

Popular Annual Financial Report

For the Fiscal Year Ended
June 30, 2018



**Stanislaus County Employees'
Retirement Association
(Pension Trust Fund of the County of Stanislaus)
Stanislaus, California**

Ensuring Tomorrow's Benefits Through Prudent Management



Government Finance Officers Association

**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

Presented to

**Stanislaus County
Employees' Retirement Association
California**

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO



BOARD OF RETIREMENT

JUNE 30, 2018

Seat

- | | | |
|-----|--------------------------------------|---------------------------------------|
| 1. | Lauren Klein, Ex-Officio, Trustee | Treasurer/Tax Collector |
| 2. | Mandip Dhillon, Trustee | Elected by Active General Membership |
| 3. | Donna Riley, Trustee | Elected by Active General Membership |
| 4. | Darin Gharat, Chair | Appointed by the Board of Supervisors |
| 5. | Mike Lynch, Vice Chair | Appointed by the Board of Supervisors |
| 6. | Jim DeMartini, Trustee | Appointed by the Board of Supervisors |
| 7. | Sam Sharpe, Trustee | Elected by Active Safety Membership |
| 7a. | Vacant, Alternate Trustee | Elected by Active Safety Membership |
| 8. | Michael O'Neal, Trustee | Elected by Retired Membership |
| 8a. | Rhonda Biesemeier, Alternate Trustee | Elected by Retired Membership |
| 9. | Jeff Grover, Trustee | Appointed by the Board of Supervisors |



Stanislaus County Employees' Retirement Association

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TO STANCERA MEMBERS

I am pleased to provide you with the Popular Annual Financial Report (PAFR) of the Stanislaus County Employees' Retirement Association (StanCERA) for the fiscal year ended June 30, 2018. The PAFR is intended to provide a snapshot and brief discussion of the financial activities of StanCERA for the year. The selected financial information in the PAFR is derived from generally accepted accounting principles and data presented in StanCERA's Comprehensive Annual Financial Report (CAFR) for 2018 and 2017, which contains more detailed information regarding the financial position of StanCERA. The complete CAFR can be located on StanCERA's website: www.stancera.org.

StanCERA's funding objective is to meet long-term benefit obligations by maintaining a well-funded plan status and obtaining optimum investment returns. The most recent actuarial valuation, conducted as of June 30, 2017, reported StanCERA's actuarial funded ratio at 74.3% and fair value funded ratio at 74.5%. The funded ratio is the actuarial assets available to pay the actuarial liabilities. The actuarial valuation is performed annually to determine employer contribution rates taking into account the smoothed value of the assets by spreading all asset gains and losses over a rolling five year period. The next actuarial valuation is in process and determines the funded status as of June 30, 2018. Based upon the new study, the Board of Retirement will set contribution rates for fiscal year 2019 - 2020.

For the fiscal year ended June 30, 2018, StanCERA's total portfolio outperformed its policy benchmark of 7.5% with an overall return of 8.1% due to capital market conditions and active investing. The overall financial position of StanCERA remains strong to meet its obligations to the plan participants and beneficiaries. The StanCERA Board continues to explore options to optimize returns with minimum risk to members and sponsors.

The Fiduciary Net Position increased from \$1.994 billion to \$2.127 billion between 2017 and 2018. Normal contributions (member and employer) increased by \$15.2 million due to an increase in overall participant membership and resulting payroll increases. Benefit payments increased by \$6.9 million over the prior year as more employees moved from active to retired status. Administrative costs to operate the System increased by \$146,855.

StanCERA's independent auditor, Brown Armstrong Accountancy Corporation, has audited the financial statements contained in the CAFR and provided an opinion that the financial statements present fairly, in all material respects, the financial position of StanCERA for the years ended June 30, 2018 and 2017, in accordance with generally accepted accounting principles.

Sincerely,

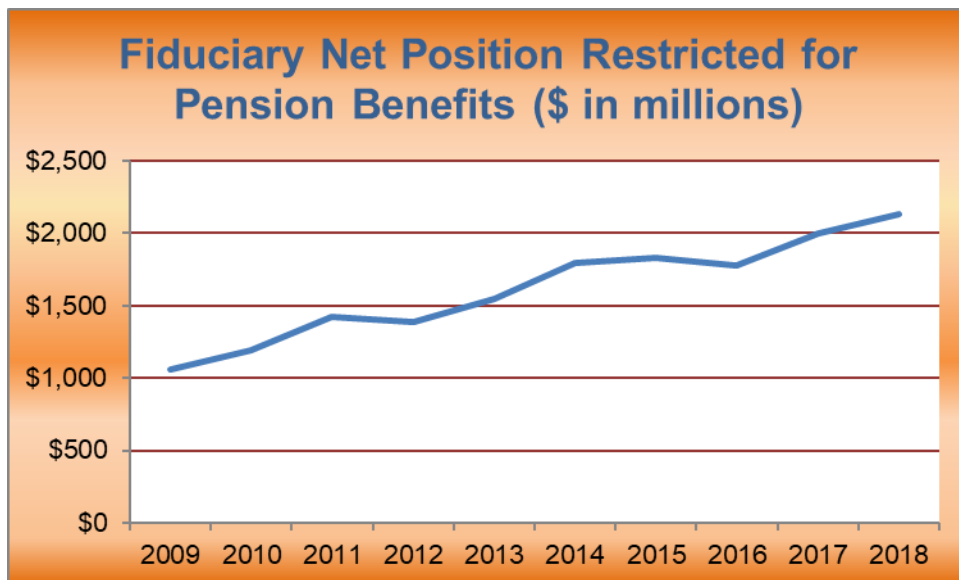
Rick Santos

Executive Director

FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS

(\$ in millions)

Fiscal Year Ending June 30	Fiduciary Net Position Held in Trust	Increase (Decrease) in Net Assets
2018	\$2,127	\$133
2017	1,994	221
2016	1,773	(60)
2015	1,833	42
2014	1,791	246
2013	1,545	159
2012	1,386	(33)
2011	1,419	229
2010	1,190	132
2009	1,058	(253)



Total Fiduciary Net Position is the difference between the assets at fair value and the liabilities, representing funds available for future benefit payments to plan participants and their beneficiaries. Increases and decreases in the fiduciary net position over time are indicators of whether the financial health of StanCERA is improving or declining. Management believes the plan remains in strong financial health to meet its obligations to the plan participants and their beneficiaries.

The complete CAFR can be located on StanCERA's website: www.stancera.org.

FIDUCIARY NET POSITION

	06/30/2018	06/30/2017	Dollar Change	Percent Change
Current Assets	\$ 238,347,078	\$ 166,714,182	\$ 71,632,896	42.97%
Investments	2,012,777,600	2,062,347,484	(49,569,884)	-2.40%
Capital Assets	5,326,791	3,910,685	1,416,106	36.21%
Total Assets	2,256,451,469	2,232,972,351	23,479,118	1.05%
Total Liabilities	129,490,724	238,749,040	(109,258,316)	-45.76%
<i>Fiduciary Net Position Restricted for Pension Benefits</i>	<u>\$ 2,126,960,745</u>	<u>\$ 1,994,223,311</u>	<u>\$ 132,737,434</u>	6.66%

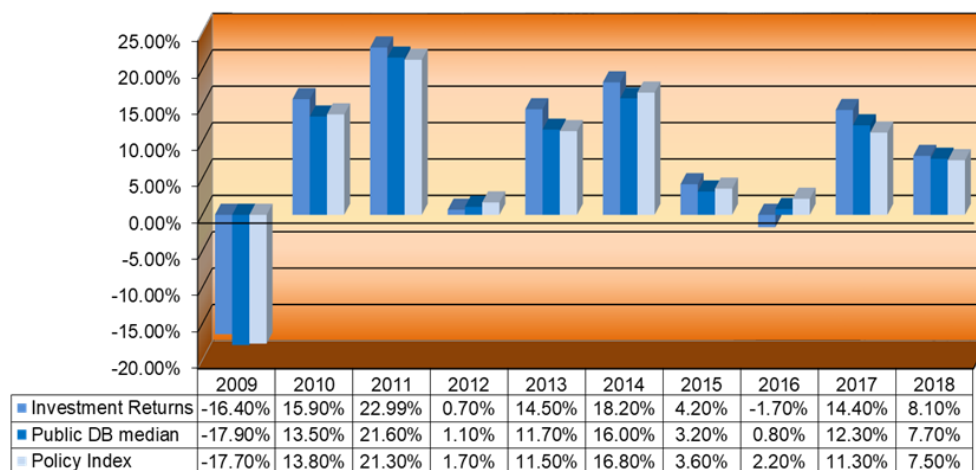
CHANGES IN FIDUCIARY NET POSITION

	06/30/2018	06/30/2017	Dollar Change	Percent Change
Employer Contributions	\$ 76,966,471	\$ 63,024,560	\$ 13,941,911	22.12%
Plan Member Contributions	26,746,289	25,463,745	1,282,544	5.04%
Net Investment Income	154,988,199	252,309,705	(97,321,506)	-38.57%
<i>Total Additions</i>	<u>258,700,959</u>	<u>340,798,010</u>	<u>(82,097,051)</u>	-24.09%
Benefit Payments	120,978,337	114,290,758	6,687,579	5.85%
Member Refunds - Termination	1,905,488	2,297,328	(391,840)	-17.06%
Member Refunds - Death	288,291	255,772	32,519	100.00%
Administrative Expenses	2,791,409	2,644,554	146,855	5.55%
<i>Total Deductions</i>	<u>125,963,525</u>	<u>119,488,412</u>	<u>6,475,113</u>	5.42%
<i>Net Additions</i>	<u>\$ 132,737,434</u>	<u>\$ 221,309,598</u>	<u>\$ (88,572,164)</u>	-40.02%

StanCERA closed with assets exceeding liabilities by \$2.127 billion for fiscal year ended June 30, 2018. The \$132.7 million increase in Fiduciary Net Position is a direct result of the financial market activity. The primary sources to finance benefits StanCERA provides are accumulated through return on investments and through the collection of member and employer contributions.

The Plan's investment activity is a function of the underlying marketplace for the period measured and the investment policy's asset allocation. Shown below are StanCERA's investment returns for the last ten years. The investment returns are compared to StanCERA's policy index return, a standard used to evaluate performance, and the Public Defined Benefit Median which is the 50th percentile return for StanCERA's defined benefit plan peers.

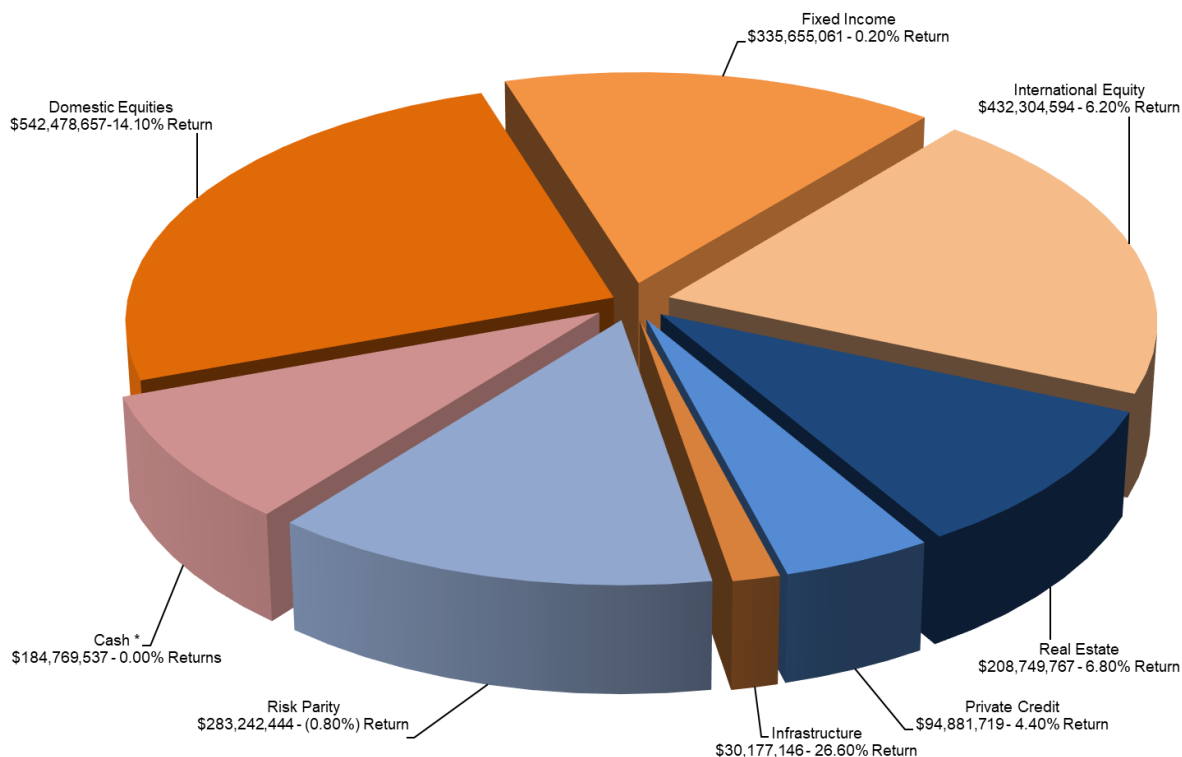
INVESTMENT RETURNS FOR YEARS ENDING JUNE 30



INVESTMENTS HELD AT JUNE 30, 2018

Asset Class	Market Value	Annual Return	Actual Allocation	Target Allocation
Domestic Equities	\$542,478,657	14.10%	25.67%	24.00%
Fixed Income	335,655,061	0.20%	15.89%	22.00%
International Equity	432,304,594	6.20%	20.47%	24.00%
Real Estate	208,749,767	6.80%	9.89%	9.40%
Private Credit	94,881,719	4.40%	4.49%	5.00%
Infrastructure	30,177,146	26.60%	1.43%	0.60%
Risk Parity	283,242,444	-0.80%	13.41%	14.00%
Cash *	184,769,537	0.00%	8.75%	1.00%
TOTAL PORTFOLIO	\$2,112,258,925		100.00%	100.00%

StanCERA's investment consultant, Verus Strategies, Inc., assists the Retirement Board in designing strategic diversification to maintain a steady, long-term positive return with appropriate risk. At the May 2016 Board Meeting, StanCERA's Retirement Board approved a new asset allocation, which is reflected in the above table.



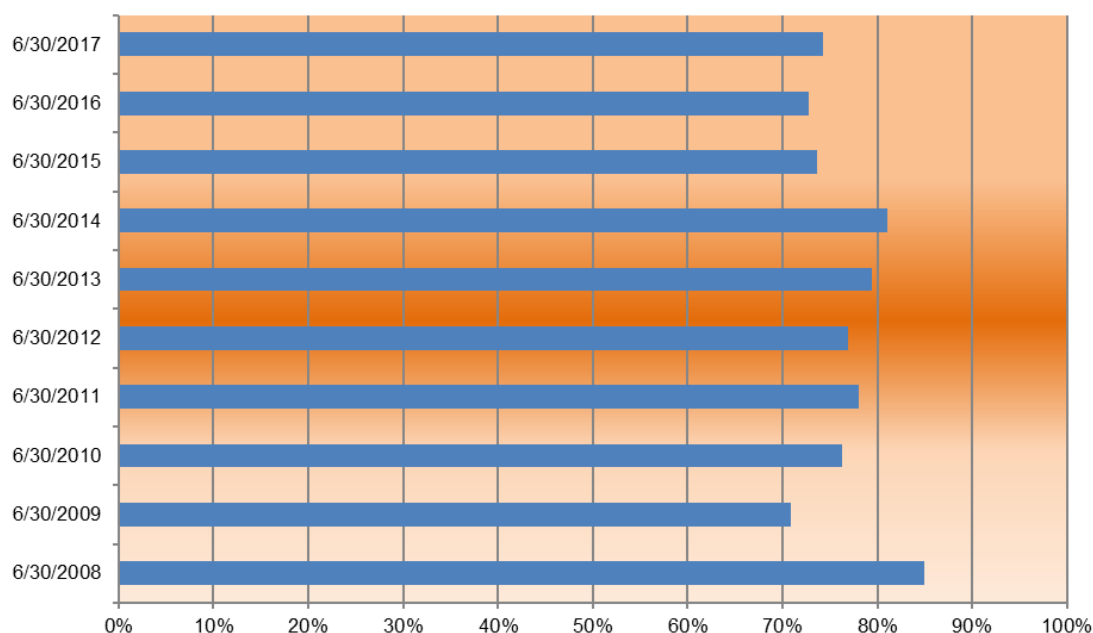
The Total Portfolio is total investments at fair value only. These amounts do not include cash in Stanislaus County Treasury, capital assets, or securities lending cash collateral.

**SCHEDULE OF FUNDING PROGRESS – PENSION BENEFIT PLAN
FOR THE TEN YEARS ENDING JUNE 30**

(Dollar amounts in thousands)

Actuarial Valuation	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio
Date	(a)	(b)	(b-a)	(a/b)
6/30/2017	\$1,968,231	\$2,648,162	\$679,930	74.30%
6/30/2016	1,845,764	2,537,067	691,303	72.80%
6/30/2015	1,763,629	2,391,522	627,893	73.70%
6/30/2014	1,644,007	2,026,371	382,294	81.10%
6/30/2013	1,524,076	1,919,227	395,151	79.40%
6/30/2012	1,451,764	1,888,713	436,950	76.90%
6/30/2011	1,372,046	1,757,717	385,671	78.10%
6/30/2010	1,325,801	1,737,824	412,023	76.30%
6/30/2009	1,171,767	1,653,716	481,949	70.90%
6/30/2008	1,317,167	1,548,824	231,657	85.00%
6/30/2007	N/A	N/A	N/A	86.80%

FUNDED RATIO



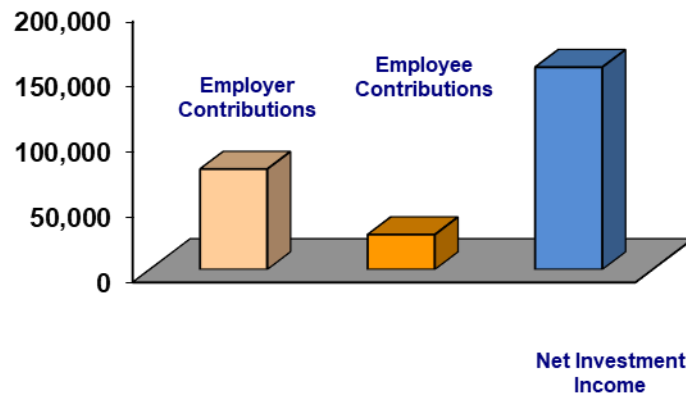
As of June 30, 2018, StanCERA's actuarial funded ratio (assets divided by liabilities) increased from 72.8% to 74.3% due to an increase in Plan assets of 12.5% for fiscal year ending June 30, 2017. Changes in assumptions based on StanCERA's actuarial experience study from July 1, 2012 through June 30, 2015 were adopted by the StanCERA Board of Retirement in April 2016. The increase in Plan cost due to the changes is phased in over a three year period. This is the third year of the phase in. The decrease in fiscal year 2009 was due to devaluation of assets during the fiscal year.

FUND REVENUE

(\$ in thousands)

Fiscal Year ending June 30	Employer Contributions	Employee Contributions	Net Investment Income (Loss)
2018	\$76,966	\$26,746	\$154,988
2017	63,025	25,464	252,310
2016	58,196	23,917	(31,322)
2015	53,849	22,960	68,723
2014	46,764	21,868	274,896
2013	39,077	20,286	189,988
2012	27,314	20,525	3,725
2011	26,257	19,197	261,842
2010	21,814	20,746	165,054
2009	23,411	20,923	(221,031)

StanCERA Revenue fiscal year ending June 30, 2018



The primary sources to finance the benefits StanCERA provides are accumulated through return on investments and through the collection of member and employer contributions.

Net investment income is the total interest, dividends and net realized and unrealized gains or losses on all investments less investment fees. For the fiscal year ended June 30, 2018, StanCERA's investment income decreased by \$97.3 million.

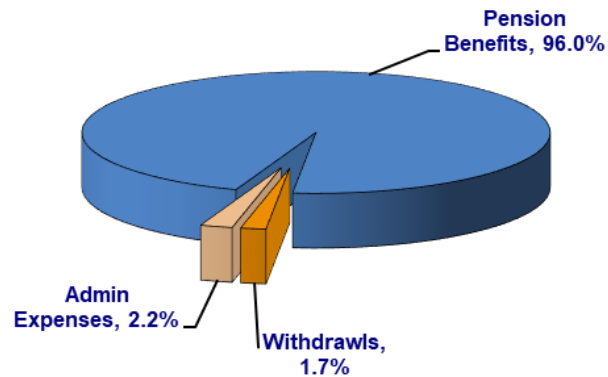
The increase in employer and employee contributions is a direct result of overall participant membership increases and projected payroll increases.

FUND EXPENSES

(\$ in thousands)

Fiscal Year ending June 30	Benefits	Withdrawals	Administrative Expense
2018	\$120,978	\$2,194	\$2,791
2017	114,291	2,553	2,645
2016	106,947	1,219	2,315
2015	100,099	1,759	2,379
2014	93,116	1,516	2,249
2013	87,103	1,546	2,065
2012	80,157	1,833	2,145
2011	74,826	1,906	2,037
2010	71,465	1,732	2,307
2009	71,861	2,538	2,080

StanCERA Expenses fiscal year ending June 30, 2018

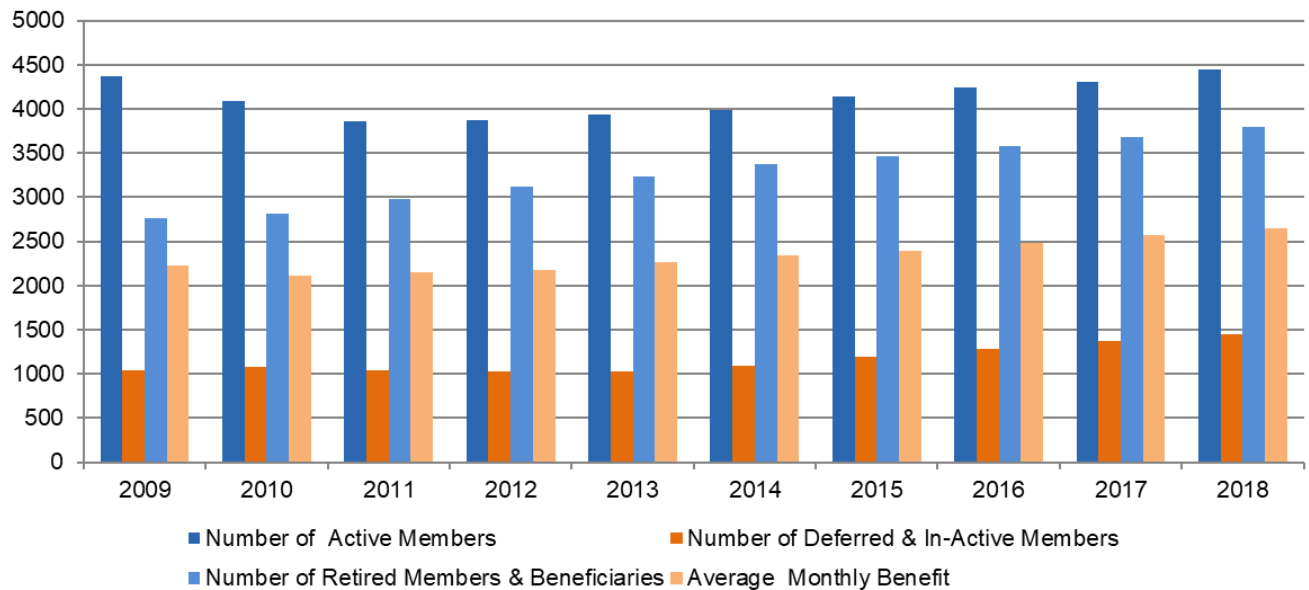


The primary uses of StanCERA's assets are in payment of benefits to retirees and their beneficiaries, refunds of contributions to terminated employees, and the costs of administering the Plan. Benefit expenses continue to increase as the number of retirement allowances for retirees increases with higher pension benefit amounts. The decrease in withdrawals is mainly due to a reduced number of active and retired members who deceased with refundable contributions on account from the prior fiscal year. Administrative costs remained fairly stable from prior fiscal year.

HISTORICAL MEMBERSHIP

Fiscal Year Ending June 30	Number of Active Members	Number of Deferred & In-Active Members	Number of Retired Members & Beneficiaries	Average Monthly Benefit
2018	4,452	1,445	3,796	\$2,646
2017	4,309	1,367	3,683	2,568
2016	4,249	1,289	3,582	2,478
2015	4,145	1,198	3,465	2,398
2014	3,993	1,095	3,381	2,337
2013	3,931	1,028	3,234	2,260
2012	3,868	1,032	3,123	2,177
2011	3,854	1,042	2,976	2,153
2010	4,085	1,075	2,818	2,115
2009	4,366	1,044	2,757	2,232

HISTORICAL MEMBERSHIP



StanCERA's membership consists of full and percentage time (working over 50% time) employees, members who have left service and have deferred their receipt of retirement benefits, and retirees and their beneficiaries from the County of Stanislaus, Stanislaus Superior Court, the City of Ceres, Stanislaus Council of Governments, Eastside Mosquito Abatement District, Hills Ferry Cemetery, Keyes Community Service District, and Salida Sanitary District.



Stanislaus County Employees'
Retirement Association
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