	499,246	74,986	457,963	3,673	107.5%
Total	**$3,758,620**	**$1,869,433**	**$2,041,884**	**$26,733**	

	2022				
Securities on Loan	**Fair Value of Securities on Loan**	**Cash Collateral Received**	**Non-Cash Collateral Received**	**Calculated Mark[1]**	**Collateral Percent[2]**
U.S. Equity	$2,295,594	$862,637	$1,559,646	($17,143)	104.8%
U.S. Fixed Income	958,823	438,042	575,808	15	105.7%
Non-U.S. Equity	466,448	100,398	404,899	(5,842)	107.1%
Total	**$3,720,865**	**$1,401,077**	**$2,540,353**	**($22,970)**	

[1]Calculated mark is performed daily. It is the amount LACERA will collect from the borrower (if the amount is positive) or payment to the borrower (if the amount is negative) to bring the collateralization to appropriate levels based on fair value.

[2]Collateral percent is the total collateral received divided by the fair value of securities on loan. U.S. loans are collateralized at 102 percent minimum of the fair value of the securities on loan, while non-U.S. loans are collateralized at 105 percent minimum..

NOTE I — Derivative Financial Instruments

Per LACERA's Investment Policy Statement, LACERA may utilize derivative instruments to hedge or obtain exposure to certain investments. A derivative is a financial instrument that derives its value from an underlying asset or a direct obligation of an issuer. Derivatives may be exchange-traded or traded over-the-counter (OTC). LACERA's portfolio management strategies incorporate derivative financial instruments for overlays and hedging. Cash overlays are used to adhere to Board-approved guidelines and asset allocation policy targets. Currency hedging is used to minimize return risk for non-U.S. dollar denominated investments. LACERA expects that any use of derivatives by external managers must adhere to LACERA's policies and investment guidelines.

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. Forwards contracts are privately negotiated and do not trade on a centralized exchange; therefore, they are considered over-the-counter instruments and have higher counterparty risk than futures. Currency forwards contracts are used to manage currency exposure, implement LACERA's passive currency hedge, and facilitate the settlement of international security purchases and sales.

Currency Forwards Analysis

As of June 30, 2023

(Dollars in Thousands)

Currency Name	Options	Currency Forwards Contracts: Net Receivables	Currency Forwards Contracts: Net Payables	Swaps	Total Exposure
Australian Dollar	$—	($363)	$1,383	$—	**$1,020**
Canadian Dollar	—	48	(9,211)	—	**($9,163)**
Swiss Franc	14	322	(77)	—	**258**
Danish Krone	—	97	(212)	—	**(114)**
Euro	37	1,172	(3,846)	—	**(2,637)**
Pound Sterling	—	(13)	(16,195)	—	**(16,208)**
Hong Kong Dollar	—	(31)	214	—	**184**
Israeli New Shekel	—	(151)	569	—	**417**
Japanese Yen	—	(2,729)	66,476	—	**63,747**
Norwegian Krone	—	91	141	—	**233**
New Zealand Dollar	—	(2)	135	—	**133**
Swedish Krona	—	(174)	4,538	—	**4,364**
Singapore Dollar	—	(32)	405	—	**373**
Thailand Baht	1	—	—	—	**1**
Total	**$52**	**($1,765)**	**$44,320**	**$—**	**$42,607**

Note: This Currency Forwards Analysis table does not include holdings within commingled investment structures or structures that are not directly held in custody by LACERA's global custodian, State Street Bank and Trust Company.

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 typically 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 duration of the agreement. The cash flows exchanged by the counterparties are tied to a notional amount. A swap agreement specifies the time period of the agreement and the frequency of the payments to 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, 2023 classified by type, not including holdings within commingled investment structures or structures that are not directly held in custody by LACERA's global custodian, State Street Bank and Trust Company.

Investment Derivatives

As of June 30, 2023

(Dollars in Thousands)

Derivative Type	Net Appreciation/ (Depreciation) in Fair Value	Fair Value	Notional Value (Dollars)	Notional Shares (Units)
Commodity Futures Long	($116,141)	$—	$—	222,877
Commodity Futures Short	17,266	—	—	(20)
Credit Default Swaps Written	—	—	—	—
Fixed Income Futures Long	8,274	—	—	—
Fixed Income Futures Short	43,856	—	—	(269,500)
Fixed Income Options Bought	1	—	—	—
Fixed Income Options Written	(14)	—	—	—
Foreign Currency Futures Long	(1,960)	—	—	51,900
Foreign Currency Futures Short	1,051			(47,500)
Futures Options Bought	1	—	—	—
Futures Options Written	684	—	—	—
FX Forwards	63,177	42,556	6,383,788	—
Index Futures Long	264,716	—	—	1,048
Index Futures Short	(104,326)	—	—	(402)
Index Options Written	443	—	—	—
Pay Fixed Interest Rate Swaps	76	—	—	—
Receive Fixed Interest Rate Swaps	(442)	—	—	—
Rights	(51)	33	212	—
Total Return Swaps Bond	(142)	—	—	—
Total Return Swaps Equity	(3,318)	—	—	—
Warrants	326	529	51	—
Total	**$173,477**	**$43,118**	**$6,384,051**	**(41,597)**

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 within 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 Company.

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.

Counterparty Credit Risk

LACERA is exposed to counterparty credit risk on investment derivatives that are traded OTC and are reported in asset positions. Derivatives exposed to counterparty credit risk include currency forwards 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.

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, not including holdings within commingled investment structures or structures that are not directly held in custody by LACERA's global custodian, State Street Bank and Trust Company.

Counterparty Credit Risk Analysis

As of June 30, 2023
(Dollars in Thousands)

Counterparty Name	Total Fair Value	S&P Rating	Fitch Rating	Moody's Rating
Barclays Bank PLC Wholesale	$41	A+	A+	A1
BNP Paribas, S.A.	613	A+	A+	Aa3
Citibank N.A.	119	A+	A+	Aa3
Deutsche Bank AG	24,816	A-	A-	A1
Goldman Sachs International	9,913	A+	A+	A1
Morgan Stanley and Co. LLC	24	A-	A+	A1
Natwest Markets Plc	37,421	A	A+	A1
State Street Bank And Trust Company	102	AA-	AA	Aa3
UBS AG	7,260	A+	A+	Aa3
Westpac Banking Corporation	3,601	AA-	A+	Aa3
Total	**$83,910**			

NOTE J — Special Purpose Entities

Real Estate Investments

LACERA maintains several different types of special purpose entities (SPEs) within its investment portfolio that are separate 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, 2023, the LACERA real estate portfolio held 31 title holding companies (THCs) and 36 limited liability companies (LLCs). As of June 30, 2022, the portfolio held 32 THCs and 45 LLCs.

The total fair values of assets invested in THCs and LLCs as of June 30, 2023 and June 30, 2022 were $3.3 billion and $4.1 billion, respectively. Investment managers responsible for managing real estate investments held in THCs can be found in the Investment Section, List of Investment Managers under Real Assets and Inflation Hedges — Core Real Estate.

Debt Program

The investment managers for the Debt Program are Barings, LLC and Quadrant Real Estate Advisors, LLC. The total fair value of assets invested in these two Debt Program accounts as of June 30, 2023 and June 30, 2022 were $63 million and $111 million, respectively. The Debt Program is included in LACERA's Credit functional category portfolio. Per LACERA's Board-approved 2021 Credit Structure Review, the legacy Credit assets, which include the underlying assets within the Debt Program, will be liquidated over the natural life of the investment cycle.

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

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 Space Lease

In 1990, LACERA, as the sole shareholder, formed a title holding company (THC) to acquire Gateway Plaza, a 273,546 square foot 13-story office building located in Pasadena, California, which serves as the LACERA headquarters. Shortly thereafter in 1991, LACERA, the lessee, entered into its original lease agreement with the THC (LACERA Gateway Property, Inc.), as lessor, to occupy approximately 85,000 square feet of office space. LACERA's offices include facilities to conduct in-person services with members, work stations for LACERA staff, and meeting space to host in-person Board of Retirement and Board of Investment meetings. 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.

LACERA entered into the 17th Amendment with the THC to occupy 125,559 square feet of office space in December 2020. The 17th 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 this 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 lease agreement, LACERA is required to pay its proportionate share of the increase in the building's operating cost and property taxes over its base year.

Total rent expenses paid by LACERA were approximately $6.1 million and $6.0 million for the fiscal years ended June 30, 2023 and June 30, 2022, 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 subject to statutory limitations, 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, 2023 and June 30, 2022, 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 administrative expenditures were less than the approved budgets.

Beginning with the operating budget for the fiscal year ended June 30, 2021, LACERA implemented a staggered budget development approach of 1) obtaining Board approval of an operating budget before the start of the new fiscal year, 2) completing a mid-year budget review, and 3) recommending budget amendments during the fiscal year, if deemed necessary, 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 review for the fiscal years ended June 30, 2023 and June 30, 2022, as approved by the LACERA governing boards, in comparison to actual administrative expenses.

Budget-to-Actual Analysis of Administrative Expenses

As of June 30, 2023 and 2022

(Dollars in Thousands)

	2023	2022
Basis for Budget Calculation, Actuarial Accrued Liability[1]	**$81,898,044**	**$78,275,175**
Maximum Allowable for Administrative Expenses	**$171,986**	$164,378
Total Statutory Budget Appropriation	**$171,986**	**$164,378**
Operating Budget Request	**127,767**	114,807
Administrative Expenses	**(112,150)**	(100,121)
Underexpended Operating Budget	**$15,617**	**$14,686**
Administrative Expenses	**112,150**	100,121
Basis for Budget Calculation, Actuarial Accrued Liability[1]	**$81,898,044**	$78,275,175
Administrative Expenses as a Percentage of the Basis for Budget Calculation	**0.14%**	**0.13%**
Limit per CERL	**0.21%**	0.21%
Administrative Expenses	**112,150**	100,121
Net Position Restricted for Benefits	**$73,851,886**	$70,289,612
Administrative Expenses as a Percentage of Net Position Restricted for Benefits	**0.15%**	**0.14%**

[1]The 2023 and 2022 budget calculations are based on the most recent Pension Plan actuarial reports available at the time the budget is prepared, which are the Actuarial Accrued Liabilities as of June 30, 2021 and June 30, 2020, 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. For additional disclosures regarding litigation, please see Note A — Benefit Plan Descriptions. 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 whose securities are held within LACERA's 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. Litigation is initiated when appropriate with the approval of the Board of Investments.

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 and outside counsel, 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 $189,000 and $197,000 for the fiscal years ended 2023 and 2022, respectively.

Office Space 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 lease terms with an expiration date of December 31, 2025.

The lease agreement for LACERA's office space is also discussed in Note K — Related Party Transactions. The total rent expenses for leasing the building premises are $6.1 million and $6.0 million in fiscal years ended 2023 and 2022, respectively.

Capital Commitments

LACERA real estate, private equity, hedge fund, and activist investment managers identify and acquire investments on a discretionary basis. Investment policies are 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, 2023, capital commitments approved by LACERA's Board of Investments, that are outstanding to the various investment managers but not yet funded, totaled $9.5 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. That same year, the County and LACERA entered into an agreement (the "1982 Agreement") whereby LACERA's Board of Retirement would administer the program subject to the terms and conditions of the agreement. In 1994, the County amended the Agreement to ensure that the OPEB Program will continue even if there are changes to or termination of the active employee health insurance programs.

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 program 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 benefits. Another difference under the Tier 1 program is that the County retiree medical, dental, and vision insurance subsidy applies to the retiree and dependents, while Tier 2 provides a subsidy for retiree-only coverage and does not include dependents.

Since inception, the OPEB Program's liabilities and costs were determined within a cost-sharing plan structure, where liabilities and costs are pooled and paid from the program. In July 2018, the OPEB Program, in which Los Angeles County, LACERA, the Superior Court, and outside districts participate, was restructured as an agent multiple-employer defined benefit OPEB plan (agent plan) where program liabilities and costs can be allocated to each employer.

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. However, eligible dependents are only covered for Tier 1 members, whereas Tier 2 members have retiree-only coverage for the County medical, dental, and vision insurance subsidy. 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, 2023 and 2022

	2023		2022	
	Medical	Dental/Vision	Medical	Dental/Vision
Retired Participants				
Retired Members and Survivors	55,359	57,271	54,065	55,772
Spouses and Dependents	28,274	32,699	27,684	31,811
Total Retired	**83,633**	**89,970**	**81,749**	**87,583**
Inactive Members — Vested	9,612	9,612	9,250	9,250
Active Members — Vested[1]	75,388	75,388	74,796	74,796
Total Membership Eligible for Benefits	**168,633**	**174,970**	**165,795**	**171,629**

[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, 2023 and 2022

	2023	2022
Retired with Eligibility for Death/Burial Benefits[2]	**63,152**	61,931
Total Retired	**63,152**	61,931
Inactive Members — Vested	**9,612**	9,250
Active Members — Vested[1]	**75,388**	74,796
Total Membership Eligible for Benefits	**148,152**	145,977

[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.
[2]Survivors, spouses, and dependents are not eligible for death benefits.

Benefit Provisions

The OPEB Program offers the same selection of medical plans as well as two dental/vision plans for both Tier 1 and Tier 2 participants. 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/survivors and their eligible dependents who are eligible for Medicare are required to enroll in that program, specifically Medicare Parts A and B, as well as a LACERA-administered Medicare HMO plan or a Medicare Supplement plan. However, the healthcare benefits coverage subsidy and the Medicare Part B premium reimbursement (annually reviewed and approved by the Board of Supervisors) only applies to retirees/survivors under the Tier 2 program, not eligible dependents.

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.

LACERA offers benefits for Tier 1 and Tier 2 members that are nearly identical. Retired members may enroll themselves, spouse, and dependents if all eligibility requirements are met. For Tier 1 members, the County subsidy applies to the member and/or eligible dependents, while Tier 2 limits the subsidy to the member only and the qualifying survivor upon the member's death. 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/survivors, 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 employer. 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
The Affordable Care Act (ACA), signed into law in March 2010, 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 that do not apply to LACERA insurance plans except as noted below:

- 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, 2022 valuation reflect the exclusion of the excise tax and the health insurer fees.

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 in the basic financial statements 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 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. LACERA administers these funds as part of its administrative responsibilities under the 1982 Agreement as amended. 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 actuarial 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 Program Investigation of Experience 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 Program[1]

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

OPEB Trust

County, Superior Court, and LACERA

[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. However, an agent plan structure determines program liabilities and costs directly by employer and allocates shared expenses to each employer. This provides employers with 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 in the OPEB Trust, 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 — Other Post-Employment Benefits (OPEB) Trust.

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 existing post-retirement health insurance benefits. 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. LACERA agreed not to change retired members' contributions toward insurance premiums or modify medical benefit levels without the County's prior consent. 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.

Premium Payments

During the fiscal years ended June 30, 2023 and 2022, respectively, healthcare premium payments of $686.4 million and $671.1 million were made to insurance carriers. These premiums were funded by employer subsidy payments of $638.0 million and participant payments of $48.4 million for the fiscal year ended 2023. The employer subsidy payments for the fiscal year ended 2022 were $623.0 million, with participant payments of $48.1 million.

In addition, $97.5 million and $9.8 million was funded by employer subsidy payments for Medicare Part B reimbursements and death/burial benefits, respectively, for the fiscal year ended June 30, 2023, and $88.2 million and $10.0 million for these benefits, respectively, during the fiscal year ended June 30, 2022.

A premium holiday is a temporary period in which the monthly premium costs for both the Program sponsors (i.e., County and participating employers) 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, 2023 and 2022. The Board of Retirement approved the most recent premium holiday for the January 2015 insurance coverage period.

NOTE O — Hedge Fund Investments

LACERA's Investment Policy Statement establishes the portfolio framework for and role of the hedge funds program. Diversified hedge funds comprise a variety of hedged investments, such as relative value, arbitrage, and long/short strategies within a diversified portfolio.

The status of LACERA's hedge fund program as of June 30, 2023 is as follows:

- LACERA is invested in eight hedge fund managers in the core hedge funds portfolio.
- LACERA is invested in a total of seven hedge fund emerging managers in the hedge funds emerging manager portfolio. LACERA's discretionary hedge funds emerging manager separate account manager, Stable Asset Management, selected two new emerging managers during fiscal year 2023.
- LACERA continues to have exposure with one hedge fund of funds manager, Grosvenor Capital Management (GCM). In 2019, LACERA initiated the full redemption of the GCM hedge fund of funds' portfolio. This portfolio began returning cash during fiscal year 2020 and will continue to distribute cash in alignment with the liquidity terms of the portfolio or underlying managers. GCM is managing the redemption process of the GCM portfolio.

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, 2023 and June 30, 2022 were $4.9 billion and $4.4 billion, respectively.

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

The core portfolio, emerging manager portfolio, and GCM hedge funds of funds portfolio reside within Diversified Hedge Funds under the Risk Reduction and Mitigation functional asset category of LACERA's Total Fund. 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 72, Fair Value Measurement and Application. GASB 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). The hierarchy is based on the valuation inputs used to measure the fair value of the investment securities and holdings. The fair value hierarchy includes three levels and one additional category.

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 other 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. The table below illustrates investments classified by their fair value hierarchy (Levels 1, 2, and 3) as well as investments measured at NAV.

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. Equity securities classified in Level 2 are not traded in the active market. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. These matrix pricing techniques incorporate inputs such as yield, prepayment speeds, and credit spreads for fixed income securities. Derivative securities classified as Level 2 are securities whose value are either derived daily from associated securities that are traded, or are determined by using a market approach that considers benchmark interest rates.

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 Funds, Private Equity, Real Assets, Real Estate, Equity, and Fixed Income Funds

Investments in hedge funds, private equity, real assets, real estate, equity, and fixed income funds are valued at the estimated net asset value (NAV) based upon the fair value of the underlying investments, 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

Real estate investments are valued at NAV, based upon 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 annually.

LACERA has the following recurring fair value measurements as of June 30, 2023 and 2022.

Investments and Derivative Instruments Measured at Fair Value — Pension Plan

As of June 30, 2023
(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	$196,008	$—	$196,008	$—
Corporate and Other Credit	1,991,678	—	1,932,426	59,252
Municipal / Revenue Bonds	8,141	—	8,141	—
Non-U.S. Fixed Income	223,581	—	179,595	43,986
Private Placement Fixed Income	1,285,038	—	1,280,928	4,110
U.S. Government Agency	809,533	—	809,533	—
U.S. Treasuries	5,565,801	—	5,565,801	—
Whole Loan Mortgages	9,894	—	—	9,894
Total Fixed Income Securities	**$10,089,674**	**$—**	**$9,972,432**	**$117,242**
Equity Securities				
Non-U.S. Equity	$10,285,308	$10,280,730	$519	$4,059
Pooled Investments	414,172	414,172	—	—
U.S. Equity	15,976,842	15,967,901	1,770	7,171
Total Equity Securities	**$26,676,322**	**$26,662,803**	**$2,289**	**$11,230**
Collateral from Securities Lending	**$1,869,433**	**$—**	**$1,869,433**	**$—**
Total Investments by Fair Value Level	**$38,635,429**	**$26,662,803**	**$11,844,154**	**$128,472**
Investments Measured at Net Asset Value (NAV)				
Fixed Income	$7,831,883			
Equity	453,239			
Hedge Funds	4,890,856			
Private Equity	13,894,495			
Real Estate	5,109,454			
Real Assets	2,514,132			
Total Investments Measured at NAV	**$34,694,059**			
Total Investments	**$73,329,488**			
Derivative Instruments				
Foreign Exchange Contracts	$42,556	$—	$42,556	$—
Foreign Equity Derivatives	562	562	—	—
Total Derivative Instruments	**$43,118**	**$562**	**$42,556**	**$—**

Investments Measured at Net Asset Value — Pension Plan

As of June 30, 2023

(Dollars in Thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Fixed Income Funds[1]	$7,831,883	$1,834,547	Daily, Monthly or Not Eligible	1-60 days or N/A
Commingled Equity Funds[2]	453,239	—	Daily, Monthly or Not Eligible	1-60 days or N/A
Hedge Funds[3]	4,890,856	181,598	Daily, Monthly, Quarterly, Semi-Annual, Annual; Self-Liquidating	5-180 days
Private Equity[4]	13,894,495	5,299,231	Not Eligible	N/A
Real Estate[4]	5,109,454	1,289,323	Quarterly or Not Eligible	30 days+ or N/A
Real Assets[4]	2,514,132	913,268	Not Eligible	N/A
Total Investments Measured at NAV	**$34,694,059**			

[1]**Fixed Income Funds:** Eleven fixed income funds 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. Approximately 60 percent of assets are available within 12 months; these funds provide daily, monthly, or quarterly liquidity. Approximately 40 percent of the fund assets have liquidity beyond 12 months.

[2]**Commingled Equity Funds:** One equity fund is considered commingled in nature. The fund is valued at NAV of units held at the end of the period based upon the fair value of the underlying investments. The fund represents 2 percent of the equity assets and is subject to a lockup period that limits redemptions for the next year.

[3]**Hedge Funds:** This portfolio consists of 15 current funds and one fund of funds. Hedge Fund investments are valued at NAV per share. When considering liquidity terms of the current funds, 70 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. Approximately 30 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, Real Assets, and Real Estate Funds:** LACERA's Private Equity portfolio consists of 296 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 funds are currently eligible for redemption. The Real Assets portfolio consists of 24 funds, investing primarily in infrastructure and natural resources. Four of the funds are eligible for redemption after an initial lockup period, and the other 20 of the funds are not eligible for redemption as the lockup period is typically from 10 to 15 years. The Real Estate portfolio, composed of 25 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. Five out of 25 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 Derivative Instruments Measured at Fair Value — Pension Plan

As of June 30, 2022
(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	$243,612	$—	$243,612	$—
Corporate and Other Credit	2,540,329	—	2,486,407	53,923
Municipal / Revenue Bonds	10,531	—	10,531	—
Non-U.S. Fixed Income	342,300	—	311,667	30,632
Private Placement Fixed Income	1,584,609	—	1,584,451	158
U.S. Government Agency	879,765	—	879,765	—
U.S. Treasuries	6,255,435	—	6,255,435	—
Pooled Investments	541,639	541,639	—	—
Whole Loan Mortgages	11,873	—	—	11,873
Total Fixed Income Securities	**$12,410,093**	**$541,639**	**$11,771,868**	**$96,586**
Equity Securities				
Non-U.S. Equity	$8,839,445	$8,835,981	$11	$3,453
Pooled Investments	326,233	326,233	—	—
U.S. Equity	13,638,899	13,606,890	10,232	21,777
Total Equity Securities	**$22,804,577**	**$22,769,104**	**$10,243**	**$25,230**
Collateral from Securities Lending	**$1,401,077**	**$—**	**$1,401,077**	**$—**
Total Investments by Fair Value Level	**$36,615,747**	**$23,310,743**	**$13,183,188**	**$121,816**
Investments Measured at Net Asset Value (NAV)				
Fixed Income	$6,254,217			
Equity	1,660,096			
Hedge Funds	4,440,434			
Private Equity	12,753,842			
Real Estate	5,802,979			
Real Assets	1,363,252			
Total Investments Measured at NAV	**$32,274,820**			
Total Investments	**$68,890,567**			
Derivative Instruments				
Foreign Exchange Contracts	$171,052	$—	$171,052	$—
Foreign Fixed Income Derivatives	(18,746)	(12)	(18,734)	—
Foreign Equity Derivatives	1,242	1,242	—	—
U.S. Equity Derivatives	(1,195)	(1,195)	—	—
U.S. Fixed Income Derivatives	(3,778)	29	(3,807)	—
Total Derivative Instruments	**$148,575**	**$64**	**$148,511**	**$—**

Investments Measured at Net Asset Value — Pension Plan

As of June 30, 2022
(Dollars in Thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Fixed Income Funds[1]	$6,254,217	$857,195	Daily, Monthly or Not Eligible	1-60 days or N/A
Commingled Equity Funds[2]	1,660,096	—	Daily, Monthly or Not Eligible	1-60 days or N/A
Hedge Funds[3]	4,440,434	381,198	Daily, Monthly, Quarterly, Semi-Annual, Annual; Self-Liquidating	5-180 days
Private Equity[4]	12,753,842	4,822,028	Not Eligible	N/A
Real Estate[4]	5,802,979	334,665	Quarterly or Not Eligible	30 days+ or N/A
Real Assets[4]	1,363,252	1,618,103	Not Eligible	N/A
Total Investments Measured at NAV	**$32,274,820**			

[1]**Fixed Income Funds:** Nine fixed income funds are valued at the net asset value (NAV) of units held at the end the period based upon the fair value of the underlying investments. Approximately 80 percent of assets are available within 12 months; these funds provide daily, monthly, or quarterly liquidity. Approximately 20 percent of the fund assets have liquidity beyond 12 months

[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 the funds representing 5 percent of Commingled Equity assets have liquidity available subject to lockup periods that limit or prohibit redemptions for the next three years.

[3]**Hedge Funds:** The portfolio consists of 13 current funds and two fund of funds. Hedge Fund investments are valued at NAV per share. When considering liquidity terms of the current funds, 62 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. Approximately 38 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 that 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, Real Assets, and Real Estate Funds:** LACERA's Private Equity portfolio consists of 272 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 these funds are currently eligible for redemption. The Real Assets consists of 17 funds, investing primarily in infrastructure and natural resources. Three of the funds are eligible for redemption after an initial lockup period, and the other 14 of the funds are not eligible for redemption as the lockup period is typically from 10 to 15 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, 2023

(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				
U.S. Treasuries	$75,346	$—	$75,346	$—
Pooled Investments	293,690	293,690	—	—
Total Fixed Income Securities	**$369,036**	**$293,690**	**$75,346**	**$—**
Total Investment by Fair Value Level	**$369,036**	**$293,690**	**$75,346**	**$—**

Investments Measured at Net Asset Value (NAV)	
Fixed Income	$872,197
Equity	1,468,752
Real Estate Investment Trust (REIT)	311,966
Total Investments Measured at NAV	**$2,652,915**
Total Investments	**$3,021,951**

Investments Measured at Net Asset Value — OPEB Trust

As of June 30, 2023

(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	$872,197	$—	Daily, Monthly	1-30 days or N/A
Commingled Equity Fund	1,468,752	—	Daily, Monthly	1-30 days or N/A
Real Estate Investment Trust (REIT)	311,966	—	Daily, Monthly	1-30 days or N/A
Total Investments Measured at NAV[1]	**$2,652,915**	**$—**		

[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 Trust

As of June 30, 2022
(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	$238,854	$238,854	$—	$—
Total Fixed Income Securities	**$238,854**	**$238,854**	**$—**	**$—**
Total Investment by Fair Value Level	**$238,854**	**$238,854**	**$—**	**$—**
Investments Measured at Net Asset Value (NAV)				
Fixed Income	$664,999			
Equity	1,199,773			
Real Estate Investment Trust (REIT)	241,168			
Total Investments Measured at NAV	**$2,105,940**			
Total Investments	**$2,344,794**			

Investments Measured at Net Asset Value — OPEB Trust

As of June 30, 2022
(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	$664,999	$—	Daily, Monthly	1-30 days or N/A
Commingled Equity Fund	1,199,773	—	Daily, Monthly	1-30 days or N/A
Real Estate Investment Trust (REIT)	241,168	—	Daily, Monthly	1-30 days or N/A
Total Investments Measured at NAV[1]	**$2,105,940**	**$—**		

[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, 2023

(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	$3,636	$—	$3,636	$—
Private Placement Fixed Income	2,925	—	2,925	—
Corporate and Other Credit	22,413	—	22,413	—
U.S. Treasuries	152,703	—	152,703	—
Total Fixed Income Securities	**$181,677**	**$—**	**$181,677**	**$—**
Total Investments by Fair Value Level	**$181,677**	**$—**	**$181,677**	**$—**

Investments Measured at Fair Value — OPEB Custodial Fund

As of June 30, 2022

(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	$8,493	$—	$8,493	$—
Private Placement Fixed Income	3,681	—	3,681	—
Corporate and Other Credit	28,280	—	28,280	—
U.S. Treasuries	131,127	—	131,127	—
Total Fixed Income Securities	**$171,581**	**$—**	**$171,581**	**$—**
Total Investments by Fair Value Level	**$171,581**	**$—**	**$171,581**	**$—**

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

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. 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 unfunded OPEB liability. It provides a framework whereby the County contributes to the Trust with regular frequency and may transition, over time, to a prefunding model which will use OPEB Trust assets to pay retiree healthcare benefits. Under the existing pay-as-you-go model, the County 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 which can be used to pay expenses and future administrative costs 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. Assets held in the OPEB Trust are 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.

Los Angeles Superior Court (Court) OPEB Trust

Similar to the OPEB Trust established by the County, the Court established a separate trust fund, the Court OPEB Trust, to prefund the Court's OPEB liabilities. 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 LACERA's Board of Investments as trustee and investment services provider.

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, the Court entered into a trust and investment services agreement with the LACERA Board of Investments, similar to the County arrangement. The Court is the only employer participating in the Court OPEB Trust.

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 County-wide budget, with a dedicated funding policy for the OPEB liability using a multi-year approach to enhance the County's OPEB Trust funding commitment 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 with the County in lock-step funding on a pro-rata basis. LACERA's annual budget includes provisions for its 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.

LACERA OPEB Liability Funding

In June of 2023 and 2022, LACERA's Board of Retirement and Board of Investments approved LACERA's revised administrative budget policy each year to include additional OPEB Trust prefunding contributions at the discretion of LACERA's Chief Executive Officer. The policy states that based upon a projected budget surplus, an additional OPEB contribution may be up to, but not exceed, the OPEB contribution amount originally budgeted for that year; so, an administrative budget surplus can be used to increase LACERA's total OPEB prefunding contribution for the year. Before each fiscal year ended 2023 and 2022, the Chief Executive Officer approved and authorized the transfer of an additional OPEB Trust contribution for LACERA.

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 Statement

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 retiree healthcare program participants 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, divided the Trust into four broad functional categories and contain asset classes that align with the purpose of each function. The Board 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.

At the June 2021 Board meeting, the Board approved a new strategic asset allocation for the OPEB Master Trust that provides the same probability of achieving its target return, but with significantly lower volatility. Consistent with LACERA's Investment Beliefs, the strategic asset allocation provides additional benefits of diversification by introducing private market assets into the portfolio structure.

The functional categories have final target weights of 45.0 percent in Growth, 18.0 percent in Credit, 17.0 for Risk Reduction and Mitigation, and 20.0 percent in Real Assets and Inflation Hedges, which differ from the amounts shown in the table below. As part of the Board-approved three-step implementation plan, transition to the new target asset allocation will occur over time, with the last phase transpiring in the upcoming fiscal year.

Schedule of Target Allocation

For the Fiscal Years Ended June 30, 2023 and 2022

Asset Class	2023 Target Allocation		2022 Target Allocation	
Growth	**47.5%**		**50.0%**	
Global Equity		45.0%		50.0%
Private Equity		2.5%		
Credit	**19.0%**		**20.0%**	
Liquid Credit		16.5%		
Illiquid Credit		2.5%		
High Yield Bonds				6.0%
Bank Loans				10.0%
EM Local Currency Bonds				4.0%
Risk Reduction & Mitigation	**13.5%**		**10.0%**	
Investment Grade Bonds		9.0%		8.0%
Long-Term Government Bonds		2.5%		
Cash and Cash Equivalents		2.0%		2.0%
Real Assets & Inflation Hedges	**20.0%**		**20.0%**	
Real Estate		9.0%		10.0%
Natural Resources		1.0%		
Commodities		3.0%		4.0%
Infrastructure		1.0%		
Treasury Inflation-Protected Securities		6.0%		6.0%

Investment Concentrations

On June 30, 2023, the OPEB Master Trust held approximately 47.5 percent in Growth, 19.0 percent in Credit, 13.5 percent in Risk Reduction and Mitigation, and 20.0 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, 2023, the annual money-weighted rate of return on OPEB Trust investments, net of OPEB Trust investment expenses, was 9.7 percent. Historical returns will be presented as they become available in the Schedule of Investment Returns — OPEB Program presented in the Required Supplementary Information (RSI) section of this report.

Contributions

The participating employers historically discharged their current healthcare premium subsidy obligations on a pay-as-you-go basis. LACERA bills the participating employers and members for healthcare premiums on a monthly basis and receives reimbursement. 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 funds in accordance with the terms of the Trust Agreement. Retiree healthcare program participants are required to pay the difference between the employer-paid subsidy and the actual premium cost.

For the fiscal years ended June 30, 2023 and 2022, LACERA contributed a total of $3,740,000 and $3,131,000, respectively, to prefund LACERA's portion of OPEB benefits. These amounts include the contributions originally funded through LACERA's administrative budget, plus additional contributions based on a projected budget surplus, as allowed within LACERA's budget policy, for both the fiscal years ended 2022–2023 and 2021–2022.

During fiscal years ended June 30, 2023 and 2022, the County, Superior Court, and LACERA made total prefunding contributions to the OPEB Trust of $451.2 million and $376.4 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, 2023 and 2022

(Dollars in Thousands)

	2023	2022
Los Angeles County	**$441,452**	$372,243
LACERA	**3,740**	3,131
Superior Court	**6,000**	1,000
Total Contributions[1]	**$451,192**	$376,374

[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, expensed to the Trust, include payments for investment management fees, custodial fees, consultant fees, and overhead charged by LACERA for administering the OPEB Trust Fund. Expenses totaled $2.1 million and $1.8 million for fiscal years ended June 30, 2023 and 2022, respectively. Higher fund balances caused an increase in investment management fees.

Expenses — OPEB Trust

For the Fiscal Years Ended June 30, 2023 and 2022

	2023					
	Management Fees	Custodial Fees	Consultant Fees	Administrative Expenses	Misc. Investment Expense	Total
Los Angeles County	$788,002	$210,827	$83,973	$713,800	$201	$1,796,803
LACERA	3,627	962	384	45,544	13	50,530
Superior Court	17,815	4,828	1,916	182,174	54	206,787
Total Expenses	**$809,444**	**$216,617**	**$86,273**	**$941,518**	**$268**	**$2,054,120**

	2022					
	Management Fees	Custodial Fees	Consultant Fees	Administrative Expenses	Misc. Investment Expense	Total
Los Angeles County	$924,384	$212,539	$59,881	$449,217	$—	$1,646,021
LACERA	3,657	841	237	29,948	—	34,683
Superior Court	24,143	5,482	1,558	119,791	—	150,974
Total Expenses	**$952,184**	**$218,862**	**$61,676**	**$598,956**	**$—**	**$1,831,678**

Fund Values
OPEB Trust Fund additions include contributions from participating employers and investment income. Deductions include investment expenses, administrative expenses, and redemptions. There were no redemptions made by OPEB Trust participating during the fiscal years ended June 30, 2023 and 2022. The OPEB Trust Fund values were as follows.

Fund Values — OPEB Trust

As of June 30, 2023 and 2022
(Dollars in Thousands)

	2023		
	Book Value	Unrealized Investment Appreciation	Fair Value
Los Angeles County	$2,538,772	$470,554	$3,009,326
LACERA	13,633	1,977	15,610
Superior Court	53,191	13,713	66,904
Total Balance	**$2,605,596**	**$486,244**	**$3,091,840**

	2022		
	Book Value	Unrealized Investment Appreciation	Fair Value
Los Angeles County	$2,073,137	$254,298	$2,327,435
LACERA	9,822	977	10,799
Superior Court	46,819	9,049	55,868
Total Balance	**$2,129,778**	**$264,324**	**$2,394,102**

NOTE R — Subsequent Events

Subsequent events have been evaluated by management through October 13, 2023, which is the date the financial statements were issued.

Schedule of Net Pension Liability and Related Ratios

For the Fiscal Years Ended June 30

(Dollars in Thousands)

	2023	2022	2021	2020	2019
Total Pension Liability	**$88,469,442**	$83,931,424	$80,303,904	$76,579,594	$70,309,252
Less: Fiduciary Net Position	**(73,851,886)**	(70,289,612)	(73,012,026)	(58,510,408)	(58,294,837)
Net Pension Liability	**$14,617,556**	$13,641,812	$7,291,878	$18,069,186	$12,014,415
Fiduciary Net Position as a Percentage of Total Pension Liability	**83.48%**	83.75%	90.92%	76.40%	82.91%
Covered Payroll[1]	**$9,425,690**	$9,100,791	$9,062,051	$8,724,151	$8,370,050
Net Pension Liability as a Percentage of Covered Payroll	**155.08%**	149.90%	80.47%	207.12%	143.54%

	2018	2017	2016	2015	2014
Total Pension Liability	$67,057,218	$64,031,677	$58,528,457	$56,570,520	$54,977,021
Less: Fiduciary Net Position	(56,299,982)	(52,743,651)	(47,846,694)	(48,818,350)	(47,722,277)
Net Pension Liability	$10,757,236	$11,288,026	$10,681,763	$7,752,170	$7,254,744
Fiduciary Net Position as a Percentage of Total Pension Liability	83.96%	82.37%	81.75%	86.30%	86.80%
Covered Payroll[1]	$7,957,981	$7,637,032	$7,279,777	$6,949,420	$6,672,886
Net Pension Liability as a Percentage of Covered Payroll	135.18%	147.81%	146.73%	111.55%	108.72%

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

For other actuarial methods and assumptions, see Notes to the Required Supplementary Information.

Schedule of Changes in Net Pension Liability and Related Ratios

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

	2023	2022	2021	2020
Total Pension Liability				
Service Cost	**$1,635,318**	$1,583,222	$1,499,597	$1,301,460
Interest on Total Pension Liability	**5,950,906**	5,696,846	5,433,409	5,154,164
Effect of Plan Changes	**—**	—	—	—
Effect of Assumption Changes or Inputs	**855,336**	—	—	2,626,103
Effect of Economic/Demographic (Gains) or Losses	**377,821**	392,019	605,566	794,955
CalPERS Transfer	**—**	—	—	—
Benefit Payments and Refund of Contributions	**(4,281,363)**	(4,044,567)	(3,814,262)	(3,606,340)
Net Change in Total Pension Liability	**$4,538,018**	$3,627,520	$3,724,310	$6,270,342
Total Pension Liability — Beginning	**83,931,424**	80,303,904	76,579,594	70,309,252
Total Pension Liability — Ending (a)	**$88,469,442**	$83,931,424	$80,303,904	$76,579,594
Fiduciary Net Position				
Contributions: Employer[1]	**$2,301,706**	$2,199,889	$2,012,877	$1,800,137
Contributions: Metropolitan Transportation Authority	**—**	—	—	—
CalPERS Transfer	**—**	—	—	—
Contributions: Member[1]	**793,244**	758,632	760,994	659,296
Net Investment Income[2]	**4,841,151**	(1,554,155)	15,615,699	1,432,547
Net Miscellaneous Income	**4,551**	3,898	2,680	1,985
Benefit Payments and Refund of Contributions	**(4,281,363)**	(4,044,567)	(3,814,262)	(3,606,340)
Administrative Expenses[2]	**(97,015)**	(86,111)	(76,370)	(72,054)
Net Change in Fiduciary Net Position	**$3,562,274**	($2,722,414)	$14,501,618	$215,571
Fiduciary Net Position — Beginning	**70,289,612**	73,012,026	58,510,408	58,294,837
Fiduciary Net Position — Ending (b)	**$73,851,886**	$70,289,612	$73,012,026	$58,510,408
Net Pension Liability — Ending (a) - (b)	**$14,617,556**	$13,641,812	$7,291,878	$18,069,186
Fiduciary Net Position as a Percentage of Total Pension Liability	**83.48%**	83.75%	90.92%	76.40%
Covered Payroll[3]	**$9,425,690**	$9,100,791	$9,062,051	$8,724,151
Net Pension Liability as a Percentage of Covered Payroll	**155.08%**	149.90%	80.47%	207.12%

[1]In accordance with GASB Statement Number 82, employer pickup contributions are classified as Member Contributions.
[2]In accordance with GASB Statement Number 67, investment related costs are reported as Investment Expense.
[3]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 continued

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

	2019	2018	2017
Total Pension Liability			
Service Cost	$1,239,396	$1,220,274	$1,106,755
Interest on Total Pension Liability	4,916,804	4,699,493	4,393,712
Effect of Plan Changes	—	—	—
Effect of Assumption Changes or Inputs	—	—	3,079,892
Effect of Economic/Demographic (Gains) or Losses	502,989	309,149	(47,506)
CalPERS Transfer	—	—	—
Benefit Payments and Refund of Contributions	(3,407,155)	(3,203,375)	(3,029,633)
Net Change in Total Pension Liability	$3,252,034	$3,025,541	$5,503,220
Total Pension Liability — Beginning	67,057,218	64,031,677	58,528,457
Total Pension Liability — Ending (a)	$70,309,252	$67,057,218	$64,031,677
Fiduciary Net Position			
Contributions: Employer[1]	$1,668,151	$1,524,823	$1,331,357
Contributions: Metropolitan Transportation Authority	—	—	2
CalPERS Transfer	—	—	—
Contributions: Member[1]	635,415	591,262	526,579
Net Investment Income[2]	3,163,618	4,705,949	6,129,300
Net Miscellaneous Income	5,626	5,163	6,182
Benefit Payments and Refund of Contributions	(3,407,155)	(3,203,375)	(3,029,633)
Administrative Expenses[2]	(70,800)	(67,491)	(66,830)
Net Change in Fiduciary Net Position	$1,994,855	$3,556,331	$4,896,957
Fiduciary Net Position — Beginning	56,299,982	52,743,651	47,846,694
Fiduciary Net Position — Ending (b)	$58,294,837	$56,299,982	$52,743,651
Net Pension Liability — Ending (a) - (b)	$12,014,415	$10,757,236	$11,288,026
Fiduciary Net Position as a Percentage of Total Pension Liability	82.91%	83.96%	82.37%
Covered Payroll[3]	$8,370,050	$7,957,981	$7,637,032
Net Pension Liability as a Percentage of Covered Payroll	143.54%	135.18%	147.81%

[1] In accordance with GASB Statement Number 82, employer pickup contributions are classified as Member Contributions.
[2] In accordance with GASB Statement Number 67, investment related costs are reported as Investment Expense.
[3] 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 continued

For the Fiscal Years Ended June 30

(Dollars in Thousands)

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

[1] In accordance with GASB Statement Number 82, employer pickup contributions are classified as Member Contributions.

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

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

Schedule of Employer Contributions History — Pension Plan[1]

Last 10 Fiscal Years
(Dollars in Thousands)

	2023	**2022**	**2021**	**2020**	**2019**
Actuarially Determined Contributions	**$2,301,706**	$2,199,889	$2,012,877	$1,800,137	$1,668,151
Contributions in Relation to Actuarially Determined Contributions	**2,301,706**	2,199,889	2,012,877	1,800,137	1,668,151
Contribution Deficiency/(Excess)	**$—**	$—	$—	$—	$—
Covered Payroll[3]	**$9,425,690**	$9,100,791	$9,062,051	$8,724,151	$8,370,050
Contributions as a Percentage of Covered Payroll	**24.42%**	24.17%	22.21%	20.63%	19.93%

	2018	**2017[2]**	**2016**	**2015**	**2014**
Actuarially Determined Contributions	$1,524,823	$1,331,357	$1,403,709	$1,455,718	$1,281,795
Contributions in Relation to Actuarially Determined Contributions	1,524,823	1,331,357	1,403,709	1,455,718	1,281,795
Contribution Deficiency/(Excess)	$—	$—	$—	$—	$—
Covered Payroll[3]	$7,957,981	$7,637,032	$7,279,777	$6,949,420	$6,672,886
Contributions as a Percentage of Covered Payroll	19.16%	17.43%	19.28%	20.95%	19.21%

[1]In accordance with GASB Statement Number 82, employer pickup contributions are classified as Member Contributions.
[2]Portion of contributions fulfilled by transfers from County Contribution Credit Reserve: $21,891 (FYE 2017, Superior Court).
[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

For the Fiscal Years Ended June 30

	2023	2022	2021	2020	2019
Annual Money-Weighted Rate of Return (Net of Investment Expense)[1]	**6.4%**	0.6%	25.2%	1.4%	5.5%

	2018	2017	2016	2015	2014
Annual Money-Weighted Rate of Return (Net of Investment Expense)[1]	9.0%	12.7%	0.7%	4.1%	17.2%

[1]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 2022 triennial investigation of experience (experience study). The June 30, 2022 actuarial valuation prepared by the consulting actuary reaffirmed all assumptions adopted by the LACERA Board of Investments in December 2022.

Key Methods and Significant Assumptions[1]

Description	Method
Valuation Timing	*Contribution Rates Effective Two Years After Valuation* 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, 2022 valuation are applied for the fiscal year July 1, 2023 to June 30, 2024.
Actuarial Cost Method	Individual entry age.
Investment Rate of Return	*Annual Rate of 7.0 Percent* Future investment earnings are assumed to accrue at an annual rate of 7.0 percent, compounded annually, net of both investment and administrative expenses. This rate was adopted beginning with the June 30, 2019 valuation and reaffirmed in the 2022 triennial experience study.
Consumer Price Index	*Annual Rate of 2.75 Percent* This rate was adopted beginning with the June 30, 2016 valuation and reaffirmed in the 2022 triennial experience study.
Salary Increases and Wage Growth	*Projected Salary Increases: 3.66 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 growth. These rates are updated each year.
Asset Valuation Method	*Five-Year Asset Smoothing* Assets are valued using a five-year smoothed method based on the difference between expected fair value and actual fair value. The recognition method has no minimum or maximum corridor applied. This rate was adopted with the 2016 triennial experience study. The asset valuation method was modified to include an offsetting of gains and losses prior to applying asset smoothing. Offsetting was adopted with the 2022 triennial experience study.
Amortization Method	*20-Year Amortization* 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, 2022 funding valuation includes 14 layers.

Key Methods and Significant Assumptions[1] continued

Description	Method
Rates of Separation From Employment	*Various Rates and Probabilities* A schedule of the probabilities of employment termination based on age and/or service due to a particular cause is used. For additional information, see the Retirement Probability of Occurrence tables in the Actuarial Section.
Cost-of-Living Adjustments (COLA)	*Annual COLAs of 2.75 Percent or 2.0 Percent* 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 and reaffirmed with the 2022 experience study.
Mortality	*Mortality Tables for Public Employees* Various rates based on Pub-2010 mortality tables and using MP-2021 Ultimate Projection Scale. See the June 30, 2022 actuarial funding valuation report for details.
Recognition of Inflows/Outflows	*Straight-Line Amortization*
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.

Changes in Pension Plan Assumptions

In addition to the annual actuarial valuations, LACERA requires its consulting actuary to review the reasonableness of the economic and demographic actuarial assumptions every three years. LACERA's consulting actuary completed an investigation of experience for the three-year period ended June 30, 2022. This review, commonly referred to as the 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 results, the actuary determines whether changing the assumptions or methodology will better project benefit liabilities and asset growth. At the December 2022 Board of Investments meeting, the Board reaffirmed some existing assumptions and adopted some new valuation assumptions with the approval of the 2022 experience study report. Those assumptions were used to prepare the June 30, 2022 actuarial valuation report.

Assumption changes from the June 30, 2016 and June 30, 2019 experience study reports are also presented 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 and January 2020 meetings, respectively.

2022 Assumption Changes

Actuarial method and assumption changes derived from the 2022 experience study were applied in preparing the June 30, 2022 valuation report. Actuarial information provided for the fiscal year ended June 30, 2023 financial statements is based on these reports unless otherwise noted.

The Board adopted changes to the following actuarial assumptions for the 2022 valuation report:

- Modified the five-year actuarial asset smoothing method to include gain and loss offsetting.
- Updated the rates of assumed merit salary increases and assumed service retirement to reflect a member's length of service in addition to their age.
- Updated the mortality improvement scale to reflect the most recently published Society of Actuaries mortality projection scale.

- Designated the Supplemental Targeted Adjustment for Retirees (STAR) Reserve as a non-valuation reserve, which was previously included as a valuation reserve.

The 2022 valuation report contained some actuarial assumptions the Board reaffirmed that did not change:

- Investment return assumption of 7.0 percent.
- CPI assumption of 2.75 percent.
- General wage growth assumption of 3.25 percent.

2019 Assumption Changes

Actuarial method and assumption changes derived from the 2019 experience study were applied in preparing the June 30, 2021 valuation report. Actuarial information provided for the fiscal year ended June 30, 2022 financial statements is based on these reports unless otherwise noted.

The following actuarial assumptions were applied to the 2021 valuation report, as adopted by the Board:

- Investment return assumption of 7.0 percent.
- CPI assumption of 2.75 percent.
- General wage growth assumption of 3.25 percent.
- New mortality tables based on published tables that are specific to public plans' general and safety members, with adjustments to match LACERA experience.
- MP-2014 Ultimate Projection Scale to reflect 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 Investment Returns — OPEB Program[1]

For the Fiscal Years Ended June 30

	2023	2022	2021	2020	2019	2018	2017
Annual Money-Weighted Rate of Return (Net of Investment Expense)[2]	**9.7%**	(11.8)%	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, 2023 and 2022
(Dollars in Thousands)

	2023	2022
Personnel Services		
Salaries and Wages	**$48,391**	$43,224
Employee Benefits	**30,475**	28,499
Total Personnel Services	**$78,866**	$71,723
Consultant & Professional Services		
County Department Services	**$447**	$461
External Audit Fees	**432**	276
Legal Consultants	**3,712**	3,154
Professional Services	**1,216**	427
Temporary Personnel Services	**5,244**	5,085
Total Consultant & Professional Services	**$11,051**	$9,403
Operating Expenses & Equipment		
Administrative Support	**$178**	$203
General Expenses	**1,371**	891
Computer Software	**4,747**	3,478
Disability Medical Service Fees	**3,045**	2,240
Educational Expenses	**656**	599
Equipment	**1,395**	963
Facilities Operations	**7,119**	6,582
Insurance	**976**	1,096
Printing	**1,078**	808
Postage	**757**	971
Telecommunications	**559**	935
Transportation and Travel	**352**	229
Total Operating Expenses & Equipment	**$22,233**	$18,995
Total Administrative Expenses	**$112,150**	$100,121

Schedule of Investment Expenses

For the Fiscal Years Ended June 30, 2023 and 2022

(Dollars in Thousands)

	Pension Plan		OPEB Master Trust		OPEB Custodial Fund	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**
Investment Management Fees						
Cash and Short-Term	**$269**	$307	**$22**	$20	**$8**	$25
Commodity	**2,409**	5,203	**154**	161	**—**	—
Global Equity	**26,190**	44,895	**244**	295	**—**	—
Fixed Income	**46,816**	77,576	**1,768**	1,857	**104**	90
Hedge Fund	**139,506**	99,075	**—**	—	**—**	—
Private Equity	**210,556**	260,426	**—**	—	**—**	—
Real Assets	**26,282**	22,565	**—**	—	**—**	—
Real Estate	**61,942**	50,674	**130**	148	**—**	—
Total Investment Management Fees[1]	**$513,970**	$560,721	**$2,318**	$2,481	**$112**	$115
Other Investment Expenses						
Fund Expenses[2]	**$56,104**	$47,326				
Consultants	**$2,627**	$2,960	**$86**	$62	**$—**	$—
Custodian	**$3,495**	$3,700	**217**	219	**21**	27
Legal Counsel	**$1,848**	$1,082	**—**	—	**—**	—
Other	**$4,126**	$2,867	**—**	—	**—**	—
Total Other Investment Expenses	**$68,200**	$57,935	**$303**	$281	**$21**	$27
Total Fees & Other Investment Expenses	**$582,170**	$618,656	**$2,621**	$2,762	**$133**	$142

[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 audit, legal, tax reporting, and fund administration expenses that are charged to the investment earnings by the investment manager.

Schedule of Payments to Consultants — Pension Plan

For the Fiscal Years Ended June 30, 2023 and 2022
(Dollars in Thousands)

	2023	2022
Actuarial		
Actuarial Valuations and Consulting Services	**$458**	$219
Audit		
External Audit Services	**$432**	$276
Legal		
Investment Legal Counsel	**$1,848**	$1,082
Legislative Consulting	**157**	256
Other Legal Services	**3,555**	2,899
Legal Subtotal	**$5,560**	$4,237
Management		
Management and Human Resources Consulting	**$56**	$38
Information Technology Consulting	**80**	53
Management Subtotal	**$136**	$91
Total Payments to Consultants	**$6,586**	$4,823

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