Adversity-> Adaptation->

Advancement

Expanded Services and Convenience for Members

Financial Section

When LACERA was forced to close in-person services, we developed new ways for members to connect with us. Members can now meet virtually with a benefits specialist, attend pre-retirement webinars or board meetings online, directly upload documents and forms, and conduct more self-service transactions.

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

Report on the Financial Statements

We have audited the accompanying financial statements of Los Angeles County Employees Retirement Association (LACERA) as of and for the years ended June 30, 2020 and 2019 and the related notes to the financial statements, which collectively comprise LACERA's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of Los Angeles County Employees Retirement Association as of June 30, 2020 and 2019 and the changes in fiduciary net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note B to the financial statements, LACERA adopted GASB Statement No. 84, Fiduciary Activities, which impacted the accounting treatment of custodial activity. Our opinion is not modified with respect to this matter.

As explained in Note P, the financial statements include investments valued at $14,671,562,000 (24 percent of net position) at June 30, 2020 and $14,265,613,000 (24 percent of net position) at June 30, 2019 whose fair values have been estimated by management in the absence of readily determinable market values. Given that publicly listed prices are not available, management uses alternative sources of information, including audited financial statements, unaudited interim reports, independent appraisals, and other similar sources of information, to determine the fair value of investments. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2020 on our consideration of Los Angeles County Employees Retirement Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Los Angeles County Employees Retirement Association's internal control over financial reporting and compliance.

October 15, 2020

Plante & Moran, PLLC

INTRODUCTION

Management is pleased to provide this discussion and analysis (MD&A) of the financial activities of the Los Angeles County Employees Retirement Association (LACERA) for the year ended June 30, 2020. Readers are encouraged to consider the information presented here in conjunction with information included in the Letter of Transmittal found in the Introductory Section of this Comprehensive Annual Financial Report (CAFR).

FINANCIAL HIGHLIGHTS

Pension Plan

Theodore Granger
Interim Chief Financial Officer

- Net Position Restricted for Benefits, as reported in the June 30, 2020 Statement of Fiduciary Net Position, totaled $58.5 billion, an increase of $0.2 billion or 0.4 percent from June 30, 2019.
- Total Additions, as reflected in the Statement of Changes in Fiduciary Net Position, were $3.9 billion resulting from investment earnings and employer and member contributions. Total Additions decreased in 2020, equal to $1.6 billion or 28.8 percent less than the amounts realized in 2019, primarily due to lower investment activity income.
- Total Deductions, as reflected in the Statement of Changes in Fiduciary Net Position, totaled $3.7 billion, an increase of $202 million or 5.8 percent from the prior year. The increase was primarily attributable to an increase in pension benefits paid to retired members.
- Milliman, LACERA's independent consulting actuary, completed the latest actuarial valuation as of June 30, 2019, which is used in preparing this CAFR, and determined the funded status of the Pension Plan (the ratio of actuarial value of assets to actuarial accrued liabilities) to be 77.2 percent versus 80.6 percent as of June 30, 2018. The decrease in funded ratio was primarily due to the assumption changes (including a reduction in the investment return assumption) effective with the June 30, 2019 valuation, which caused a decrease of 2.8 percent.
- The Net Pension Liability, provided in accordance with Governmental Accounting Standards Board Statement Number 67 (GASB 67), was $18.1 billion for the fiscal year ended June 30, 2020. This represents an increase of $6.1 billion from June 30, 2019, when the liability was $12.0 billion. The significant increase was caused by changes in the actuarial assumptions used as inputs in calculating future liabilities. As of June 30, 2020, the most recent measurement date, the Pension Plan's Fiduciary Net Position was 76.4 percent of the Total Pension Liability, a decrease from 82.9 percent as measured for the previous fiscal year ended 2019. This decrease was due to the significant growth in Total Pension Liability outpacing the slight growth in the Pension Plan's Fiduciary Net Position.

Other Post-Employment Benefits (OPEB) Program

- The OPEB Custodial Fund balance at June 30, 2020 increased to $148 million from the prior year when the balance was $133 million for the fiscal year ended 2019. The increase of 11 percent in funds held on behalf of plan sponsors, after funding pay-as-you-go benefit costs, was $15 million.
- The OPEB Trust Fiduciary Net Position increased by $0.3 billion, primarily due to contributions received from participating employers. The balance available to fund future OPEB liabilities at June 30, 2020 increased by 25 percent, totaling $1.5 billion as compared to $1.2 billion for the prior year at June 30, 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A serves as an introduction to the LACERA Basic Financial Statements, which include the following primary components: The Statement of Fiduciary Net Position; the Statement of Changes in Fiduciary Net Position; and the Notes to the Basic Financial Statements. The Basic Financial Statements are prepared in compliance with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB), utilizing the accrual basis of accounting as prescribed by Generally Accepted Accounting Principles of the United States (U. S. GAAP). Separate statements are provided for the Pension Plan, OPEB Custodial Fund, and OPEB Trust, which are distinct from each other and report the results of the annual financial activities within their respective presentations.

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

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

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 based on GASB 67 and contributes to the understanding of the changes in the Net Pension Liability of participating employers. 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.
>
> *Other Supplementary Information* (OSI) includes the schedules of Administrative Expenses, Investment Expenses, and Payments to Consultants. Due to the implementation of GASB Statement Number 84 (GASB 84), the Statement of Changes in Assets and Liabilities — OPEB Agency Fund was removed from this section. In addition, LACERA's Basic Financial Statements were updated to include the OPEB Custodial Fund activity including additions and deductions that occurred during the year within the Statement of Changes in Fiduciary Net Position. The OSI is presented immediately following the RSI section of this CAFR.

Pension Plan

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

Retiree Healthcare Benefits Program

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

In June 2014, the LACERA Board of Retirement approved the County's request to modify the agreement, which created a new retiree healthcare benefits tier for certain new employees in order to lower its costs. Structurally, the County segregated all the then-current retirees and employees into LACERA-administered RHCBP (Tier 1) and placed all employees hired after June 30, 2014 into the newly established Los Angeles County RHCBP (Tier 2). Employees are eligible for RHCBP if they are members of LACERA and retire from the County of Los Angeles, the Superior Court, or a participating Outside District. The RCHBP offers members an extensive choice of medical plans as well as two dental/vision plans. The medical plans are either HMOs or indemnity plans, and some are designed to work with Medicare benefits. Program benefits are provided through third-party insurance carriers with the participant's cost for medical and dental/vision insurance varying according to the years of retirement service credit with LACERA, the plan selected, and the number of persons covered.

OPEB Custodial Fund

The OPEB Custodial Fund reflects the annual financial activity of the RHCBP/OPEB Program for all participating employers (i.e., County, Court, and LACERA), including those that have not yet established any advanced funding in the OPEB Trust (i.e., Outside Districts). Plan sponsors and members provide monthly funding using a "pay-as-you-go" methodology, which is used to pay healthcare premiums including administrative fees, as well as other healthcare benefits provided by the OPEB Program. LACERA acts as a custodian for these funds on behalf of the plan sponsors and participants.

For the fiscal year ending June 30, 2020, LACERA implemented GASB 84, which required the presentation of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position for the OPEB Custodial Fund. In prior years, LACERA's Statement of Changes in Fiduciary Net Position included assets and liabilities of the former OPEB Agency fund, to reflect that LACERA was holding these assets in an agency capacity. In addition, the financial activity within the OPEB Agency Fund, previously presented in LACERA's Notes to the Basic Financial Statements has been removed. GASB 84 changed the presentation format causing the OPEB Custodial Fund's financial activity to be included within the Statement of Changes in Fiduciary Net Position, thereby establishing a fiduciary net position, and removing former OPEB Agency Fund language, replacing it with the new OPEB Custodial Fund terminology.

Implementing the new standard also involved restating the OPEB Custodial Fund Fiduciary Net Position beginning balance for both fiscal years reported, July 1, 2018 and July 1, 2019.

OPEB Trust

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

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

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

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

FINANCIAL ANALYSIS — PENSION PLAN

Net Position Restricted for Benefits

The Pension Plan's Total Net Position Restricted for Benefits represents funds available for future promised benefits. As of June 30, 2020, LACERA had Total Assets of $61.4 billion, which exceeded Total Liabilities of $2.9 billion, resulting in a Net Position Restricted for Benefits of $58.5 billion. This amount reflects an increase of $0.2 billion or 0.4 percent from the prior year, due primarily to investment market performance. As of the prior year June 30, 2019, LACERA had $61.4 billion of Total Assets, which was greater than $3.1 billion in Total Liabilities, resulting in $58.3 billion in Net Position Restricted for Benefits.

Net Position Restricted for Benefits — Pension Plan

As of June 30, 2020, 2019, and 2018

(Dollars in Millions)

	2020	2019	2018	2020-2019 % Change	2019-2018 % Change
Investments	**$56,574**	$57,976	$55,443	(2.4)%	4.6 %
Other Assets	**4,787**	3,380	3,925	41.6 %	(13.9)%
Total Assets	**$61,361**	$61,356	$59,368	0.0 %	3.3 %
Total Liabilities	**(2,851)**	(3,061)	(3,068)	(6.9)%	(0.2)%
Net Position Restricted for Benefits	**$58,510**	**$58,295**	**$56,300**	**0.4 %**	**3.5 %**

Additions and Deductions to Net Position Restricted for Benefits

The primary sources that finance the promised pension benefits LACERA provides to members and their beneficiaries are the collection of employer and member retirement contributions and realized investment income. For fiscal years ended 2020 and 2019, Total Additions amounted to $3.9 billion and $5.5 billion, respectively, and were due primarily to LACERA's diverse investment strategy producing positive investment performance.

The net investment gain for fiscal year 2020 was $1.4 billion, a decrease of $1.8 billion from the 2019 fiscal year when the net investment gain was $3.2 billion. This fiscal year's time-weighted investment returns of 1.8 percent (net of fees) is less than the actuarial assumed investment earnings rate of 7.0 percent due to the COVID-19 pandemic's negative impact on the investment markets for the fiscal year. Only a few defensive asset classes, such as U.S. Treasury Bonds, which gained 10 percent, managed to equal or surpass LACERA's actuarial hurdle rate of 7.0 percent. Given this backdrop, LACERA's well-diversified portfolio did not meet the actuarial rate of return. The investment gains and losses experienced will continue to impact the actuarial funded ratio over time as they are recognized in the future through the actuarial asset-smoothing process.

To finance employer contributions that are due to LACERA, the County and the Outside Districts made cash payments monthly or semi-monthly contributions to coincide with the employee payroll cycle. For the fiscal years ended June 30, 2020 and 2019, the required employer contributions due to LACERA were paid in full.

The primary uses of LACERA's assets include the payment of promised benefits to members and their beneficiaries, refunds of contributions to terminated employees, and costs of administering the Pension Plan.

These deductions totaled $3.7 billion for fiscal year 2020, an increase of $202 million or 5.8 percent from the prior year. The increase in deductions is partly attributable to an increase in the number of LACERA retirees and related increase in pension payments, including cost-of-living-adjustments, for the fiscal year ended June 30, 2020. Administrative and miscellaneous expenses increased 3.6 percent from the fiscal year ended 2019 to 2020 primarily due to the increase in organizational staffing and Memorandum of Understanding (MOU) negotiated and other salary increases. Additional staffing will allow LACERA to continue to serve the needs of its membership now and into the future.

Additions and Deductions in Fiduciary Net Position — Pension Plan

For the Fiscal Years Ended June 30, 2020, 2019, and 2018

(Dollars in Millions)

				2020-2019		2019-2018	
	2020	2019	2018	Difference	% Change	Difference	% Change
Contributions	**$2,459**	$2,304	$2,116	$155	6.7%	$188	8.9%
Net Investment Income/(Loss)	**1,448**	3,181	4,722	(1,733)	(54.5)%	(1,541)	(32.6)%
Total Additions/ (Declines)	**$3,907**	**$5,485**	**$6,838**	**($1,578)**	**(28.8)%**	**($1,353)**	**(19.8%)**
Benefits and Refunds	**($3,606)**	($3,407)	($3,203)	($199)	5.8%	($204)	6.4%
Administrative Expenses and Miscellaneous	**(86)**	(83)	(79)	(3)	3.6%	(4)	5.1%
Total Deductions	**($3,692)**	**($3,490)**	**($3,282)**	**($202)**	**5.8%**	**($208)**	**6.3%**
Net Increase/(Decrease)	**$215**	$1,995	$3,556	($1,780)	(89.2)%	($1,561)	(43.9%)
Fiduciary Net Position at Beginning of Year	**58,295**	56,300	52,744	1,995	3.5%	3,556	6.7%
Fiduciary Net Position at End of Year	**$58,510**	**$58,295**	**$56,300**	**$215**	**0.4%**	**$1,995**	**3.5%**

Asset Allocation

Meketa Investment Group (Meketa), LACERA's general investment consultant, reviews the existing allocation structure on a regular basis to recommend an appropriate allocation consistent with the economic environment, considering model assumptions and constraints. In September 2017, the LACERA Board of Investments approved Meketa's capital market assumptions and new asset allocation models which have more attractive return/risk quotients than the current portfolio and reflect greater diversification, potentially resulting in higher market performance throughout a full market cycle. Meketa is scheduled to review LACERA's portfolio in the upcoming fiscal year.

The LACERA Board of Investments approved the use of a functional framework for the inclusion of a broader group of Pension Trust investments. The traditional asset classes were reassigned and expanded in these new functional asset categories, labeled as Growth, Credit, Real Assets and Inflation Hedges, and Risk Reduction and Mitigation.

During 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. Additionally, LACERA completed the implementation of the Pension Plan's transition to its strategic asset allocation target weights.

Pension Liabilities

As GASB Statement Number 67 (GASB 67) requires, LACERA reports the Total Pension Liability and the Net Pension Liability as calculated by LACERA's actuary. The Total Pension Liability is the portion of actuarial present value of projected benefit payments that is attributable to past periods of member service using the entry age normal cost method, based on the requirements of GASB 67. The Net Pension Liability is the Total Pension Liability minus the plan's net assets or fiduciary net position. These liabilities, which are the employers' responsibility, are solely calculated for financial statement reporting purposes and are not intended to provide information about the employers' funding of such liabilities. The actuarial valuation of retirement benefits report (funding valuation) provides the Pension Plan funded status and required contributions, which serve as a basis for providing the information required for accounting and reporting disclosures (under GASB standards). The Total Pension Liability as of June 30, 2020, was $76.6 billion, or an increase of 8.9 percent from the Total Pension Liability of $70.3 billion as of June 30, 2019. The Net Pension Liability as of June 30, 2020 was $18.1 billion, representing an increase of 50.4 percent from the Net Pension Liability of $12.0 billion as of June 30, 2019, primarily due to a reduction in the investment return assumption. The Net Pension Liability increased by $6.1 billion because LACERA experienced a $6.3 billion increase in Total Pension Liability, which is offset by a $0.2 billion increase in the Fiduciary Net Position.

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, 2020 and 2019, the Fiduciary Net Position as a percentage of the Total Pension Liability is reported as 76.4 percent and 82.9 percent, respectively. This decrease is due to the growth in the Total Pension Liability of $6.3 billion compared to a much smaller increase in LACERA's Fiduciary Net Position of $0.2 billion used to offset the liability. The Total Pension Liability increased as generally expected from year to year and is consistent with prior experience over time. Other contributing factors to this year's increase include lowering the investment return assumption and greater than expected salary and cost-of-living increases as determined by the 2019 experience and assumption study.

Net Pension Liability

As of June 30, 2020, 2019, and 2018

(Dollars in Millions)

				2020-2019		2019-2018	
	2020	2019	2018	$ Change	% Change	$ Change	% Change
Total Pension Liability	**$76,580**	$70,309	$67,057	$6,271	8.9%	$3,252	4.8%
Less: Fiduciary Net Position	**(58,510)**	(58,295)	(56,300)	(215)	0.4%	(1,995)	3.5%
Net Pension Liability	**$18,070**	**$12,014**	**$10,757**	**$6,056**	**50.4%**	**$1,257**	**11.7%**
Fiduciary Net Position as a Percentage of Total Pension Liability	**76.4%**	**82.9%**	**84.0%**	**N/A**	**N/A**	**N/A**	**N/A**

OPEB PROGRAM FINANCIAL REPORTING

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

Financial Analysis — OPEB Custodial Fund

The OPEB Custodial Fund is used to pay benefit costs as incurred on a current and ongoing basis. As of June 30, 2020, the OPEB Custodial Fund's total assets exceeded total liabilities, resulting in a positive Fiduciary Net Position Restricted for Benefits of $148 million. This balance, where total assets of $252 million exceeded total liabilities by $104 million, represents funds provided by plan sponsor employers in excess of benefits paid, held at LACERA on behalf of the employers. As of the end of the fiscal year, June 30, 2019, the Fiduciary Net Position

Restricted for Benefits was $133 million as a result of total assets, reported at $223 million, exceeding total liabilities of $90 million. Implementing GASB 84 involved restating the OPEB Custodial Fund Fiduciary Net Position beginning balance for both fiscal years, with the new balances of $133 million reported for July 1, 2019 and $116 million reported for July 1, 2018.

LACERA's Statement of Changes in Fiduciary Net Position was modified and now includes the financial activity of the OPEB Custodial Fund. For the fiscal year ended June 30, 2020, total additions were $731 million as total deductions amounted to $716 million which caused an increase in the Fiduciary Net Position Restricted for Benefits fund balance of $15 million. Contributions from employers and members exceeded the total of benefit costs and administrative expenses during the year. Balances held in the OPEB Custodial Fund not used to pay benefits are invested by LACERA's Board of Investments. For the fiscal year 2020, net investment income was $5.7 million, the same as the prior year, 2019.

Financial Analysis — OPEB Trust

As reflected in the OPEB Trust's Statement of Changes in Fiduciary Net Position, OPEB Trust additions included net investment income of $6.2 million, significantly reduced as compared to the prior year due to lower investment market performance. Deductions included $0.25 million for total administrative expenses. The OPEB Trust's total Net Position Restricted for Benefits as of the fiscal year ended June 30, 2020 was $1.5 billion. As of June 30, 2019, the total OPEB Trust Net Position Restricted for Benefits was $1.2 billion, after earning $62.1 million in net investment income and deducting $0.23 million for total administrative expenses.

Employers provided OPEB Trust prefunding contributions of $248 million for fiscal year 2020, a 5 percent increase from $236 million for fiscal year 2019, 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 certain current administrative costs and provide future benefits. GASB standards require the Statement of Changes in Fiduciary Net Position for the OPEB Trust include an adjustment for pay-as-you-go additions to Fiduciary Net Position as OPEB payments become due that would not be reimbursed to the employers using OPEB Trust assets. Correspondingly, Service Benefits included as deductions were increased to reflect all benefit payments by employers as OPEB benefits became due. Total OPEB Trust contributions including this adjustment were $908 million for fiscal year 2020 and $863 million for fiscal year 2019. Actual amounts LACERA paid to provide benefits and reimbursed to LACERA by employers and members are included within the OPEB Custodial Fund held on behalf of employers.

OPEB Trust Investment Structure

In June 2016, the LACERA Board of Investments approved the use of a unitized fund structure for the OPEB Trust funds. The OPEB Master Trust structure allows for unitization of investments at the asset composite level while retaining individual net asset values for each participating employer. The OPEB Master Trust accommodates commingling and co-investing of the County and Court OPEB Trust funds. The OPEB Master Trust (commonly referred to as the OPEB Trust throughout this CAFR) is referred to within the Investment Section, and includes both the County and Court OPEB Trust investments. In December 2017, the LACERA Board of Investments adopted an asset allocation model including functional asset categories such as global equity, credit, risk reduction and mitigation, and inflation hedges. This diversified investment strategy was implemented by the fiscal year ended June 30, 2018. Meketa is scheduled to review the OPEB Trust portfolio in the upcoming fiscal year.

Information related to the OPEB Trust is included in the Financial Section, Note Q and other CAFR sections to meet financial reporting requirements. Due to the change to an agent plan structure in the prior year, in accordance with GASB Statement Number 74, LACERA's financial statements have been updated to report limited information about the OPEB Program's Net OPEB Liability.

PLAN ADMINISTRATION

LACERA Membership

The following table provides comparative LACERA membership data for the last two fiscal years. The County hired 916 new employees for the fiscal year ended June 30, 2020, as evidenced by the 0.8 percent increase in active members from the prior year. There was an increase of 1,486 or 2.2 percent in retirees when comparing the two fiscal years ended June 30, 2020 and 2019.

LACERA Membership

As of June 30, 2020 and 2019

			2020-2019	
	2020	2019	Difference	% Change
Active Members[1]	**116,289**	115,373	916	0.8%
Retired Members	**67,988**	66,502	1,486	2.2%
Total Membership	**184,277**	**181,875**	**2,402**	**1.3%**

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

ADMINISTRATIVE EXPENSES

The LACERA Boards of Retirement and Investments jointly approve the annual operating budget, which controls administrative expenses and represents approximately 0.12 percent and 0.13 percent of the allowable basis for the budget calculation for fiscal years ended June 30, 2020 and 2019, respectively. The actual administrative expenses were $85 million for 2020 compared to $83 million for 2019, resulting in a 2.4 percent increase. The primary factors contributing to the rise were the organization's plan to fill vacant positions, addition of new staffing positions, and scheduled salary increases.

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

The following table provides a comparison of the actual administrative expenses for the fiscal years ended 2020 and 2019. The AAL was used to calculate the statutory budget amount. For both years, LACERA's administrative expenditures were well below the limit imposed by law.

Analysis of Administrative Expenses

As of June 30, 2020 and 2019

(Dollars in Thousands)

	2020	2019
Total Statutory Budget Appropriation	$143,907	$137,153
Basis for Budget Calculation (Actuarial Accrued Liability)	68,527,354	65,310,803
Limit per CERL	**0.21%**	**0.21%**
Administrative Expenses	$85,384	$82,906
Basis for Budget Calculation (Actuarial Accrued Liability)	68,527,354	65,310,803
Administrative Expenses as a Percentage of the Basis for Budget Calculation	**0.12%**	**0.13%**
Total Statutory Budget Appropriation	$143,907	$137,153
Operating Budget Request	(94,600)	(88,622)
Underexpended Statutory Budget Appropriation	**$49,307**	**$48,531**
Operating Budget Request	$94,600	$88,622
Administrative Expenses	(85,384)	(82,906)
Underexpended Operating Budget	**$9,216**	**$5,716**

ACTUARIAL FUNDING VALUATIONS

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

Board Policy

In December 2009, the LACERA Board of Investments adopted a revised Retirement Benefit Funding Policy (Funding Policy). In February 2013, the Funding Policy was further amended to conform to the new PEPRA provisions. In addition, beginning with the June 30, 2012 valuation and on a prospective basis, the LACERA Board of Investments approved inclusion of the Supplemental Targeted Adjustment for Retirees (STAR) Reserve balance in valuation assets. As such, the actuary includes the STAR Reserve as part of actuarial assets available for funding retirement benefits.

Provisions in the 2013 Funding Policy impacted the 2016 and 2019 valuations, including the implementation of a smoothing calculation on actuarial gains and losses. This actuarial smoothing process recognizes an equal proportion of each year's investment gains and losses over a five-year period in order to minimize substantial variations in funding ratios. Variances between the actual market value and the actuarially computed expected market value from investment performance at the actuarially determined assumed rate of return are smoothed or recognized over a five-year period.

Actuarial Liabilities

The consulting actuary calculates contributions required to fund the Pension Plan. The difference between the present value of all future obligations and the present value of future normal cost contributions is referred to as the Actuarial Accrued Liability (AAL), which totaled $74.6 billion as of June 30, 2019. The $58.3 billion of market value of net assets reported for fiscal year end 2019 is used to offset the AAL, and the difference is referred to as the June 30, 2019 Unfunded Actuarial Accrued Liability (UAAL), which was reported at $17.0 billion. The Funding Policy provides an approach for managing the UAAL. The LACERA Board of Investments updated the assumption based on the results of the 2019 investigation of experience report prepared by the consulting actuary. The method LACERA utilizes is an amortization policy, which includes multiple layers amortized over closed periods. For each fiscal year, gains or losses on the UAAL are calculated and then amortized over the period defined, which was changed from 30 years to 20 years. For existing layers with amortization periods longer than 22 years, these were reset to a term no longer than 22 years. New layers added each year are amortized over 20 years. This process establishes a payoff schedule of the UAAL and helps dampen volatility in required amortization payments which, in turn, provides some volatility mitigation in employer contribution rates.

Actuarial Assumptions

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

The funded ratio is a measurement of the funded status of the Pension Plan. It is calculated by dividing the Valuation Assets by the AAL. Valuation Assets are the value of cash, investments, and other assets belonging to the Pension Plan, as used by the actuary for the purpose of preparing the actuarial valuation. Investment returns, which have varied over the last three years, cause fluctuations in Valuation Assets. In 2019, the LACERA Board of Investments reduced the assumed investment rate of return (as described above and in the Actuarial Section of this CAFR). As a result of applying actuarial asset smoothing, the actuarial funded ratio decreased as described below.

FUNDED RATIO, RATES OF RETURN, AND FAIR VALUE

LACERA's independent consulting actuary, Milliman, performed the latest actuarial valuation as of June 30, 2019 and determined that the Pension Plan's Funded Ratio of the actuarial assets to the AAL decreased to 77.2 percent as of that date, as compared to 80.6 percent as of the June 30, 2018 valuation.

The investment return on a market basis for 2019, which was below the actuarial assumed investment earnings rate, resulted in a 3.4 percent decrease in the Funded Ratio when applying the five-year actuarial asset smoothing method. For the 2019 and 2018 fiscal year-end valuations, respectively, the Pension Plan returned 5.5 percent and 9.0 percent (both net of fees) on a money-weighted market basis, which was less than the assumed rate of 7.0 percent in 2019 and more than the assumed rate of 7.25 percent in 2018. Under the actuarial asset method, which recognizes investment gains and losses over a five-year period, there was an $755 million actuarial loss on market assets relative to the assumed rate of return. The return on actuarial assets using the same method was 6.5 percent for the fiscal year ended June 30, 2019, equivalent to an actuarial loss of $477 million relative to the assumed return.

The following table provides a three-year history of investment and actuarial returns and the actuarial funded ratios. As required by GASB Statement Numbers 67 and 74, the money-weighted rate of return is presented as an expression of investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended June 30, 2020, the annual money-weighted rate of return on Pension Plan investments was 1.4 percent (net of fees).

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)	Return on Smoothed Valuation Assets (net of fees)[2]	Actuarial Assumed Rate of Return	Actuarial Funded Ratio
2018	$55,443,060	9.0%	9.0%	8.1%	7.25%	80.6%
2019	$57,976,436	6.4%	5.5%	6.5%	7.00%	77.2%
2020[3]	**$56,574,410**	**1.8%**	**1.4%**	–	–	–

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

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

[3]Actuarial valuation report for June 30, 2020 not available at CAFR publication.

The annual money-weighted rate of return on OPEB Trust investments, net of OPEB Trust investment expenses as of the fiscal years ended June 30, 2020 and 2019, were 0.5 percent and 6.0 percent, respectively. As determined for the July 1, 2019 OPEB valuation, the OPEB Program's Funded Ratio of the actuarial assets to the AAL increased to 6.0 percent, as compared to 4.5 percent reported in the July 1, 2018 valuation. The County, Superior Court, and LACERA continued to provide OPEB Trust contributions, which increased prefunding assets and offset the AAL.

LACERA OPERATIONS

In early March 2020, LACERA began taking action to address the COVID-19 pandemic. Health and safety were immediate concerns, with a primary focus on several factors that included the well-being of LACERA staff and the organization's ability to provide service and benefits to LACERA's members. The Executive Office developed plans, and management executed them diligently. LACERA also began to monitor local and global events related to the pandemic and consider potential impacts to external business partners. During the last three months of the fiscal year, LACERA continued to pay member benefits without exception, and received contributions from plan sponsors as scheduled, including those for both the Pension Plan and the OPEB Trust. The Investment Office monitored market volatility and maintained LACERA's cash position. Additional administrative funding to address emergency costs was approved by LACERA's governing Boards, primarily for information technology expenditures. For additional information regarding the COVID-19 pandemic, please refer to Note L — Administrative Expenses, Note R — Global Pandemic, and the Investment Section.

NEW ACCOUNTING AND FINANCIAL REPORTING STANDARDS

Leases

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

REQUESTS FOR INFORMATION

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

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

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

Respectfully submitted,

Theodore Granger

Theodore Granger
Interim Chief Financial Officer

Statement of Fiduciary Net Position

As of June 30, 2020 and 2019

(Dollars in Thousands)

	2020			2019		
	Pension Plan	OPEB Trust	OPEB Custodial Fund[1]	Pension Plan	OPEB Trust	OPEB Custodial Fund[1]
Assets						
Cash and Short-Term Investments	**$2,668,515**	**$24,783**	**$63,112**	$1,310,027	$14,491	$46,617
Cash Collateral on Loaned Securities	**1,177,374**	**–**	**–**	814,829	–	–
Receivables						
Contributions Receivable	**$101,731**	**$–**	**$–**	$96,482	$–	$–
Accounts Receivable - Sale of Investments	**697,420**	**–**	**–**	1,046,945	13	1,451
Accrued Interest and Dividends	**133,935**	**5**	**498**	102,714	136	540
Accounts Receivable - Other	**7,587**	**–**	**58,909**	8,335	–	55,845
Total Receivables	**$940,673**	**$5**	**$59,407**	**$1,254,476**	**$149**	**$57,836**
Investments at Fair Value						
Equity	**$23,332,239**	**$755,005**	**$–**	$25,836,066	$624,039	$–
Fixed Income	**18,778,182**	**570,375**	**129,096**	18,028,747	479,773	118,687
Private Equity	**7,141,781**	**–**	**–**	6,028,265	–	–
Real Estate	**5,128,771**	**142,775**	**–**	6,192,619	120,247	–
Hedge Funds	**2,193,437**	**–**	**–**	1,890,739	–	–
Total Investments at Fair Value	**$56,574,410**	**$1,468,155**	**$129,096**	**$57,976,436**	**$1,224,059**	**$118,687**
Total Assets	**$61,360,972**	**$1,492,943**	**$251,615**	**$61,355,768**	**$1,238,699**	**$223,140**
Liabilities						
Accounts Payable - Purchase of Investments	**$1,598,943**	**$–**	**$3,453**	$2,162,819	$–	$3,050
Retiree Payable and Other	**1,177**	**–**	**301**	922	–	235
Accrued Expenses	**34,887**	**315**	**458**	44,518	222	343
Tax Withholding Payable	**38,003**	**–**	**–**	35,505	–	–
Obligations under Securities Lending Program	**1,177,374**	**–**	**–**	814,829	–	–
Accounts Payable - Other	**180**	**–**	**98,930**	2,339	–	86,780
Total Liabilities	**$2,850,564**	**$315**	**$103,142**	**$3,060,932**	**$222**	**$90,408**
Fiduciary Net Position Restricted for Benefits	**$58,510,408**	**$1,492,628**	**$148,473**	**$58,294,836**	**$1,238,477**	**$132,732**

[1] GASB Statement Number 84 was applied to the financial statements for the fiscal periods ending June 30, 2020 and 2019.

The accompanying Notes are an integral part of these financial statements.

Statement of Changes in Fiduciary Net Position

For the Fiscal Years Ended June 30, 2020 and 2019

(Dollars in Thousands)

	2020			2019		
	Pension Plan	OPEB Trust	OPEB Custodial Fund[2]	Pension Plan	OPEB Trust	OPEB Custodial Fund[2]
Additions						
Contributions						
Employer[1]	**$1,800,137**	**$907,521**	**$668,811**	$1,668,151	$863,028	$636,724
Member	**659,296**	**–**	**50,180**	635,415	–	48,719
Total Contributions	**$2,459,433**	**$907,521**	**$718,991**	**$2,303,566**	**$863,028**	**$685,443**
Investment Income						
From Investing Activities:						
Net Appreciation/(Depreciation) in Fair Value of Investments	**($4,256,243)**	**($6,452)**	**$1,961**	$1,215,625	$56,670	$2,666
Investment Income/(Loss)	**5,906,599**	**13,486**	**3,925**	2,188,736	6,188	3,166
Total Investment Activities Income	**$1,650,356**	**$7,034**	**$5,886**	**$3,404,361**	**$62,858**	**$5,832**
Less Expenses from Investing Activities	**($209,320)**	**($863)**	**($149)**	($233,126)	($742)	($143)
Net Investment Activities	**$1,441,036**	**$6,171**	**$5,737**	**$3,171,235**	**$62,116**	**$5,689**
From Securities Lending Activities:						
Securities Lending Income	**$15,987**	**$–**	**$–**	$26,146	$–	$–
Less Expenses from Securities Lending Activities:						
Borrower Rebates	**($10,031)**	**$–**	**$–**	($20,545)	$–	$–
Management Fees	**(1,115)**	**–**	**–**	(1,113)	–	–
Total Expenses from Securities Lending Activities	**(11,146)**	**–**	**–**	(21,658)	–	–
Net Securities Lending Income	**$4,841**	**$–**	**$–**	**$4,488**	**$–**	**$–**
Total Net Investment Income	**$1,445,877**	**$6,171**	**$5,737**	**$3,175,723**	**$62,116**	**$5,689**
Miscellaneous	**$2,383**	**$–**	**$6,755**	$5,958	$–	$7,306
Total Additions	**$3,907,693**	**$913,692**	**$731,483**	**$5,485,247**	**$925,144**	**$698,438**
Deductions						
Retiree Payroll	**$3,578,879**	**$–**	**$–**	$3,375,752	$–	$–
Service Benefits[1]	**–**	**659,295**	**708,914**	–	627,415	675,620
Administrative Expenses	**85,384**	**246**	**6,828**	82,906	234	6,118
Refunds	**25,231**	**–**	**–**	28,691	–	–
Lump Sum Death Benefits	**2,230**	**–**	**–**	2,711	–	–
Redemptions	**–**	**–**	**–**	–	25	–
Miscellaneous	**397**	**–**	**–**	333	–	–
Total Deductions	**$3,692,121**	**$659,541**	**$715,742**	**$3,490,393**	**$627,674**	**$681,738**
Net Increase/(Decrease) in Fiduciary Net Position	**$215,572**	**$254,151**	**$15,741**	**$1,994,854**	**$297,470**	**$16,700**
Fiduciary Net Position Restricted for Benefits						
Beginning of Year[3]	**$58,294,836**	**$1,238,477**	**$132,732**	**$56,299,982**	**$941,007**	**$116,032**
End of Year	**$58,510,408**	**$1,492,628**	**$148,473**	**$58,294,836**	**$1,238,477**	**$132,732**

[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.

[2] GASB Statement Number 84 was applied to the financial statements for the fiscal periods ending June 30, 2020 and 2019.

[3] OPEB Custodial Fund beginning Fiduciary Net Position has been restated as of July 1, 2018.

The accompanying Notes are an integral part of these financial statements.

Note A — Plan Description

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), and the regulations, procedures, and policies adopted by the LACERA Board of Retirement and the LACERA Board of Investments. The Los Angeles County (County) Board of Supervisors may also adopt resolutions, as permitted by CERL, which may affect the benefits of LACERA members. LACERA operates as a cost-sharing multiple-employer defined benefit Pension Plan for Los Angeles County, LACERA and the Los Angeles Superior Court, plus four Outside Districts: Little Lake Cemetery District, Local Agency Formation Commission, Los Angeles County Office of Education, and South Coast Air Quality Management District.

LACERA also administers a Retiree Healthcare Benefits Program (RHCBP), which is also referred to as the Other Post-Employment Benefits (OPEB) Program. The OPEB Program is an agent defined benefit OPEB plan in which Los Angeles County, LACERA, Superior Court, and the Outside Districts participate. OPEB Program description and benefit provisions are explained in Note N — OPEB Program of the Financial Section.

Governance

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

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

Membership

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

LACERA Pension Plan Membership

As of June 30, 2020 and 2019

	2020	2019
Active Members		
Vested	**73,522**	72,660
Non-Vested	**26,593**	26,536
Terminated[1]	**16,174**	16,177
Total Active Members	**116,289**	**115,373**
Retired Members		
Service	**48,633**	47,518
Disability	**10,105**	9,891
Survivors	**9,250**	9,093
Total Retired Members	**67,988**	**66,502**
Total Membership	**184,277**	**181,875**

[1] Effective the fiscal year ended June 30, 2019 and going forward, the terminated membership count includes both vested (deferred) and non-vested (inactive) members.

INVESTMENTS

Pension Plan: Assets in the Pension Plan are derived from three sources: employer contributions; employee contributions (including those made by the employer on behalf of employees pursuant to §414(h)(2) of the Internal Revenue Code); and realized investment earnings. Assets of the Pension Plan are held separate from any other assets, including the separate 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: The County and LACERA, as participating employers, established an OPEB Trust for the purpose of holding and investing assets to prefund the Retiree Healthcare Benefits Program administered by LACERA for eligible retired members and eligible dependents and survivors of LACERA members. The Los Angeles County Superior Court also started making OPEB prefunding contributions into the Court OPEB Trust as of June 2016. The OPEB Trusts do not modify the participating employer benefit programs. The assets held within the OPEB Trusts meet the definition of a qualifying trust under GASB 74 and are administered under an agent plan structure effective 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 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 employer's discretion.

The LACERA Board of Investments approved formation of an OPEB Master Trust for the purpose of commingling funds of the County OPEB Trust and the Court OPEB Trust for investment purposes. 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 above is exempt from federal income taxation under §115 of the Internal Revenue Code (IRC). LACERA obtained letter rulings from the Internal Revenue Service to this effect.

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

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

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

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

Benefit Provisions

Retirement benefit vesting occurs when a member accumulates five years of creditable service under contributory plans or accumulates 10 years of creditable service under the general service non-contributory plan. Depending on the 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 from LACERA. OPEB Program provisions are explained in Note N — OPEB Program.

Cost-of-Living Adjustment (COLA)

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

If the CPI has increased over 3.0 percent or 2.0 percent, the LACERA Board of Retirement grants a cost-of-living adjustment (COLA) increase for monthly allowances for Plan A members and all other members, respectively. If the CPI has decreased, it is possible for the LACERA Board of Retirement to decrease monthly allowances; however, a decrease in allowances has never occurred. In any event, a cost-of-living decrease could not reduce a member's allowance to an amount less than the allowance received at the time of retirement.

CERL also allows the amount of any CPI cost-of-living increase in any year that exceeds the maximum annual change of 3.0 percent or 2.0 percent in retirement allowances be accumulated and tracked. The accumulated percentage carryover is known as the COLA Accumulation which, under certain circumstances, may be applied to retirement allowances in future years when the cost of living does not exceed the maximum adjustment. Adjustments require approval from the Board of Retirement.

LACERA members may receive more than one type of COLA:

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

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

Supplemental Targeted Adjustment for Retirees (STAR) Program

In addition to cost-of-living increases, the CERL also provides the LACERA Board of Retirement the authority to grant supplemental cost-of-living increases for retirement benefits. Under this program, known as the STAR Program, excess earnings have been used to restore retirement allowances to 80 percent of the purchasing power held by retirees at the time of retirement. STAR applies to contributory plans only. Retirees and survivors whose allowances have lost more than 20 percent of their purchasing power are eligible for STAR Program benefits. The STAR percentage increase is effective annually on January 1.

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

Except for program year 2005, the LACERA Board of Retirement made permanent the 2001 through 2009 STAR benefits at an 80 percent level, as authorized in the CERL. For program years 2010 through 2020, 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.

From the inception of the STAR Program in 1990 to the present, the STAR Program has received $1.523 billion in funding. Ad-hoc STAR Program costs from 1990 through 2001 reduced the STAR Program reserve by $556 million. Subsequently, except for program year 2005, the LACERA Board of Retirement made permanent the 2001 through 2009 STAR benefits which totaled $353 million and was transferred to employer reserves to earn investment income and pay for permanent STAR benefits. As of June 30, 2020, there is $614 million available in the STAR Program reserve to fund future benefits.

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

NOTE B — Summary of Significant Accounting Policies

Reporting Entity

LACERA, with its own two governing Boards, is an independent governmental entity separate and distinct from the County of Los Angeles (County). Due to the nature of the relationship between LACERA and the County, LACERA's Pension Plan and OPEB Trust funds are reflected as fiduciary funds within the County's basic financial statements. LACERA's operations are heavily dependent upon County funding, and the operational results are advantageous to the County, as well as LACERA members. Maintaining appropriate controls and preparing the financial statements are the responsibility of LACERA Management. LACERA's Audit Committee and the Chief Audit Executive assist the LACERA Boards of Retirement and Investments (Boards) in fulfilling their fiduciary oversight responsibilities for the organization's financial reporting process, the system of internal controls, the audit processes, and the organization's method for monitoring compliance with laws and regulations.

Method of Reporting

LACERA follows the accounting principles generally accepted in the United States of America (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. Member and employer contributions are recognized in the period in which the contributions are due, pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of each benefit plan.

OPEB Custodial Fund and OPEB Trust Fund Presentation

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

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

OPEB Trust financial activity includes prefunding contributions provided by plan sponsors either quarterly or on an annual basis, set aside and held in Trust to earn interest, held and used to provide future OPEB benefits at the plan sponsors' discretion. Investment income activity is reported with the OPEB Trust. For financial statement presentation purposes, GASB standards require that employer contributions within the OPEB Trust be increased by pay-as-you-go costs included as additions to the OPEB Trust that 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 Statement Number 74). See Note Q for OPEB Trust prefunding contributions.

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, requiring frequent upgrades. As such, LACERA treats these items as 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 and a percentage of their unused sick leave. The accrued vacation and sick leave balances for

LACERA employees as of June 30, 2020 and 2019, were $4.6 million and $3.7 million, respectively.

Cash and Short-Term Securities

Cash includes deposits with various financial institutions, the County, and non-U.S. currency holdings, translated to U.S. dollars using the exchange rates in effect at June 30, 2020 and 2019.

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

Real Estate Separate Account Investments

LACERA's real estate investments utilize several different types of Special Purpose Entities (SPEs), including Title Holding Corporations (THCs) and Limited Liability Companies (LLCs). The THCs are nonprofit corporations under §501(c)(25) and §501(c)(2) of the Internal Revenue Code (IRC). The LLCs do not have tax-exempt status, but their income is excludable from taxation under IRC §115. Both THCs and LLCs invest in real estate assets located throughout the United States. Under GASB Statement Number 72, *Fair Value Measurement and Application*, the THCs and LLCs meet GASB's definition of an investment and therefore are included in the accompanying financial statements as investments at fair value.

Fair Value

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

Investments	Source
Publicly Traded Securities, such as stocks and bonds. Bonds include obligations of the U.S. Treasury, U.S. agencies, non-U.S. governments, and both U.S. and non-U.S. corporations. Also included are mortgage- backed securities and asset-backed securities.	Valuations are provided by LACERA's custodian based on end-of-day prices from external pricing vendors. Non-U.S. securities reflect currency exchange rates in effect at June 30, 2020 and 2019.
Whole Loan Mortgages	For the LACERA Member Home Loan Program, valuation is performed by LACERA staff based on loan information provided by Ocwen Financial Corporation, the program's mortgage servicer, with fair market value adjustments based on the market returns of the Bloomberg Barclays mortgage-backed securities index.
Real Estate Equity Commingled Funds[1]	Fair value as provided by real estate fund managers, based on review of cash flow, exit capitalization rates, and market trends; fund managers commonly subject each property to independent third-party appraisal annually. Investments under development are carried at cumulative cost until developed.
Real Estate: Special Purpose Entities, including Title Holding Corporations and Limited Liability Companies	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	Fair value for real estate debt investments as provided by investment managers.
Private Equity[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 forward contracts are valued by the custodian bank.
Hedge Fund of Funds[1]	Valuation of the underlying funds is performed by those funds' General Partners. Valuation of the fund of funds portfolios are provided by third-party administrators and by the General Partner for the portfolios held in limited partnership vehicles.

[1]These assets are reported by LACERA based on the practical expedient allowed under GAAP.
Note: The fair value hierarchy is provided in Note P – Fair Value.

There are certain market risks, credit risks, foreign currency exchange risks, liquidity risks, and event risks that may subject LACERA to economic changes occurring in certain industries, sectors, or geographies.

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 assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Pension Plan. The Investment Policy Statement calls for an asset liability study to be conducted no later than every three to five years and is expected to be completed in the upcoming fiscal year.

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

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

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

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

For the Fiscal Year Ended June 30, 2020

Asset Class	Target Allocation (Policy)	Weighted Average Long-Term Expected Real Rate of Return (After Expected 2.75% Inflation Rate) (Geometric)
Growth	**47.0%**	**5.9%**
Global Equity	35.0%	4.9%
Private Equity	10.0%	6.5%
Opportunistic Real Estate	2.0%	7.0%
Credit	**12.0%**	**2.5%**
High Yield Bonds	3.0%	2.4%
Bank Loans	4.0%	2.2%
Emerging Market Bonds	2.0%	1.8%
Illiquid Credit	3.0%	2.6%
Real Assets and Inflation Hedges	**17.0%**	**3.7%**
Core and Value Added Real Estate	7.0%	3.7%
Natural Resources and Commodities	4.0%	3.7%
Infrastructure	3.0%	4.3%
TIPS	3.0%	0.1%
Risk Reduction and Mitigation	**24.0%**	**0.6%**
Investment Grade Bonds	19.0%	0.2%
Diversified Hedge Fund Portfolio	4.0%	2.3%
Cash Equivalents	1.0%	(0.3)%

Target Allocation

The LACERA Board of Investments approved the current target allocation as a result of the Asset Allocation Study completed by Meketa in May 2018. At the time, the Board adopted the targets to provide for diversification of assets in an effort to meet LACERA's actuarial assumed rate of return, consistent with market conditions and risk control.

Weighted Average Long-Term Expected Real Rate of Return

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

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

Discount Rate

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

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

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

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, 2020 and 2019, were 1.4 percent and 5.5 percent, respectively. The money-weighted rate of return is a measure of the performance of an investment calculated by finding the rate of return that will set the present values of all cash flows equal to the value of the initial investment. This method is equivalent to the internal rate of return. Historical returns are presented in the Schedule of Investment Returns — Pension Plan in the Required Supplementary Information Section.

Time-Weighted Rate of Return

The annual time-weighted rate of return on Pension Plan investments, net of investment expenses as of the fiscal years ended June 30, 2020 and 2019, were 1.8 percent and 6.4 percent, respectively. The time-weighted rate of return is a measure of the compound rate of growth in a portfolio. This measure is often used to compare the performance of investment managers because it eliminates the distorting effects on growth rates created by inflows and outflows of money. The time-weighted return breaks up the return on an investment portfolio into separate intervals based on whether money was added or withdrawn from the fund. Historical returns are presented in the Investments Results Based on Fair Value — Pension Plan in the Investment Section.

Use of Estimates

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

Reclassifications

Comparative data for the prior year have been presented in the selected sections of the accompanying Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. Also, certain accounts presented in the prior year's data may have been reclassified to be consistent with the current year's presentation.

Adoption of GASB Statement Number 84

LACERA adopted and implemented GASB Statement Number 84 (GASB 84), *Fiduciary Activities,* for fiscal year ending June 30, 2020. This statement establishes criteria for identifying and reporting fiduciary activities for all state and local governments. The focus of the criteria generally is on whether a government is controlling the assets of the fiduciary activity and also the beneficiaries with whom a fiduciary relationship exists. The effect on LACERA's financial statements primarily involved updating the terminology from the existing OPEB Agency Fund, presenting a new Statement of Changes in Fiduciary Net Position, and transitioning the OPEB Agency Fund Statement of Fiduciary Net Position presentation to the OPEB Custodial Fund Statement of Fiduciary Net Position. Changes were required to conform to the provisions of GASB 84, which were applied retroactively through restating the OPEB Custodial Fund balances for the fiscal years beginning July 1, 2018 and July 1, 2019.

Upcoming GASB Pronouncements — Leases

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

NOTE C — Pension Plan Contributions

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

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

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

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

The employer contribution rate is composed of the normal cost and the UAAL amortization payment. Normal cost is the portion of the actuarial present value of retirement benefits attributable to the current year of service. Amortization of the UAAL is payments made for prior year unfunded benefits not provided by future normal costs. The latest actuarial valuation as of June 30, 2019 increased the Employer normal cost rate from 9.92 percent to 10.86 percent and increased the Employers' required contribution rate to finance the UAAL from 10.99 percent to 13.92 percent. Effective with the June 30, 2019 valuation, all new UAAL layers are amortized over a 20-year period, beginning with the date the contribution is first expected to be made. In addition, all existing amortization layers are set to be amortized over a maximum 22-year period, so they are fully amortized no later than 2042. New member contribution rates are recommended for all plans effective July 1, 2020.

At its January 2020 meeting, the BOI adopted a 3.29 percent increase in the employer contribution rate due to the 2019 experience study, which was reduced by a three-year phase-in approach. The calculated total employer contribution rate would have been 24.78 percent but was reduced by 2.19 percent, resulting in an employer contribution rate of 22.59 percent beginning July 1, 2020.

The total employer contribution rate increased 1.68 percent from the previous valuation as of June 30, 2018 (from 20.91 percent to 22.59 percent), primarily due to the assumption and method changes, and the recognition of total calculated actuarial investment losses effective with the June 30, 2019 valuation. The 22.59 percent reflects the full three-year phase-in of the increase in the employer contribution rate due to the new assumptions adopted as a result of the 2019 experience study. The cost impact of the assumption changes will be fully phased into the employer contribution rate for the fiscal year beginning July 1, 2022.

The most significant factor causing a 3.29 percent employer contribution rate increase was due to actuarial assumption and method changes including shortening the UAAL amortization from 30-year to a 20-year period. The employer contribution rate also increased due to typical year-to-year fluctuations, including the recognition of actuarial investment gains by applying the actuarial smoothing method, which caused the 0.42 percent increase and all other factors accounting for a 0.16 percent increase. These increases were partially offset by a 2.19

percent decrease due the deferred recognition of 2019 assumptions changes, resulting in a net total increase in the employer contribution rate of 1.68 percent.

For the fiscal years ended June 30, 2020 and June 30, 2019, Los Angeles County, including the Superior Court, and Outside Districts, paid their employer and employee contributions due to LACERA in the form of cash payments. For the fiscal years ended June 30, 2020 and June 30, 2019, employer contributions totaled $1.80 billion and $1.67 billion, respectively, and employee contributions totaled $659 million and $635 million, respectively.

Pension Plan Contributions

For the Fiscal Years Ended June 30, 2020 and 2019

(Dollars in Thousands)

	2020	2019
Employers		
Los Angeles County[1]	**$1,732,960**	$1,605,150
Superior Court	**67,048**	62,875
Local Agency Formation Commission	**121**	119
South Coast Air Quality Management District[2]	**—**	—
Little Lake Cemetery District	**8**	7
Los Angeles County Office of Education[3]	**—**	—
Total Employer Contributions	**$1,800,137**	$1,668,151
Employee Contributions[4]	**$659,296**	$635,415
Total Contributions	**$2,459,433**	$2,303,566

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

[2]South Coast Air Quality Management District has no active employees contributing to the pension system for the fiscal years ended 2020 and 2019.

[3]Los Angeles County Office of Education has no active employees contributing to the pension system for the fiscal years ended 2020 and 2019.

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

NOTE D — Pension Plan Reserves

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

Pension Plan

LACERA's major classes of Pension Plan reserves are:

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

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

The Supplemental Targeted Adjustment for Retirees (STAR) Reserve represents the balance of transfers from the Contingency Reserve for future supplemental cost-of-living adjustment (COLA) increases. 25 percent of excess earnings in fiscal years 1995-1999 were credited to the STAR Reserve pursuant to the 1994 Retirement System Funding Agreement between LACERA and the County. Additions include transfers from the Contingency Reserve. Deductions include STAR Program payments to retirees and funding for permanent benefits. In October 2008, except for Program Year 2005, the LACERA Board of Retirement made permanent the 2001 through 2009 STAR Programs at an 80 percent level, as authorized in the County Employees Retirement Law of 1937 (CERL). For Program Years 2010 through 2019, additional STAR benefits were not provided. There were no new retirees or beneficiaries entitled to additional STAR benefits for Program Year 2020 due to the modest Consumer Price Index (CPI) percentage increase. Thus, all eligible members had COLA Accumulation accounts below the 20 percent threshold for providing STAR benefits.

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

Contingency Reserve represents reserves accumulated for future earning deficiencies, investment losses, and other contingencies. Additions include realized investment income and other revenues. Deductions include investment expenses; administrative expenses; 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, approved by the LACERA Board of Investments; and funding of the STAR Reserve when excess earnings are available and authorized by the LACERA Board of Retirement. For the fiscal years ended June 30, 2020 and 2019, the net investment realized earnings were applied as interest credits to some of the reserves in accordance with the Funding Policy, leaving no available credits for the Contingency Reserve.

Pension Plan Reserves

As of June 30, 2020 and 2019

(Dollars in Thousands)

	2020	2019
Member Reserves	**$23,481,576**	$22,363,376
Employer Reserves	**25,818,509**	22,464,894
STAR Reserve	**614,011**	614,011
Contingency Reserve	**—**	—
Total Reserves at Book Value	**$49,914,096**	$45,442,281
Unrealized Investment Portfolio Appreciation	**$8,596,312**	$12,852,555
Total Reserves at Fair Value[1]	**$58,510,408**	$58,294,836

[1]Total Reserves at Fair Value equals the 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 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.

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

The LACERA Board of Investments adopted new assumptions beginning with the June 30, 2016 and June 30, 2019 actuarial valuations, based on the results of the 2016 and 2019 triennial experience studies. For financial reporting purposes, LACERA reviews these assumptions annually to ensure they continue to represent appropriate plan assumptions under U.S. GAAP.

Actuarial Assumptions

Actuarial valuations of an ongoing plan involve assumptions about the probability of the occurrence of events far into the future. Examples include assumptions about future employment, mortality, cost trends, assumed rate of return, inflation, and other demographic and economic changes over time. Actuarially determined assumptions are subject to continual review or modification as actual experience is compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the adopted assumptions and actual demographics of the Pension Plan and include the types of benefits provided at the time of each valuation.

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

The Total Pension Liability as of June 30, 2020, was determined by completing a roll forward calculation based on an actuarial valuation conducted as of June 30, 2019, using the following actuarial assumptions in accordance with the requirements of GASB Statement Number 67 (GASB 67). The actuarial funding valuation serves as a basis for the GASB 67 information. All actuarial methods and assumptions used for this GASB analysis were the same as those used for the June 30, 2019 funding valuation, except where differences are noted. Key methods and assumptions used to calculate the Total Pension Liability are presented as follows. For additional information regarding the actuarial valuation, refer to the Actuarial Section.

Actuarial Methods and Significant Assumptions

Description	Method
Actuarial Cost Method	Individual Entry Age Normal.
Discount Rate	7.13 percent, net of Pension Plan investment expense, including inflation. This rate was adopted beginning with the June 30, 2019 valuation.
Price Inflation	2.75 percent. This rate was adopted beginning with the June 30, 2016 valuation. The rate was reaffirmed in the 2019 triennial experience study.
General Wage Growth **And Projected Salary Increases**	General wage growth: 3.25 percent. This rate was adopted beginning with the June 30, 2016 valuation. The rate was reaffirmed in the 2019 triennial experience study. Projected salary increases: 3.51 percent to 12.54 percent. The total expected increase in salary includes both merit and the general wage increase assumption of 3.25 percent per annum. The total result is compounded rather than additive. Increases are assumed to occur mid-year (i.e., January 1) and apply only to base salary. The mid-year timing reflects that salary increases occur throughout the year, or on average mid-year. These rates were adopted beginning with the June 30, 2019 valuation.
Cost-of-Living Adjustments	Post-retirement benefit increases of either 2.75 percent or 2.0 percent per year (a pro-rata portion for Plan E) are assumed. This assumption was adopted with the June 30, 2016 valuation. The LACERA Funding Policy calls for the inclusion of the Supplemental Targeted Adjustment for Retirees (STAR) Reserve in the calculation of valuation assets for funding purposes, with no corresponding liability. For the Total Pension Liability, STAR COLA (cost-of-living adjustment) benefits are assumed to be substantively automatic at the 80 percent purchasing power level until the STAR Reserve is projected to be insufficient to pay further STAR benefits. This roll-forward calculation includes a future liability for STAR COLA benefits. See Note A — Plan Description for additional COLA and STAR COLA information.
Mortality	Various rates based on the Pub-2010 mortality tables and including projection for expected future mortality improvement using the MP-2014 Ultimate Projection Scale. This assumption was adopted with the June 30, 2019 valuation.

Discount Rate

Milliman's January 2020 Investigation of Experience analysis was used to develop the 7.13 percent assumption used for the current reporting date. This is equal to the 7.00 percent long-term investment return assumption adopted by the Board of Investments (net of investment and administrative expenses), plus 0.13 percent assumed administrative expenses, as required by GASB 67. LACERA has reviewed this assumption as of the GASB 67 reporting date using current capital market assumptions provided by their external advisors.

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 (retired and deferred) employees. Therefore, the discount rate for calculating the Total Pension Liability is equal to the long-term expected rate of return, gross of administrative expenses.

Other Key Assumptions

Other key actuarial assumptions used to calculate the Total Pension Liability as of the June 30, 2020 measurement date are the same as used to determine the June 30, 2019 actuarial funding valuation. For the determination of the Total Pension Liability as of the June 30, 2019 measurement date, other key actuarial assumptions were the same as used in the June 30, 2018 actuarial funding valuation.

Net Pension Liability

GASB 67 requires public pension plans to provide the calculation of a Net Pension Liability. The Net Pension Liability is measured as the Total Pension Liability less the amount of the Pension Plan's Fiduciary Net Position.

The Net Pension Liability is an accounting measurement for financial statement reporting purposes. The funded status of the Plan is calculated separately by the consulting actuary and the results are included in the actuarial valuation report. The components of LACERA's (the Pension Plan's) Net Pension Liability at fiscal year end June 30, 2020 and 2019, were as follows:

Schedule of Net Pension Liability

For the Fiscal Years Ended June 30, 2020 and 2019
(Dollars in Thousands)

	2020	**2019**
Total Pension Liability	**$76,579,594**	$70,309,252
Less: Fiduciary Net Position	**(58,510,408)**	(58,294,837)
Net Pension Liability	**$18,069,186**	$12,014,415
Fiduciary Net Position as a Percentage of Total Pension Liability	**76.40%**	82.91%

The Total Pension Liability (TPL) and Net Pension Liability both increased due to the new assumptions adopted for the June 30, 2019 experience study, which are primarily due to the interest on TPL and the effect of changes in assumptions, including a reduced investment rate of return, shorter amortization period, higher merit salary increases, and implementation of new mortality tables.

Sensitivity Analysis

In accordance with GASB 67, sensitivity of the Net Pension Liability to changes in the discount rate must be reported. The following presents the Net Pension Liability, calculated for the fiscal year ended June 30, 2020 using the discount rate of 7.13 percent, as well as what the Net Pension Liability would be if it were calculated 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, 2019 based on the discount rate in effect for that year.

Sensitivity Analysis

For the Fiscal Years Ended June 30, 2020 and 2019

(Dollars in Thousands)

	2020			2019		
	1% Decrease [6.13%]	**Current Discount Rate [7.13%]**	**1% Increase [8.13%]**	**1% Decrease [6.38%]**	**Current Discount Rate [7.38%]**	**1% Increase [8.38%]**
Total Pension Liability	$86,990,827	$76,579,594	$67,976,838	$79,765,829	$70,309,252	$62,489,864
Less: Fiduciary Net Position	(58,510,408)	(58,510,408)	(58,510,408)	(58,294,837)	(58,294,837)	(58,294,837)
Net Pension Liability	**$28,480,419**	**$18,069,186**	**$9,466,430**	**$21,470,992**	**$12,014,415**	**$4,195,027**

NOTE F — Partial Annuitization of Pension Benefit Payments

In January 1987, LACERA entered into agreements to purchase single life annuities from two insurance companies to provide pension benefit payments to a portion of the 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, including rights to continuance of benefits to survivors, health insurance subsidies, and cost-of-living adjustments (COLAs). The values of the annuities are entirely allocated to covered members. In accordance with the agreement, the monthly annuity reimbursement from the annuity providers is limited to the straight life annuity payments and statutory COLA increases.

LACERA is responsible for any difference in pension benefit payments payable to covered members that are unreimbursed by the insurance companies. The reimbursements received are netted against the pension and annuity payments (i.e., retiree payroll) in LACERA's financial statements. For the fiscal year ended June 30, 2020, LACERA paid $11.0 million to covered members and received $9.1 million in related reimbursements. For the fiscal year ended June 30, 2019, LACERA paid $13.0 million to covered members and received $10.8 million in related reimbursements. As the monthly annuity reimbursement from the annuity providers is allocated to covered members' pension payments, the fair value of contracts was excluded from pension plan assets and actuarially determined amounts.

NOTE G — Deposit and Investment Risks

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

Each Investment Policy Statement recognizes that every investment asset class and type is subject to certain risks. Outlined below are the Deposit and Investment Risks as they relate to fixed income investments.

Credit Risk

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

Investment Grade Bonds

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

High Yield Bonds

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

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

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

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

As of June 30, 2020

(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	U.S. Govt. Agencies	Municipals	Corporate Debt/Credit Securities	Pooled Investments	Non-U.S. Fixed Income	Private Placement Fixed Income	Total	Percentage of Portfolio
Aaa	$1,858,678	$1,922,386	$4,058	$153,132	$2,597,269	$8,480	$200,858	$6,744,861	36.0%
Aa	—	—	20,640	79,420	2,020,117	33,057	35,783	2,189,017	11.7%
A	—	—	9,415	531,485	749,190	114,523	128,535	1,533,148	8.2%
Baa	—	—	9,373	772,037	871,061	193,341	360,294	2,206,106	11.8%
Ba	—	—	—	403,950	35,453	104,058	171,367	714,828	3.8%
B	—	—	81	837,605	—	173,683	261,083	1,272,452	6.8%
Caa	—	—	—	153,355	2,882	19,498	166,901	342,636	1.8 %
Ca	—	—	4,548	9,495	—	4,180	2,150	20,373	0.1%
C	—	—	—	499	—	—	15	514	—%
Not Rated	—	1,267	828	159,187	3,270,486	49,325	251,064	3,732,157	19.9%
Total	**$1,858,678**	**$1,923,653**	**$48,943**	**$3,100,165**	**$9,546,458**	**$700,145**	**$1,578,050**	**$18,756,092**	**100%**

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

The following is a schedule for the year ended June 30, 2019 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 $27 million are excluded from this presentation.

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

As of June 30, 2019
(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	U.S. Govt. Agencies	Municipals	Corporate Debt/Credit Securities	Pooled Investment	Non-U.S. Fixed Income	Private Placement Fixed Income	Total	Percentage of Portfolio
Aaa	$1,605,167	$2,040,089	$831	$237,230	$3,335,274	$1,980	$227,427	$7,447,998	41.4%
Aa	—	4,245	24,668	121,835	2,054,723	61,370	61,327	2,328,168	12.9%
A	—	—	8,696	516,024	640,892	155,486	247,339	1,568,437	8.7%
Baa	—	—	13,913	811,571	822,236	176,190	273,128	2,097,038	11.6%
Ba	—	—	—	313,194	53,300	89,342	287,172	743,008	4.1%
B	—	—	91	723,180	654	83,842	411,389	1,219,156	6.8%
Caa	—	—	—	154,927	2,818	10,331	127,317	295,393	1.6%
Ca	—	—	4,918	35,508	—	670	1,519	42,615	0.2%
C	—	—		574	—	—	3	577	—%
Not Rated	—	100,216	5,134	163,465	1,645,893	30,151	314,293	2,259,152	12.5%
Total	**$1,605,167**	**$2,144,550**	**$58,251**	**$3,077,508**	**$8,555,790**	**$609,362**	**$1,950,914**	**$18,001,542**	**100%**

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

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

As of June 30, 2020
(Dollars in Thousands)

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

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

As of June 30, 2019
(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	Corporate Debt/ Credit Securities	Pooled Investments	Private Placement Fixed Income	Total	Percentage of Portfolio
Aaa	$2,993	$825	$—	$512	$4,330	0.9%
Aa	—	1,333	—	468	1,801	0.4%
A	—	3,382	—	1,249	4,631	1.0%
Not Rated	—	679	468,061	271	469,011	97.8%
Total	**$2,993**	**$6,219**	**$468,061**	**$2,500**	**$479,773**	**100%**

Note: Pooled Investments included with the Not Rated Quality Ratings represent investments in commingled funds. As of June 30, 2020, all fixed income securities in the OPEB Trust were invested through commingled funds.

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

As of June 30, 2020
(Dollars in Thousands)

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

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

As of June 30, 2019
(Dollars in Thousands)

Quality Ratings	U.S. Treasuries	Corporate Debt/Credit Securities	Private Placement Fixed Income	Total	Percentage of Portfolio
Aaa	$61,607	$10,281	$4,759	$76,647	64.6%
Aa	—	12,073	1,810	13,883	11.7%
A	—	23,880	4,277	28,157	23.7%
Total	**$61,607**	**$46,234**	**$10,846**	**$118,687**	**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 managers seek to minimize risk of loss from its counterparties by diversifying the number of counterparties, periodically reviewing their credit quality and seeking to structure agreements so that collateral is posted on accrued gains if they reach certain size thresholds.

Concentration of Credit Risk

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

As of June 30, 2020, LACERA did not hold any investments in any one issuer that would represent 5 percent or more of the Pension Plan Fiduciary Net Position. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this requirement.

Interest Rate Risk

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

To manage Interest Rate Risk, the duration of all Investment Grade bond portfolios is restricted to plus or minus 25 percent of the duration of the portfolios' respective benchmarks. Deviations from any of the stated guidelines require prior written authorization from LACERA.

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

Duration in Fixed Income Securities — Pension Plan

As of June 30, 2020
(Dollars in Thousands)

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

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

The Duration in Fixed Income Securities — Pension Plan schedule for the year ended June 30, 2019 presents the duration by investment type. Whole loan mortgages included in the Pension Plan portfolio of $27 million are excluded from this presentation.

Duration in Fixed Income Securities — Pension Plan

As of June 30, 2019

(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration[1]
U.S. Treasuries, U.S. Government Agency, and Municipal Instruments:		
U.S. Treasuries	$1,605,167	8.26
U.S. Government Agency	2,144,550	1.86
Municipal/Revenue Bonds	58,250	9.12
Subtotal U.S. Treasuries, U.S. Government Agency, and Municipal Instruments	**$3,807,967**	
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	$506,275	1.63
Corporate and Other Credit	2,598,402	3.50
Fixed Income Swaps and Options	(27,169)	N/A
Pooled Funds	8,555,790	3.16
Subtotal Corporate Bonds and Credit Securities	**$11,633,298**	
Non-U.S. Fixed Income	$609,363	3.71
Private Placement Fixed Income	1,950,914	3.03
Subtotal Non-U.S. and Private Placement Securities	**$2,560,277**	
Total Fixed Income Securities	**$18,001,542**	

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

Duration in Fixed Income Securities — OPEB Trust

As of June 30, 2020
(Dollars in Thousands)

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

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

Duration in Fixed Income Securities — OPEB Trust

As of June 30, 2019
(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration[1]
U.S. Treasuries	$2,993	1.16
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	$1,334	0.27
Corporate and Other Credit	4,885	0.55
Pooled Investments	468,061	2.54
Subtotal Corporate Bonds and Credit Securities	**$474,280**	
Private Placement Fixed Income	$2,500	0.62
Total Fixed Income Securities - OPEB Trust	**$479,773**	

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

Duration in Fixed Income Securities — OPEB Custodial Fund

As of June 30, 2020
(Dollars in Thousands)

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

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

Duration in Fixed Income Securities — OPEB Custodial Fund

As of June 30, 2019
(Dollars in Thousands)

Investment Type	Fair Value	Portfolio-Weighted Average Effective Duration[1]
U.S. Treasuries	$61,607	2.28
Corporate Bonds and Credit Securities:		
Asset-Backed Securities	9,414	1.25
Corporate and Other Credit	$36,820	1.71
Subtotal Corporate Bonds and Credit Securities	**$46,234**	
Private Placement Fixed Income	$10,846	1.41
Total Fixed Income Securities	**$118,687**	

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

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. LACERA's authorized managers are permitted to invest in approved countries or regions, as stated in their respective Investment Manager Guidelines. To mitigate Foreign Currency Risk with 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. LACERA is invested in several non-U.S. commingled funds. This means LACERA owns units of commingled funds, and the fund holds actual securities and/or currencies. The values shown include LACERA's pro rata portion of non-U.S. commingled fund holdings.

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

As of June 30, 2020
(Dollars in Thousands)

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

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

As of June 30, 2020
(Dollars in Thousands)

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

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

As of June 30, 2019
(Dollars in Thousands)

Currency	Equity	Fixed Income	Foreign Currency	Real Estate Commingled Funds	Private Equity Investments	Forward Contracts	Total
AFRICA							
Ghanaian Cedi	$—	$216	$—	$—	$—	$—	**$216**
Kenya Shilling	1,884	—	—	—	—	—	**1,884**
Moroccan Dirham	3,425	—	—	—	—	—	**3,425**
Nigerian Naira	11,860	199	—	—	—	—	**12,059**
South African Rand	210,439	12,135	26	—	—	—	**222,600**
AMERICAS							
Argentine Peso	5,374	15,001	159	—	—	(88)	**20,446**
Brazilian Real	212,043	40,224	507	—	—	—	**252,774**
Canadian Dollar	995,278	597	(583)	—	—	(8,732)	**986,560**
Chilean Peso	29,486	4,711	—	—	—	—	**34,197**
Colombian Peso	14,749	13,342	2	—	—	—	**28,093**
Dominican Peso	—	215	—	—	—	—	**215**
Mexican Peso	83,676	28,228	1,353	—	—	(72)	**113,185**
Peruvian New Sol	10,213	5,610	—	—	—	—	**15,823**
Uruguayan Peso	—	792	—	—	—	—	**792**
ASIA							
Australian Dollar	440,681	3,989	374	—	—	4,055	**449,099**
Chinese Renminbi	202,261	8,630	247	—	—	—	**211,138**
Hong Kong Dollar	911,449	16	1,280	—	—	(280)	**912,465**
Indian Rupee	287,263	15,991	—	—	—	—	**303,254**
Indonesian Rupiah	61,900	26,622	63	—	—	—	**88,585**
Japanese Yen	1,586,453	(982)	3,772	—	—	(24,744)	**1,564,499**
Malaysian Ringgit	49,707	4,522	29	—	—	—	**54,258**
New Zealand Dollar	36,756	238	73	—	—	(120)	**36,947**
Pakistan Rupee	913	—	—	—	—	—	**913**
Philippine Peso	27,783	1,825	1	—	—	—	**29,609**
Singapore Dollar	103,413	6,114	70	—	—	2	**109,599**
South Korean Won	442,579	8,084	—	—	—	—	**450,663**
Taiwan Dollar	215,762	4,773	—	—	—	—	**220,535**
Thai Baht	87,955	12,617	5	—	—	—	**100,577**
Vietnamese Dong	33,649	—	—	—	—	—	**33,649**

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

As of June 30, 2019
(Dollars in Thousands)

Currency	Equity	Fixed Income	Foreign Currency	Real Estate Commingled Funds	Private Equity Investments	Forward Contracts	Total
EUROPE							
British Pound Sterling	1,607,880	24,663	5,637	1,497	29,526	21,462	**1,690,665**
Czech Republic Koruna	2,090	12,597	—	—	—	—	**14,687**
Danish Krone	160,765	8,891	81	—	—	(913)	**168,824**
Euro	2,700,632	109,089	16,151	214,554	246,944	(14,453)	**3,272,917**
Hungarian Forint	14,420	11,199	30	—	—	—	**25,649**
Iceland Krona	—	55	—	—	—	—	**55**
Norwegian Krone	75,780	—	566	—	—	(36)	**76,310**
Polish Zloty	25,231	22,626	25	—	—	—	**47,882**
Romanian New Leu	13,717	3,741	—	—	—	—	**17,458**
Russian Ruble	92,780	23,715	454	—	—	2	**116,951**
Swedish Krona	315,312	—	270	—	—	(1,270)	**314,312**
Swiss Franc	721,518	—	49	—	—	(10,084)	**711,483**
Ukrainian Hryvnia	—	1,046	—	—	—	—	**1,046**
MIDDLE EAST							
Egyptian Pound	12,027	2,950	—	—	—	—	**14,977**
Israeli New Shekel	71,842	1,345	33	—	—	(119)	**73,101**
Jordanian Dinar	5,133	—	—	—	—	—	**5,133**
Qatari Rial	14,716	—	43	—	—	—	**14,759**
Saudi Riyal	24,685	(1,250)	—	—	—	—	**23,435**
Turkish Lira	50,502	3,311	10	—	—	—	**53,823**
UAE Dirham	17,092	—	10	—	—	—	**17,102**
Total Investment Securities Subject to Foreign Currency Risk	**$11,993,073**	**$437,687**	**$30,737**	**$216,051**	**$276,470**	**($35,390)**	**$12,918,628**

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

As of June 30, 2020
(Dollars in Thousands)

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

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

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

As of June 30, 2019

(Dollars in Thousands)

Currency	Equity	Fixed Income	Total
AFRICA			
Liberian Dollar	$—	$3	$3
South African Rand	4,243	4,287	8,530
AMERICAS			
Argentine Peso	250	175	425
Brazilian Real	5,553	5,014	10,567
Canadian Dollar	19,218	5,285	24,503
Cayman Islands Dollar	—	876	876
Chilean Peso	749	1,742	2,491
Colombian Peso	312	3,450	3,762
Dominican Peso	—	96	96
Mexican Peso	1,872	5,527	7,399
Panamanian Balboa	—	76	76
Peruvian Sol	250	1,778	2,028
Uruguay Peso	—	158	158
ASIA			
Australian Dollar	13,664	428	14,092
Chinese Renminbi	21,152	—	21,152
Hong Kong Dollar	7,051	—	7,051
Indian Rupee	6,988	—	6,988
Indonesian Rupiah	1,560	4,976	6,536
Japanese Yen	46,734	478	47,212
Malaysian Ringgit	1,622	2,971	4,593
New Zealand Dollar	686	—	686
Pakistan Rupee	62	—	62
Philippine Peso	811	270	1,081
Singapore Dollar	2,683	8	2,691
South Korean Won	9,172	116	9,288
Taiwan Dollar	8,423	—	8,423
Thailand Baht	2,246	4,248	6,494
EUROPE			
British Pound Sterling	32,196	2,852	35,048
Czech Republic Koruna	125	2,127	2,252
Danish Krone	3,307	55	3,362
Euro	59,025	7,191	66,216
Hungarian Forint	187	2,232	2,419
Norwegian Krone	1,685	138	1,823
Polish Zloty	811	4,490	5,301
Romanian Leu	—	1,204	1,204
Russian Ruble	2,621	3,976	6,597
Swedish Krona	5,927	193	6,120
Swiss Franc	16,534	—	16,534

Currency	Equity	Fixed Income	Total
MIDDLE EAST			
Egyptian Pound	125	—	125
Iraqi Dinar	—	217	217
Israeli New Shekel	1,435	32	1,467
Jordanian Dinar	—	7	7
Qatari Rial	686	—	686
Saudi Riyal	998	—	998
Turkish Lira	437	1,773	2,210
UAE Dirham	499	—	499
Total Investment Securities Subject to Foreign Currency Risk	**$281,899**	**$68,449**	**$350,348**

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.

LACERA's securities lending program is managed by two parties: LACERA's custodian bank, State Street Bank and Trust, and a third-party lending agent, Goldman Sachs Agency Lending (GSAL). State Street Bank and Trust lends LACERA's non-U.S. equities, U.S. Treasury, and U.S. Agency securities. GSAL lends LACERA's U.S. equities and corporate bonds. Collateralization is set on non-U.S. loans at 105 percent and on U.S. loans at 102 percent of the market value of securities on loan.

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

Under the terms of their lending agreements, both lending agents provide 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, 2020 and 2019.

As of June 30, 2020, the fair value of securities on loan was $1.7 billion, with a value of cash collateral received of $1.2 billion and non-cash collateral of $587.5 million. As of June 30, 2019, the fair value of securities on loan was $927.1 million, with a value of cash collateral received of $814.8 million and non-cash collateral of $136.4 million. LACERA's income, net of expenses from securities lending, was $4.9 million and $4.5 million for the fiscal years ended June 30, 2020 and 2019, respectively.

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

Securities Lending

As of June 30, 2020 and 2019

(Dollars in Thousands)

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

	2019			
Securities on Loan	**Fair Value of Securities on Loan**	**Cash Collateral Received**	**Non-Cash Collateral Received**	**Calculated Mark[1]**
U.S. Equity	$197,819	$199,522	$—	$—
U.S. Fixed Income	674,828	604,323	90,445	115
Non-U.S. Equity	54,423	10,984	45,906	1,204
Total	**$927,070**	**$814,829**	**$136,351**	**$1,319**

[1]Calculated mark is performed daily, and 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 market value.

NOTE I — Derivative Financial Instruments

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

Futures

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

Currency Forwards

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

Currency Forwards Analysis

As of June 30, 2020
(Dollars in Thousands)

Currency Name	Options	Currency Forward Contracts: Net Receivables	Currency Forward Contracts: Net Payables	Swaps	Total Exposure
Australian Dollar	$4	$2,244	($19,932)	$—	**($17,684)**
Brazilian Real	—	—	—	331	**331**
British Pound Sterling	29	(899)	(7,325)	555	**(7,640)**
Canadian Dollar	—	782	(9,128)	508	**(7,837)**
Danish Krone	—	84	(1,413)	—	**(1,329)**
Euro	414	1,564	(19,495)	1	**(17,517)**
Hong Kong Dollar	—	10	(64)	—	**(55)**
Israeli New Shekel	—	(16)	(641)	—	**(658)**
Japanese Yen	—	(3,987)	8,528	—	**4,541**
Mexican Peso	—	132	(145)	2,323	**2,310**
New Zealand Dollar	—	43	(738)	—	**(695)**
Norwegian Krone	—	54	(1,805)	—	**(1,751)**
Peruvian Sol	—	—	55	—	**55**
Russian Ruble	—	—	(537)	—	**(537)**
Singapore Dollar	—	58	(767)	—	**(709)**
South Korean Won	3	—	—	—	**3**
Swedish Krona	—	376	(5,977)	—	**(5,602)**
Swiss Franc	—	363	(4,966)	—	**(4,604)**
Thailand Baht	4	—	—	—	**4**
Total	**$454**	**$808**	**($64,350)**	**$3,718**	**($59,374)**

Note: The Currency Forward Contracts Table does not include holdings within a commingled structure.

Options

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

Swaps

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

The following Investment Derivatives schedule reports the fair value balances, changes in fair value, and notional amounts of derivatives outstanding as of and for the year ended June 30, 2020, classified by type, not including commingled structure.

Investment Derivatives

As of June 30, 2020

(Dollars in Thousands)

Derivative Type	Net Appreciation/ (Depreciation) in Fair Value	Fair Value	Notional Value (Dollars)	Notional Shares (Units)
Commodity Futures Long	($193,285)	$—	$—	405,094
Commodity Futures Short	58,166	—	—	(49,401)
Credit Default Swaps Bought	3,018	41	5,947	—
Credit Default Swaps Written	(595)	(39)	19,670	—
Fixed Income Futures Long	148,181	—	—	892,340
Fixed Income Futures Short	(20,665)	—	—	(698,744)
Fixed Income Options Bought	4,397	330	—	23,078
Fixed Income Options Written	(2,629)	(244)	—	(307,189)
Foreign Currency Futures Long	(217)	—	—	5,600
Foreign Currency Futures Short	(244)	—	—	—
Futures Options Bought	(8,884)	77	—	3,281
Futures Options Written	11,661	(1,026)	—	(933)
FX Forwards	119,664	(63,545)	5,239,166	—
Index Futures Long	(8,128)	—	—	268
Index Futures Short	(90,913)	—	—	—
Pay Fixed Interest Rate Swaps	(60,432)	(39,259)	567,556	—
Receive Fixed Interest Rate Swaps	12,115	11,329	394,439	—
Rights	3,286	2,835	5,198	—
Total Return Swaps Bond	(269)	—	342	—
Total Return Swaps Equity	(71,832)	6,023	(339,278)	—
Warrants	(12)	2	6,212	—
Total	**($97,617)**	**($83,476)**	**$5,899,252**	**273,394**

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

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

Counterparty Credit Risk

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

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

Counterparty Credit Risk Analysis

As of June 30, 2020

(Dollars in Thousands)

Counterparty Name	Total Fair Value	S&P Rating	Fitch Rating	Moody's Rating
Bank of America CME	$179	A-	A+	A2
Bank of America ICE	1	A-	A+	A2
Bank of America	333	A-	A+	A2
Bank of America, N.A.	12	A+	AA-	Aa2
Barclays Bank PLC Wholesale	31	A	A+	A1
BNP Paribas, S.A.	573	A+	A+	Aa3
Citibank N.A.	2,162	A+	A+	Aa3
Citigroup Global Markets CME	5,006	BBB+	A	A3
Citigroup Global Markets ICE	4	A+	A+	NR
Citigroup Global Markets LCH	687	BBB+	A	A3
Credit Agricole CIB	2	A+	A+	Aa3
Credit Suisse FOB ICE	31	A+	A	A1
Credit Suisse FOB LCH	536	A+	A	A1
Credit Suisse International	2,592	A+	A	A1
Credit Suisse Securities (USA) LLC	241	A+	A	A1
Deutsche Bank AG	4,490	BBB+	BBB	A3
Goldman Sachs Bank USA	134	BBB+	A	A3
Goldman Sachs CME	4,422	BBB+	A	A3
Goldman Sachs ICE	41	BBB+	A	A3
Goldman Sachs International	3,885	A+	A+	A1
HSBC Bank USA	38	A+	AA-	Aa3
JP Morgan Securities Inc	197	A-	AA-	A2
JP Morgan Chase Bank, N.A.	1,755	A+	AA	Aa2
Macquarie Bank Limited	1,097	A+	A	A2
Merrill Lynch International	575	A-	A+	A2
Morgan Stanley and Co Inc	62	BBB+	A	A3
Morgan Stanley and Co. International PLC	0	BBB+	A	A3
Morgan Stanley Capital Services Inc	61	BBB+	A	A3
Natwest Markets Plc	1,821	A-	A+	Baa2
State Street Bank And Trust Company	96	AA-	AA	Aa3
Toronto Dominion Bank	2	AA-	AA-	Aa3
UBS AG	4,174	A+	AA-	Aa3
Westpac Banking Corporation	206	AA-	A+	Aa3
Total	**$35,446**			

Interest Rate Risk

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

Interest Rate Risk Analysis

As of June 30, 2020

(Dollars in Thousands)

				Investments Maturity (in Years)			
Investment Type	**Notional Value (Dollar)**	**Notional Shares (Units)**	**Fair Value**	**Less Than 1**	**1 - 5**	**6 - 10**	**More than 10**
Credit Default Swaps Bought	$5,947		$41	$—	$41	$—	
Credit Default Swaps Written	19,670		(39)	(5)	(42)	—	8
Fixed Income Options Bought	—	23,078	330	53	277	—	
Fixed Income Options Written	—	(307,189)	(244)	(224)	(20)	—	—
Pay Fixed Interest Rate Swaps	567,556		(39,259)	(1,116)	(7,870)	(13,264)	(17,009)
Receive Fixed Interest Rate Swaps	394,439		11,329	—	7,217	3,963	149
Total Return Swaps Bond	342		—	—	—	—	
Total Return Swaps Equity	(339,278)		6,023	6,265	(242)	—	
Total	**$648,676**	**($284,111)**	**($21,819)**	**$4,973**	**($639)**	**($9,301)**	**($16,852)**

NOTE J — Special Purpose Entities

Real Estate Investments

LACERA maintains several different types of Special Purpose Entities (SPEs) in its investment portfolio which, typically 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 which are included within liabilities.

As of June 30, 2020, the LACERA real estate portfolio utilized various SPEs including 41 Title Holding Corporations (THCs) and 56 Limited Liability Companies (LLCs). As of June 30, 2019, the portfolio included 44 THCs and 57 LLCs.

The following is a summary of the THCs' and LLCs' financial positions.

Title Holding Corporations and Limited Liability Companies Financial Position

As of June 30, 2020 and 2019

(Dollars in Thousands)

	2020	2019
Assets	**$6,393,412**	$7,646,302
Less: Liabilities	**(2,680,464)**	(2,860,234)
Net Assets	**$3,712,948**	$4,786,068
Net Income	**$319,190**	$350,403

Debt Program

In March 2011, the LACERA Board of Investments approved a $200 million allocation to each of two managers for investment in commercial real estate debt. The managers were Cornerstone Real Estate Advisors (now known as Barings Real Estate Advisors, the real estate investment unit of Barings LLC) and Quadrant Real Estate Advisors LLC. In July 2012 and June 2013, additional allocations of $200 million and $100 million were provided to the Barings account, bringing the total investable equity commitment to $500 million. Furthermore, in July 2012, an additional allocation of $100 million was made to the Quadrant account, bringing the total investable equity commitment to $300 million. In September 2014, a $250 million commitment was added to the Barings account for the purpose of backstopping a subscription facility, though this equity is not considered investable. In June 2020, the subscription facility was lowered by 50 percent, thereby reducing the commitment backstopping the subscription facility from $250 million to $125 million.

Portfolio net assets increase when new loans are originated from LACERA's portfolio, and such assets decrease when loans are paid back by the borrower.

The following is a summary of the Debt Program's financial position.

Debt Program Financial Position

As of June 30, 2020 and 2019

(Dollars in Thousands)

	2020	2019
Assets	**$354,166**	$401,540
Less: Liabilities	**(161,872)**	(197,346)
Net Assets	**$192,294**	$204,194
Net Income	**$19,277**	$15,306

As presented in the Investment Section, Real Estate and Debt Program assets are included in the following functional category portfolios: Growth, Credit, and Real Assets and Inflation Hedges. For additional information regarding LACERA's investment portfolio and functional categories, see the Investment Section.

NOTE K — Related Party Transactions

Office Lease

In 1991, LACERA, as the sole shareholder, formed a Title Holding Corporation (THC) to acquire Gateway Plaza, a 282,000 square foot 13-story office building located in Pasadena, California, which serves as the LACERA headquarters. At that time, LACERA entered into its original lease agreement with the THC to occupy approximately 85,000 square feet of office space. Under the terms of the agreement, LACERA does not pay rent. Instead LACERA is credited with the entire payment of base rent due each month. However, LACERA is required to pay its proportionate share of the building's operating costs and property taxes as defined in the lease agreement.

Over time, numerous lease agreement amendments were executed that adjusted the rentable square footage and lease expiration dates. The Fifteenth Amendment to the Office Lease was completed on October 1, 2018 and the latest, the Sixteenth Amendment, was dated March 31, 2019. The amendments resulted in a net decrease of total rentable space from 126,157 to 125,525 square feet and maintained the lease's existing expiration date of December 31, 2020.

Total operating expenses charged to LACERA were approximately $2.3 million and $2.1 million for the fiscal years ended June 30, 2020 and 2019, respectively.

NOTE L — Administrative Expenses

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

Beginning in fiscal year 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, 2020 and June 30, 2019, which were prepared based upon the 0.21 percent CERL limit. For these years, LACERA's approved operating budgets were well below the statutory limit, and the actual amounts spent were less than the approved budgets.

Due to the crisis caused by the COVID-19, in April 2020, the Chief Executive Officer requested approval from the Board of Retirement granting emergency purchasing authority up to and including a total of $1 million above his existing authority, for goods and services deemed necessary to address the COVID-19 emergency. Expenditures are subject to consultation with the Chair and Vice Chair of the Board of Retirement and to be reported with notification to the Board of Investments. This recommendation was adopted and authority granted covering a period of 180 days, subject to renewal. As of June 30, 2020, the total expenses authorized under the emergency purchasing authority was $225,000. Even with the consequential emergency spending increase, LACERA's spending remained within the Operational Budget and did not exceed the statutory limit.

The following budget-to-actual analysis of administrative expenses schedule is based upon the budget, as approved by the LACERA governing boards, in comparison to actual administrative expenses.

Budget-to-Actual Analysis of Administrative Expenses

As of June 30, 2020 and 2019
(Dollars in Thousands)

	2020	2019
Basis for Budget Calculation, Actuarial Accrued Liability[1]	**$68,527,354**	**$65,310,803**
Maximum Allowable for Administrative Expenses	**143,907**	137,153
Total Statutory Budget Appropriation	**$143,907**	**$137,153**
Operating Budget Request	**94,600**	88,622
Administrative Expenses	**(85,384)**	(82,906)
Underexpended Operating Budget	**$9,216**	**$5,716**
Administrative Expenses	**85,384**	82,906
Basis for Budget Calculation, Actuarial Accrued Liability[1]	**68,527,354**	65,310,803
Administrative Expenses as a Percentage of the Basis for Budget Calculation	**0.12%**	**0.13%**
Limit per CERL	**0.21%**	0.21%
Administrative Expenses	**85,384**	82,906
Net Position Restricted for Benefits	**$58,510,408**	$58,294,836
Administrative Expenses as a Percentage of Net Position Restricted for Benefits	**0.15%**	**0.14%**

[1]The 2020 and 2019 budget calculations are based on the actuarial accrued liability as of June 30, 2018, and June 30, 2017, respectively.

NOTE M — Commitments and Contingencies

Litigation

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

Securities Litigation

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

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

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

LEASES

Equipment: LACERA leases equipment under lease agreements that expire over the next five years. The annual commitments and operating expenses for such equipment leases were approximately $236,000 and $263,000 in fiscal years 2020 and 2019, respectively.

Office Lease: The LACERA office space lease agreement was originally entered in January 1991. Subsequent amendments were made with the latest one dated March 31, 2019. LACERA agreed to reduce its leased space, while maintaining the existing lease agreement expiration date of December 31, 2020.

LACERA's lease agreement is also discussed in Note K — Related Party Transactions. The total operating expenses for leasing the building premises are $2.3 million and $2.1 million in fiscal years 2020 and 2019, respectively.

Capital Commitments

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

As of June 30, 2020, outstanding capital commitments to the various investment managers, as approved by the LACERA Board of Investments, totaled $6.3 billion.

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

Program Description

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

In June 2014, the LACERA Board of Retirement approved the County's request to modify the agreement to create a new retiree healthcare benefits program in order to lower its costs. Structurally, the County segregated all the then current retirees and employees into LACERA-administered Retiree Healthcare Benefits Program (Tier 1) and placed all employees hired after June 30, 2014 into 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 Tier 2.

One difference included in this modification involves LACERA's administrative responsibility for the Retiree Healthcare Program. Under Tier 1, LACERA will continue its agreed-upon role as Program Administrator for retiree healthcare benefits as governed by the 1982 Agreement. Under Tier 2, LACERA is responsible for administering this program; however, the County may choose another organization to administer the Tier 2 Program.

Membership

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

LACERA Membership — OPEB Medical and Dental/Vision Benefits

As of June 30, 2020 and 2019

	2020		2019	
	Medical	**Dental/ Vision**	**Medical**	**Dental/ Vision**
Retired Participants				
Retired Members and Survivors	52,336	53,705	51,216	52,499
Spouses and Dependents	26,785	30,668	26,147	29,949
Total Retired	**79,121**	**84,373**	**77,363**	**82,448**
Inactive Members — Vested	8,657	8,657	8,618	8,618
Active Members — Vested[1]	73,522	73,522	72,660	72,660
Total Membership Eligible for Benefits	**161,300**	**166,552**	**158,641**	**163,726**

[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 Benefits

As of June 30, 2020 and 2019

	2020	2019
Paid Death Benefits	**2,314**	2,538
Retired with Eligibility for Death Benefits[1]	**58,738**	57,409
Active Members — Vested[2]	**73,522**	72,660
Total Membership Eligible for Benefits	**134,574**	132,607

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

Benefit Provisions

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

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 persons covered. The County contribution subsidizing the participant's cost starts at 10 years of eligible service credit in the amount of 40 percent of the lesser of the benchmark plan rate or the premium of the plan in which the retiree is enrolled. For each year of eligible retirement service credit earned beyond 10 years, the County contributes 4 percent per year, up to a maximum of 100 percent for a member with 25 years of service credit. The County contribution can never exceed the premium of the benchmark plans. Members are responsible for premium amounts above the benchmark plans, including those with 25 or more years of service credit.

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

Medicare Part B

The County reimburses the member's Medicare Part B Standard rate premiums paid by 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 Tier 2, 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 Tier 2, 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 retiree, paid by LACERA and then reimbursed to LACERA by the County. Active and vested terminated (deferred) members are eligible for this benefit once they retire. Spouses and dependents are not eligible for this death benefit.

Healthcare Reform

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

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

In December 2019, the Further Consolidated Appropriations Act (H.R. 1865) repealed the health insurer fee and the excise tax beginning in calendar year 2021. The OPEB assumptions for the July 1, 2019 valuation reflect the exclusion of the excise tax and only reflect the health insurer fee for calendar year 2020. There was a moratorium on the health insurer fee in calendar year 2019, and H.R. 1865 removed the health insurer fee after calendar year 2020.

Eligible dependent child age limit increased to age 26: The plan sponsor, the County of Los Angeles, approved an extension of the dependent children age limit 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 will pay for dependent coverage up to age 26 under the contribution method described above.

Summary of Significant Accounting Policies — OPEB Program

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

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

The OPEB valuation groups the agents using the following structure. There are total of three agents participating in the OPEB Trust and seven agents included in the OPEB Program. The most recent Experience and Assumption Study conducted as of July 1, 2018 includes the population of all participating agents. Separate liabilities are calculated for the agents participating in the OPEB Trust.

Agent and Agent Grouping

OPEB Trust

County, Superior Court and LACERA

OPEB Program[1]

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

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

OPEB Trust — Agent Plan

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

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

Investment Valuation

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

Contributions Authority

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

Premium Payments

During the fiscal years ended June 30, 2020 and 2019, respectively, premium payments of $627.2 million and $599.2 million were made to insurance carriers. These premiums were funded by employer subsidy payments of $578.0 million and participant payments of $49.2 million for the fiscal year ended 2020. The employer subsidy payments for the fiscal year ended 2019 were $551.4 million with participant payments of $47.8 million.

In addition, $73.6 million and $8.1 million was funded by employer subsidy payments for Medicare Part B reimbursements and death/burial benefits, respectively, for the fiscal year ended June 30, 2020 and $67.8 million and $8.6 million for these benefits, respectively, during the fiscal year ended June 30, 2019.

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

Excise Tax

The ACA originally contained provisions to assess an excise tax in 2018 on employer-provided health insurance benefits that the ACA determined to be an excess benefit. Additional legislation passed in January 2018 further delaying the excise tax implementation until 2022. In December 2019, H.R. 1865 repealed the excise tax.

Milliman recognized excise tax impact for funding purposes, and this impact was reflected within OPEB funding valuations through the July 1, 2018 report. The actuarial information prepared in accordance with GASB Statement Number 75 also incorporated the impact of this excise tax. With the enactment of H.R. 1865, the excise tax was repealed, which reduced benefit projections and positively impacted the OPEB Actuarial Accrued Liability for all agents, including the County's portion, beginning with July 1, 2019 funding valuation.

NOTE O — Hedge Fund Investments

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

At the beginning of the fiscal year, LACERA employed two hedge fund of funds managers, Grosvenor Capital Management (GCM) and Goldman Sachs Asset Management (GSAM), and one credit fund of funds manager, Grosvenor Capital Management. During the fiscal year, LACERA initiated the full redemption of the GCM and GSAM hedge fund of funds' portfolios. Furthermore, the GCM credit fund of funds portfolio entered its distribution phase. All three portfolios began returning cash in alignment with the liquidity terms of the portfolios or underlying managers. The relationship with GSAM ended on December 31, 2019. LACERA is managing the redemption process of the residual GSAM holdings. GCM is managing the redemption process of the GCM portfolios.

During the fiscal year, LACERA added two investment managers to the Direct hedge funds portfolio, increasing the portfolio to seven direct investments.

The investment performance for this strategy is measured separately from other asset classes. The fair values of assets invested in hedge funds as of June 30, 2020 and June 30, 2019, were $2.2 billion and $1.9 billion, respectively.

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

NOTE P — Fair Value

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

Equity and Fixed Income Securities

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

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

Investments in Hedge Fund, Private Equity, Real Estate, Equity and Fixed Income funds are valued at estimated fair value, as determined in good faith by the General Partner (GP), in accordance with GAAP fair value principles and 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.

Real Estate Separate Account Investments

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

LACERA has the following recurring fair value measurements as of June 30, 2020 and 2019:

Investments and Derivatives Measured at Fair Value — Pension Plan

As of June 30, 2020

(Dollars in Thousands)

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

Investments Measured at Net Asset Value — Pension Plan

As of June 30, 2020
(Dollars in Thousands)

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

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

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

[3]**Hedge Funds**: This portfolio consists of 47 funds. Hedge Fund investments are valued at NAV per share. When considering liquidity terms, 66 percent of the fund assets are available within 12 months; these funds provide daily, monthly, quarterly, semi-annual, or annual liquidity. Some of these funds are subject to redemption notices that extend the time frame to receive redemptions beyond the next 12 months. The remaining 34 percent of fund assets are in funds that offer periodic liquidity that extends beyond the next 12 months.

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

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

[4]**Private Equity and Real Estate Funds**: LACERA's Private Equity portfolio consists of 224 funds, investing primarily in buyout funds, with some exposure to venture capital, special situation and co-investments. Due to contractual limitations, none of the 224 funds are eligible for redemption for up to 10 years. The Real Estate portfolio, composed of 23 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. Two out of 23 Real Estate funds are eligible for redemption depending upon the availability of cash for redemptions in the fund. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to 10 years. For Real Estate investments held in separate accounts and debt program investments, See Note J - Special Purpose Entities.

Investments and Derivatives Measured at Fair Value — Pension Plan

As of June 30, 2019

(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	$506,275	$—	$506,194	$81
Corporate and Other Credit	2,598,402	—	2,592,875	5,527
Municipal / Revenue Bonds	58,251	—	58,251	—
Non-U.S. Fixed Income	609,363	—	609,363	—
Private Placement Fixed Income	1,950,914	—	1,950,914	—
U.S. Government Agency	2,144,550	—	2,144,550	—
U.S. Treasuries	1,605,167	—	1,605,167	—
Pooled Investments	7,243	7,243	—	—
Whole Loan Mortgages	27,205	—	—	27,205
Total Fixed Income Securities	**$9,507,370**	**$7,243**	**$9,467,314**	**$32,813**
Equity Securities				
Non-U.S. Equity	$1,811,817	$1,810,709	$1,100	$8
Pooled Investments	285,532	285,532	—	—
U.S. Equity	13,932,458	13,920,038	11,499	921
Total Equity Securities	**$16,029,807**	**$16,016,279**	**$12,599**	**$929**
Collateral from Securities Lending	**$814,829**	**$—**	**$814,829**	**$—**
Total Investments by Fair Value Level	**$26,352,006**	**$16,023,522**	**$10,294,742**	**$33,742**
Investments Measured at Net Asset Value (NAV)				
Fixed Income	$8,548,547			
Equity	9,805,218			
Hedge Funds	1,890,739			
Private Equity	6,028,265			
Real Estate	6,192,619			
Total Investments Measured at NAV	**$32,465,388**			
Total Investments	**$58,817,394**			
Derivatives				
Foreign Exchange Contracts	($35,389)	$—	($35,389)	$—
Foreign Fixed Income Derivatives	5,868	(10)	5,878	—
Foreign Equity Derivatives	(223)	(223)	—	—
U.S. Equity Derivatives	1,264	1,264	—	—
U.S. Fixed Income Derivatives	(33,038)	(314)	(32,724)	—
Total Derivatives	**($61,518)**	**$717**	**($62,235)**	**$—**

Investments Measured at Net Asset Value — Pension Plan

As of June 30, 2019
(Dollars in Thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commingled Fixed Income Funds[1]	$8,548,547	$—	Daily, Monthly or Not Eligible	1-60 days or N/A
Commingled Equity Funds[2]	9,805,218	14,544	Daily, Monthly or Not Eligible	1-60 days or N/A
Hedge Funds[3]	1,890,739	18,500	Daily, Monthly, Quarterly, Semi-Annual, Annual; Self-Liquidating	5-180 days
Private Equity[4]	6,028,265	4,337,030	Not Eligible	N/A
Real Estate[4]	6,192,619	970,531	Quarterly or Not Eligible	30 days+ or N/A
Total Investments Measured at NAV	**$32,465,388**			

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

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

[3]**Hedge Funds**: The portfolio consists of 70 funds. Hedge Fund investments are valued at NAV per share. When considering liquidity terms, 78 percent of the fund assets are available within 12 months; these funds provide daily, monthly, quarterly, semi-annual, or annual liquidity. Some of these funds are subject to redemption notices that extend the time frame to receive redemptions beyond the next 12 months. The remaining 22 percent of fund assets are in self-liquidating funds which do not permit voluntary redemption/withdrawals or in funds that offer periodic liquidity that extends beyond the next 12 months.

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

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

[4]**Private Equity and Real Estate Funds**: LACERA's Private Equity portfolio consists of 207 funds, investing primarily in buyout funds, with some exposure to venture capital, special situation, and co-investments Funds. Due to contractual limitations, none of the 207 funds are eligible for redemption for up to 10 years. The Real Estate portfolio, composed of 23 funds, invests in both U.S. and non-U.S. commercial real estate. The fair values of these funds have been determined using net assets valued one quarter in arrears plus current quarter cash flows. Two 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, 2020

(Dollars in Thousands)

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

Investments Measured at Fair Value — OPEB Trust

As of June 30, 2019

(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	$1,334	$—	$1,334	$—
Private Placement Fixed Income	2,500	—	2,500	—
Corporate and Other Credit	4,885	—	4,885	—
Pooled Investments	122,194	122,194	—	—
U.S. Treasuries	2,993	—	2,993	—
Total Fixed Income Securities	**$133,906**	**$122,194**	**$11,712**	**$—**
Total Investments by Fair Value Level	**$133,906**	**$122,194**	**$11,712**	**$—**
Investments Measured at Net Asset Value (NAV)				
Fixed Income	$345,867			
Equity	624,039			
Real Estate Investment Trust (REIT)	120,247			
Total Investments Measured Trust at NAV	**$1,090,153**			
Total Investments	**$1,224,059**			

Investments Measured at Net Asset Value — OPEB Trust

As of June 30, 2020

(Dollars in Thousands)

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

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

Investments Measured at Net Asset Value — OPEB Trust

As of June 30, 2019

(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	$345,867	$—	Daily, Monthly	1-30 days or N/A
Commingled Equity Fund	624,039	—	Daily, Monthly	1-30 days or N/A
Real Estate Investment Trust (REIT)	120,247	—	Daily, Monthly	1-30 days or N/A
Total Investments Measured at NAV[1]	**$1,090,153**			

[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, 2020

(Dollars in Thousands)

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

Investments Measured at Fair Value — OPEB Custodial Fund

As of June 30, 2019

(Dollars in Thousands)

Investments by Fair Value Level	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Fixed Income Securities				
Asset-Backed Securities	$9,414	$—	$9,414	$—
Private Placement Fixed Income	10,846	—	10,846	—
Corporate and Other Credit	36,820	—	36,820	—
U.S. Treasuries	61,607	—	61,607	—
Total Fixed Income Securities	**$118,687**	**$—**	**$118,687**	**$—**
Total Investments by Fair Value Level	**$118,687**	**$—**	**$118,687**	**$—**

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

Establishment of Los Angeles County (County) OPEB Trust

Pursuant to the California Government Code, the County established an irrevocable, tax exempt OPEB Trust for the purpose of holding and investing assets to pre-fund the Retiree Healthcare Benefits Program and applied globally where appropriate, which LACERA administers. 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 OPEB Trust was a step by the County to reduce its OPEB unfunded liability. It provides a framework where the County contributes to the Trust and may transition, over time, from funding post-retirement benefits on a pay-as-you-go model to a prefunding model. 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 used to pay expenses associated with future OPEB benefits, such as medical, dental and vision provided by the Retiree Healthcare Program including retiree death/burial benefit. The participating employers will be responsible for and have full discretion over the timing of payments into the Trust. The use of those assets is restricted for OPEB purposes as defined in the Trust Agreement. There are only two participating employers in the County OPEB Trust: Los Angeles County and LACERA.

Establishment of Los Angeles Superior Court (Court) OPEB Trust

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

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

In June 2016, similar to the County, the Court entered into a Trust and Investment Services Agreement with the LACERA Board of Investments.

OPEB Master Trust

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

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

Funding Policy

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

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

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

Investment Policies — OPEB Master Trust

Investment Policy

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

Target Allocation

The Board's revised asset allocation policy, adopted in December 2017, divides the Trust into four broad functional categories and contain asset classes that align with the purpose of each function. The Board has approved target weights at both the functional category and asset class level to provide for diversification of assets in an effort to meet the OPEB Program's actuarial assumed rate of return, consistent with market conditions and risk control. The functional categories have target weights of 50.0 percent in Growth, 20.0 percent in Credit, 10.0 percent in Risk Reduction and Mitigation, and 20.0 percent in Inflation Hedges, respectively.

Schedule of Target Allocation

As of June 30, 2020

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

Investment Concentrations

At June 30, 2020, the OPEB Master Trust held approximately 50.6 percent in Growth, 19.8 percent in Credit, 10.0 percent in Risk Reduction and Mitigation, and 19.6 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.

Money-Weighted Rate of Return

For the fiscal year ended June 30, 2020, the annual money-weighted rate of return on OPEB Trust investments, net of OPEB Trust investment expense, was 0.45 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts. Historical returns will be presented as they become available in the Schedule of Investment Returns – OPEB Program in the Required Supplementary Information section of this report.

Contributions

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

During fiscal years ended June 30, 2020 and 2019, the County, Superior Court, and LACERA made total prefunding contributions to the OPEB Trust of $248.2 million and $235.6 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, 2020 and 2019
(Dollars in Thousands)

	2020	2019
Los Angeles County	**$246,197**	$230,495
LACERA	**1,029**	940
Superior Court	**1,000**	4,178
Total Contributions[1]	**$248,226**	$235,613

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

Administration

The OPEB Trust administration costs include payments for investment management fees, custodial fees, and overhead charged by LACERA for administering the OPEB Trust Fund. Expenses totaled $1.1 million and $1.0 million for fiscal years ended June 30, 2020 and 2019, respectively. The increase was due to asset rebalancing and the addition of new investment accounts. For purposes of the GASB required financial statement reporting, the actuary reclassified approximately $9.1 million of costs from benefit payments to administrative expenses to the OPEB Trust. These costs are paid from premiums, which include a flat administrative charge of $8 per contract per month, and the administrative fee is included in the premium payments.

Expenses — OPEB Trust

For the Fiscal Years Ended June 30, 2020 and 2019

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

	2019				
	Management Fees	Custodial Fees	Consultant Fees	Administrative Expenses	Total
Los Angeles County	$422,862	$234,407	$52,711	$175,395	$885,375
LACERA	1,620	902	203	11,693	14,418
Superior Court	18,033	9,392	2,086	46,772	76,283
Total Expenses	**$442,515**	**$244,701**	**$55,000**	**$233,860**	**$976,076**

Fund Values

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

Fund Values — OPEB Trust

As of June 30, 2020 and 2019

(Dollars in Thousands)

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

	2019		
	Book Value	Unrealized Investment Appreciation	Fair Value
Los Angeles County	$1,049,568	$139,838	$1,189,406
LACERA	4,059	538	4,598
Superior Court	39,794	4,680	44,473
Total Value	**$1,093,421**	**$145,056**	**$1,238,477**

NOTE R — Global Pandemic

In early February 2020, LACERA's Executive Office identified the Coronavirus COVID-19 pandemic as a serious health threat and took immediate action. Communications lines were quickly established with our business partners, including the Los Angeles County Department of Public Health and the County Human Resources Department. To protect the health and safety of LACERA staff, preliminary protocols were established for employees, including self-monitoring of physical symptoms and personal travel voluntary reporting. The organization canceled all nonessential business travel until further notice. Over the following several weeks, LACERA also initiated regularly communication to staff if and when there were COVID-19 related incidents in the workplace and created a centralized location for important information.

Staff quickly initiated safety precautions when interacting with members through the Member Service Center (MSC), which is located in LACERA's offices to provide in-person services to all members. By the middle of March, LACERA had closed its MSC and cancelled all outreach programs until further notice, but was continuing to communicate with and provide services to members by telephone and through voicemail. Regular communication regarding these abrupt changes was provided to all members.

By mid-March, a majority of LACERA staff had been deployed to work remotely, leveraging available technological tools and devices at that time. Alternating staff schedules were implemented to limit the number of staff at LACERA's premises, and staff-centered technology was rapidly and significantly expanded. New tools provided all of the existing resources remotely, and radically expanded communication facilities and group meeting capabilities. Information technology professionals focused on providing access while implementing strict security protocols.

In April 2020, the LACERA Call Center, which serves as the centralized customer service outlet, was re-established through a remote platform, with the ability to provide all regular member services. Member retirement counseling via video conference was also deployed and received high ratings from members. Despite LACERA's compromised position to interact with members, all members who elected to retire by March 31 were processed and included in the April month-end benefits payroll cycle.

Since March 2020, LACERA's Benefits, Investment Office, Financial and Accounting Services Division (FASD), Retiree Health Care, and Information Systems Divisions have worked diligently with our external business partners to ensure that monthly member payroll and healthcare benefits were processed. In other words, the members have received their monthly retirement benefits on time in spite of the pandemic. The Investment Office and FASD tightened their partnership to ensure that investment transactions were completed on time, accurately, and with the proper security controls. Routine processes have been executed throughout this period, including payment of management fees and organizational expenses, collection of contributions from plan sponsor employers and employees, and completion of ad-hoc requests to process member benefits.

LACERA is navigating through these turbulent times with continuous guidance from the Trustees of both LACERA's governing Boards, the Board of Retirement and Board of Investments. As you will find throughout this CAFR, the actions taken by LACERA's Boards and executive leadership have resulted in a healthy financial position at the end of June. Although the economic and investment environments can sometimes present unique challenges, LACERA's plan sponsors continued to provide regular contributions and the investment portfolio generated a positive return, which fund the retirement benefits and provide retiree healthcare for members. The organization's administrative budgeted expenditures and financial flows, including the ability to pay benefits, remained consistent with prior years. From a financial perspective, LACERA has remained steady throughout this pandemic, maintaining a long-term focus and investment strategy as we closed the fiscal period and prepared for the next one.

The LACERA Boards, executives, and management team have laid the foundation that will guide LACERA operations going forward with safety, health and security in mind. Organizational protocols for staff were developed and distributed for in-office contact; physical barriers have been installed while other office suite and building modifications are in progress; and alternative staffing plans and schedules are being developed, all while local, regional, and national health information is closely monitored. LACERA's goal, as always, is to provide members with the service they deserve and expect whether it is provided through a telephone call, via a video chat, or in-person at LACERA's offices, and each day we continue to move forward.

As of the date of issuance of the financial statements, management's thoughtful strategy and adaptive approach have enabled LACERA's business operations to endure with no significant impact; however, LACERA continues to monitor the evolving situation. No impairments were recorded as of the balance sheet date; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. In addition, while LACERA's results of operations and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

NOTE S — Subsequent Events

Subsequent events have been evaluated by management through October 15, 2020, which is the date the financial statements were issued.

Schedule of Net Pension Liability[1]

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

	2020	2019	2018	2017
Total Pension Liability	**$76,579,594**	$70,309,252	$67,057,218	$64,031,677
Less: Fiduciary Net Position	**(58,510,408)**	(58,294,837)	(56,299,982)	(52,743,651)
Net Pension Liability	**$18,069,186**	$12,014,415	$10,757,236	$11,288,026
Fiduciary Net Position as a Percentage of Total Pension Liability	**76.40%**	82.91%	83.96%	82.37%
Covered Payroll[2]	**$8,724,151**	$8,370,050	$7,957,981	$7,637,032
Net Pension Liability as a Percentage of Covered Payroll	**207.12%**	143.54%	135.18%	147.81%

	2016	2015	2014
Total Pension Liability	$58,528,457	$56,570,520	$54,977,021
Less: Fiduciary Net Position	(47,846,694)	(48,818,350)	(47,722,277)
Net Pension Liability	$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[2]	$7,279,777	$6,949,420	$6,672,886
Net Pension Liability as a Percentage of Covered Payroll	146.73%	111.55%	108.72%

Total Pension Liability

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

[1]Trend Information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.
[2]In accordance with GASB Statement Number 82, Covered Payroll is the payroll on which contributions are based.

Schedule of Net Pension Liability[1] continued

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

	2020	2019	2018	2017
Discount Rate	**7.13%**	7.38%	7.38%	7.38%
Long-Term Expected Rate of Return, Net of Expenses	**7.00%**	7.25%	7.25%	7.25%
Municipal Bond Rate	**N/A**	N/A	N/A	N/A

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

Discount Rate

Milliman's January 2020 Investigation of Experience analysis was used to develop the 7.13 percent assumption used for the current reporting date. This is equal to the 7.00 percent long-term investment return assumption adopted by the Board of Investments (net of investment and administrative expenses), plus 0.13 percent assumed administrative expenses.

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

Other Key Actuarial Assumptions

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

Valuation Date	**June 30, 2019**	June 30, 2018	June 30, 2017	June 30, 2016
Measurement/Reporting Date	**June 30, 2020**	June 30, 2019	June 30, 2018	June 30, 2017

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

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

[1]Trend Information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.
[2]In accordance with GASB Statement Number 82, Covered Payroll is the payroll on which contributions are based.

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

For the Fiscal Years Ended June 30

(Dollars in Thousands)

	2020	2019	2018	2017
Total Pension Liability				
Service Cost	**$1,301,460**	$1,239,396	$1,220,274	$1,106,755
Interest on Total Pension Liability	**5,154,164**	4,916,804	4,699,493	4,393,712
Effect of Plan Changes	**—**	—	—	—
Effect of Assumption Changes or Inputs	**2,626,103**	—	—	3,079,892
Effect of Economic/Demographic (Gains) or Losses	**794,955**	502,989	309,149	(47,506)
CalPERS Transfer	**—**	—	—	—
Benefit Payments and Refund of Contributions	**(3,606,340)**	(3,407,155)	(3,203,375)	(3,029,633)
Net Change in Total Pension Liability	**$6,270,342**	$3,252,034	$3,025,541	$5,503,220
Total Pension Liability — Beginning	**70,309,252**	67,057,218	64,031,677	58,528,457
Total Pension Liability — Ending (a)	**$76,579,594**	$70,309,252	$67,057,218	$64,031,677
Fiduciary Net Position				
Contributions - Employer[2]	**$1,800,137**	$1,668,151	$1,524,823	$1,331,357
Contributions - Metropolitan Transportation Authority	**—**	—	—	2
CalPERS Transfer	**—**	—	—	—
Contributions - Member[2]	**659,296**	635,415	591,262	526,579
Net Investment Income	**1,432,547**	3,163,618	4,705,949	6,129,300
Net Miscellaneous Income	**1,985**	5,626	5,163	6,182
Benefit Payments and Refund of Contributions	**(3,606,340)**	(3,407,155)	(3,203,375)	(3,029,633)
Administrative Expenses	**(72,054)**	(70,800)	(67,491)	(66,830)
Net Change in Fiduciary Net Position	**$215,571**	$1,994,855	$3,556,331	$4,896,957
Fiduciary Net Position — Beginning	**58,294,837**	56,299,982	52,743,651	47,846,694
Fiduciary Net Position — Ending (b)	**$58,510,408**	$58,294,837	$56,299,982	$52,743,651
Net Pension Liability — Ending (a) - (b)	**$18,069,186**	$12,014,415	$10,757,236	$11,288,026
Fiduciary Net Position as a Percentage of Total Pension Liability	**76.40 %**	82.91%	83.96%	82.37%
Covered Payroll[3]	**$8,724,151**	$8,370,050	$7,957,981	$7,637,032
Net Pension Liability as a Percentage of Covered Payroll	**207.12%**	143.54%	135.18%	147.81%

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

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

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

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

For the Fiscal Years Ended June 30

(Dollars in Thousands)

	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[2]	$1,403,709	$1,455,718	$1,281,795
Contributions - Metropolitan Transportation Authority	3	25	—
CalPERS Transfer	—	332	—
Contributions - Member[2]	498,083	480,158	477,648
Net Investment Income	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	(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]Trend information: Schedule will ultimately show information for 10 years. Additional years will be displayed as they become available prospectively.

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

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

Changes in Pension Plan Assumptions

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

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

2019 Assumption Changes

The Board adopted a decrease in the investment return assumption to 7.00 percent. The CPI assumption of 2.75 percent and general wage growth assumption of 3.25 percent remained unchanged.

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

2016 Assumption Changes

The Board adopted a decrease in the investment return assumption to 7.38 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 based on the RP-2014 Healthy and Disabled Annuitant mortality tables and including projection for expected future mortality improvement using 100 percent of the MP-2014 Ultimate Projection Scale

Schedule of Employer Contributions History — Pension Plan

Last 10 Fiscal Years

(Dollars in Thousands)

	2020[2]	2019[2]	2018[2]	2017[1,2]	2016[2]
Actuarially Determined Contributions	**$1,800,137**	$1,668,151	$1,524,823	$1,331,357	$1,403,709
Contributions in Relation to Actuarially Determined Contributions	**1,800,137**	1,668,151	1,524,823	1,331,357	1,403,709
Contribution Deficiency/(Excess)	**$—**	$—	$—	$—	$—
Covered Payroll[3]	**$8,724,151**	$8,370,050	$7,957,981	$7,637,032	$7,279,777
Contributions as a Percentage of Covered Payroll	**20.63%**	19.93%	19.16%	17.43%	19.28%

	2015[2]	2014[2]	2013[1]	2012	2011
Actuarially Determined Contributions	$1,455,718	$1,281,795	$1,172,014	$1,078,929	$944,174
Contributions in Relation to Actuarially Determined Contributions	1,455,718	1,281,795	1,172,014	1,078,929	944,174
Contribution Deficiency/(Excess)	$—	$—	$—	$—	$—
Covered Payroll[3]	$6,949,420	$6,672,886	$6,595,902	$6,619,816	$6,650,674
Contributions as a Percentage of Covered Payroll	20.95 %	19.21%	17.77%	16.30%	14.20%

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

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

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

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

Schedule of Investment Returns — Pension Plan[1]

For the Fiscal Years Ended June 30

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

[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 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 the Plan liabilities, and employer and employee contributions, are based on the results of the 2019 triennial investigation of experience (experience study).

The June 30, 2019 actuarial valuation prepared by the consulting actuary reflects all assumptions adopted by the LACERA Board of Investments in January 2020. The LACERA Board of Investments approved a three-year phase-in of the changes to employer contribution rates.

Key Methods and Significant Assumptions[1]

Description	Method
Valuation Timing	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. Contributions calculated for the June 30, 2019 valuation are applied for the fiscal year July 1, 2020 to June 30, 2021.
Actuarial Cost Method	Entry Age Normal.
Investment Rate of Return	Future investment earnings are assumed to accrue at an annual rate of 7.00 percent, compounded annually, net of both investment and administrative expenses. This rate was adopted beginning with the June 30, 2019 valuation.
Consumer Price Index	Increase of 2.75 percent per annum. This rate was adopted beginning with the June 30, 2016 valuation.
Wage Increases	Rates of annual salary increases assumed for the purpose of the valuation range from 3.51 percent to 12.54 percent. In addition to increases in salary due to promotions and longevity, the increases include an assumed 3.25 percent per annum rate of increase in the general wage level of membership.
Asset Valuation Method	Assets are valued using a five-year smoothed method based on the difference between expected market value and actual market value. The recognition method is non-asymptotic, and there is no minimum or maximum corridor applied.
Amortization Method	The Unfunded Actuarial Accrued Liability (UAAL) is amortized as a level percentage of pay. Effective June 30, 2019 existing UAAL layers as of June 30, 2018 are amortized over their remaining periods, not to exceed 22 years. Each new layer effective on or after June 30, 2019 is amortized over a 20-year period. The UAAL contribution rate calculated in the June 30, 2019 funding valuation includes 11 layers.

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

Key Methods and Significant Assumptions

Description	Method
Retirement Age	A schedule of the probabilities of employment termination based on age due to a particular cause is used. For additional information, see the Probability of Occurrence tables in the Actuarial Section.
Cost-of-Living Adjustments (COLA)	Post-retirement benefit increases of either 2.75 percent or 2.0 percent per year are assumed for the valuation in accordance with the benefits provided. This rate was adopted beginning with the June 30, 2016 valuation.
Mortality	Various rates based on Pub-2010 mortality tables and using MP-2014 Ultimate Projection Scale. See June 30, 2019 funding valuation for details.
Recognition of Inflows/Outflows	
Gains or Losses	
Investment	Straight-line amortization over five years.
Economic/Demographic	Straight-line amortization over expected working life.
Assumption Changes or Inputs	Straight-line amortization over expected working life.

Schedule of Investment Returns — OPEB Program[1]

For the Fiscal Years Ended June 30

	2020	2019	2018	2017
Annual Money-Weighted Rate of Return (Net of Investment Expenses)[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, 2020 and 2019

(Dollars in Thousands)

	2020	2019
Personnel Services		
Salaries and Wages	**$42,554**	$40,490
Employee Benefits	**24,023**	22,626
Total Personnel Services	**$66,577**	$63,116
Consultant & Professional Services		
County Department Services	**$281**	$273
External Audit Fees	**481**	312
Legal Consultants	**1,532**	1,689
Professional Services	**363**	460
Temporary Personnel Services	**2,749**	2,831
Total Consultant & Professional Services	**$5,406**	$5,565
Operating Expenses & Equipment		
Administrative Support	**$221**	$218
General Expenses	**864**	965
Computer Software	**2,050**	1,990
Disability Medical Service Fees	**2,043**	1,763
Educational Expenses	**772**	1,021
Equipment	**945**	1,346
Facilities Operations	**2,973**	3,277
Insurance	**593**	658
Printing	**790**	742
Postage	**1,163**	897
Telecommunications	**550**	564
Transportation & Travel	**437**	784
Total Operating Expenses & Equipment	**$13,401**	$14,225
Total Administrative Expenses	**$85,384**	$82,906

Schedule of Investment Expenses

For the Fiscal Years Ended June 30, 2020 and 2019

(Dollars in Thousands)

	Pension Plan		OPEB Master Trust		OPEB Custodial Fund	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Investment Management Fees						
Cash and Short-Term	**$818**	$644	**$12**	$10	**$22**	$20
Commodity	**3,813**	4,640	**77**	62	**—**	—
Global Equity	**48,077**	47,146	**133**	177	**—**	—
Fixed Income	**27,687**	37,950	**1,014**	808	**74**	68
Hedge Fund	**49,768**	42,177	**—**	—	**—**	—
Private Equity	**165,842**	153,753		—	**—**	—
Real Estate	**54,571**	54,375	**71**	79	**—**	—
Total Investment Management Fees[1]	**$350,576**	$340,685	**$1,307**	$1,136	**$96**	$88
Other Investment Expenses						
Consultants	**$2,989**	$3,679	**$55**	$55	**$—**	$—
Custodian	**2,624**	2,738	**333**	245	**29**	32
Legal Counsel	**189**	285	**10**	—	**—**	—
Other	**3,490**	6,954	**—**	—	**—**	—
Total Other Investment Expenses	**$9,292**	$13,656	**$398**	$300	**$29**	$32
Total Fees & Other Investment Expenses	**$359,868**	$354,341	**$1,705**	$1,436	**$125**	$120

[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.

Schedule of Payments to Consultants — Pension Plan

For the Fiscal Years Ended June 30, 2020 and 2019

(Dollars in Thousands)

	2020	2019
Actuarial		
Actuarial Valuations and Consulting Services	**$397**	$333
Audit		
External Audit Services	**$481**	$312
Legal		
Investment Legal Counsel	**$189**	$285
Legislative Consulting	**261**	272
Other Legal Services	**1,272**	1,417
Sub-Total	**$1,722**	$1,974
Management		
Management and Human Resources Consulting	**$69**	$182
Information Technology Consulting	**1**	74
Sub-Total	**$70**	$256
Total Payments to Consultants	**$2,670**	$2,875

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