

**MercedCERA RETIREMENT BOARD AGENDA  
THURSDAY, MAY 26, 2022 – 8:15 A.M.  
MERCED COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION**

**MERCED COUNTY ADMINISTRATION BUILDING  
2222 M STREET, MERCED  
‘MERCED’ ROOM, BASEMENT  
ZOOM CONFERENCE**

<https://us06web.zoom.us/j/93030195748?pwd=NGhFeGltSVhaSTlsK2JGWE83TVFvdz09>

**DIAL IN NUMBER: 669-900-6833, MEETING ID: 930 3019 5748, PASSCODE: 095484**

(FOR USE ONLY IF ZOOM CONNECTION MALFUNCTIONS)

TELEPHONE NUMBER: 1-310-372-7549, CONFERENCE CODE: 975839

**CALL TO ORDER** - 8:15 A.M.

**Important Notice Regarding SARS-COV-2**

In order to minimize the spread of COVID-19, the Board of Retirement is meeting at the County of Merced Administration Building conference center to provide for sufficient social distancing for the Board and members of the public. Additionally, members of the MercedCERA Board as well as members of the public may elect to participate in this meeting offsite via conference call. Members of the public may attend the meeting in person or listen to the meeting and offer public comment telephonically by calling into the telephone number provided above and entering the stated conference code. If you have any issues participating in the meeting telephonically or require reasonable accommodation for your participation, please contact MercedCERA staff at 209-726-2724. Please turn your cell phone or other electronic device to non-audible mode.

**ROLL CALL**

**APPROVAL OF MINUTES** – May 12, 2022

**PUBLIC COMMENT**

Members of the public may comment on any item under the Board’s jurisdiction including items on the Board’s agenda. Matters presented under this item will not be discussed or acted upon by the Board at this time. Persons addressing the Board will be limited to a maximum of five (5) minutes in total. Please state your name for the record.

**BOARD ACTION/DISCUSSION**

1. Discussion and possible action to formally request the Merced County Board of Supervisors to adopt Government Section Code 31522.3, approve and direct the MercedCERA Chair to sign a letter to Board of Supervisors Chair Lloyd Pareira, Jr., and approve the draft resolution to be presented to the Board of Supervisors on behalf of the MercedCERA Board of Retirement – Staff.
2. Discussion and possible action on portfolio analysis and market update – Meketa Group
3. Discussion and possible action to approve the Post-Retirement Employment Policy and Reinstatement Application (retirees reinstating to active status) – Staff.
4. Review calendar of any training sessions and authorize expenditures for Trustees and Plan Administrator. Pursuant to Govt. Code § 31522.8 and MercedCERA’s Trustees Education and Training Policy requirements. Examples of upcoming training and educational sessions:

- CALAPRS Principles of Pension Governance for Trustees, August 29-September 1, 2022 (location TBD).
- SACRS Fall Conference, November 8-11, 2022, Long Beach, CA. (registration not open).

## **INFORMATION ONLY**

### **MercedCERA UPCOMING BOARD MEETINGS**

Please note: The MercedCERA Board Meeting and/or Education Day times and dates may be changed in accordance with the Ralph M. Brown Act by the MercedCERA Board as required.

- June 9, 2022
- June 23, 2022

## **ADJOURNMENT**

The Agenda and supporting documentation, including any material that was submitted to the Merced County Employees' Retirement Association Board after the distribution of the Agenda, are available online at [www.co.merced.ca.us/retirement](http://www.co.merced.ca.us/retirement).

All supporting documentation for Agenda items, including any material that was submitted to the retirement board after the distribution of the Agenda, is also available for public inspection Monday through Friday from 8:00 a.m. to 5:00 p.m. at the administrative office for the Merced County Employees' Retirement Association located at 3199 M Street, Merced, California 95348.

Persons who require accommodation for a disability in order to review an agenda, or to participate in a meeting of the Merced County Employees' Retirement Association per the American Disabilities Act (ADA), may obtain assistance by requesting such accommodation in writing addressed to Merced County Employees' Association, 3199 M Street, Merced, CA 95348 or telephonically by calling (209) 726-2724. Any such request for accommodation should be made at least 48 hours prior to the scheduled meeting for which assistance is requested.

Persons who require accommodation for any audio, visual or other disability or Spanish or Hmong interpretation in order to review an agenda, or to participate in a meeting of the Merced County Employees' Retirement Association per the American Disabilities Act (ADA), may obtain assistance by requesting such accommodation. Please address your written request to Merced County Employees' Association, 3199 M Street, Merced, CA 95348 or telephonically by calling (209) 726-2724. Any such request for accommodation should be made at least 48 hours prior to the scheduled meeting for which assistance is requested.

Spanish and Hmong interpreters are available.

Interpretes de espanol y hmong estan disponibles.

Peb muaj tug paab txhais lug Mev hab Hmoob.

**MercedCERA RETIREMENT BOARD MINUTES  
THURSDAY, MAY 12, 2022 – 8:15 A.M.  
MERCED COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**MERCED COUNTY ADMINISTRATION BUILDING  
2222 M STREET, MERCED  
LOS BANOS AND LIVINGSTON CONFERENCE ROOMS, BASEMENT  
ZOOM CONFERENCE**

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**DIAL IN NUMBER: 669-900-6833, MEETING ID: 930 3019 5748, PASSCODE: 095484**

(FOR USE ONLY IF ZOOM CONNECTION MALFUNCTIONS)

TELEPHONE NUMBER: 1-310-372-7549, CONFERENCE CODE: 975839

**CALL TO ORDER - 8:15 A.M.**

**Board members present:** Ryan Paskin, David Ness, Janey Cabral, Karen Adams, Alfonse Peterson, Aaron Rosenberg, Mike Harris, Scott Silveira (arrived at 8:17 A.M.) and Scott Johnston.

**Absent:** Wendy Alvares. **Counsel:** Jeff Grant. **Staff:** Kristen Santos, Martha Sanchez, Mark Harman, Sheri Villagrana, Monica Gallegos, Wendy Calderon and Emma McWatters.

**ROLL CALL**

**APPROVAL OF MINUTES – April 28, 2022**

**The MercedCERA Board voted unanimously via roll call vote to approve the April 28, 2022 meeting minutes.**

**Johnston/Adams U/A (7/0)**

**PUBLIC COMMENT**

**No comment.**

**CONSENT CALENDAR**

Consent matters are expected to be routine and may be acted upon, without discussion, as one unit. If an item is taken off the Consent Calendar for discussion, it will be heard as the last item(s) of the Board Action/Discussion as appropriate.

**RETIREMENTS:** Pursuant to Govt. Code § 31663.25 or § 31672

All items of earnable compensation for service or disability retirements listed below are in compliance with the pay code schedule approved by the Board of Retirement. The retirement is authorized; however, administrative adjustments may be necessary to alter the amount due to: audit, late arrival of data, court order, etc.

a. Lovell, Roger	Information Systems	2 Yrs. Svc.	Eff: 03/12/2022
b. Nadeau, Dwight	Administrative Services	9 Yrs. Svc.	Eff: 04/20/2022
c. Clark, James	Public Health	8 Yrs. Svc.	Eff: 04/23/2022
d. Tramp, Jarrad	DPW	16 Yrs. Svc.	Eff: 05/07/2022
e. Kobashigawa, Kenneth	Administrative Services	23 Yrs. Svc.	Eff: 04/16/2022
f. Anastos, Kathleen	Animal Services	7 Yrs. Svc.	Eff: 04/11/2022
g. Garcia, Juana	Environmental Health	9 Yrs. Svc.	Eff: 04/15/2022

YTD fiscal year 2021/2022 retirees: 88

YTD fiscal year 2020/2021 retirees: 88

**MONTHLY BUDGET REPORT:** Submitted

**VIRTUAL MEETINGS:** Reaffirm the adoption of Merced County Employee's Retirement Association Resolution No. 2021-02, and its findings that the Governor's proclaimed state of emergency related to the COVID-19 pandemic remains active, that the state of emergency impacts the ability of the Trustees and public to safely meet in person, and state or local officials continue to impose or recommend measures to promote social distancing.

**The MercedCERA Board voted unanimously via roll call vote to approve the consent calendar as presented.**

**Adams/Cabral U/A (8/0)**

### **CLOSED SESSION**

As provided in the Ralph M. Brown Act, Government Code sections 54950 et seq., the Board may meet in closed session with members of its staff, county employees and its attorneys. These sessions are not open to the public and may not be attended by members of the public. The matters the Board will meet on in closed session are identified below. Any public reports of action taken in the closed session will be made in accordance with Government Code sections 54957.1.

#### **(1) PUBLIC EMPLOYEE APPOINTMENT, TITLE: INVESTMENT OFFICER.**

(Govt. Code § 54957)

1. It is the intention of the Board to discuss matters concerning the appointment of the position of Investment Officer.

### **RETURN TO OPEN SESSION**

#### **(1) PUBLIC EMPLOYEE APPOINTMENT, TITLE: INVESTMENT OFFICER.**

(Govt. Code § 54957)

1. It is the intention of the Board to discuss matters concerning the appointment of the position of Investment Officer.

**The MercedCERA Board provided direction to staff.**

### **BOARD ACTION/DISCUSSION**

1. Discussion and possible action to adopt the updated delegated spending authority policy and resolution – Staff.

**The MercedCERA Board voted unanimously via roll call vote to resend the 2016-04 resolution and adopt the 2022-02 resolution with the updated delegated spending authority policy.**

**Adams/Johnston U/A (8/0)**

2. Discussion and possible action to approve elections for Seat 2 (general member), Seat 7 (safety) and Seat 7A (safety alternate) on October 4, 2022 by the Registrar of Voters – Staff.

**The MercedCERA Board voted unanimously via roll call vote to approve elections for Seat 2 (general member), Seat 7 (safety) and Seat 7A (safety alternate) on October 4, 2022 by the Registrar of Voters.**

**Johnston/Cabral U/A (8/0)**

3. Review calendar of any training sessions and authorize expenditures for Trustees and Plan Administrator. Pursuant to Govt. Code § 31522.8 and MercedCERA's Trustees Education and Training Policy requirements. Examples of upcoming training and educational sessions:

- CALAPRS Principles of Pension Governance for Trustees, August 29-September 1, 2022 (location TBD).
- SACRS Fall Conference, November 8-11, 2022, Long Beach, CA. (registration not open).

**The MercedCERA Board voted unanimously via roll call vote to approve trustee Cabral's attendance to the SACRS Fall Conference.**

**Adams/Peterson U/A (8/0)**

**INFORMATION ONLY**

**Silveira- Trustee insurance question for Staff.**

**Kristie- Introduced Monica as the new analyst.**

**MercedCERA UPCOMING BOARD MEETINGS**

Please note: The MercedCERA Board Meeting and/or Education Day times and dates may be changed in accordance with the Ralph M. Brown Act by the MercedCERA Board as required.

- May 26, 2022 (please note: 'Merced Conference Room' location for this meeting)
- June 9, 2022

**ADJOURNMENT**

The meeting adjourned at 9:02 A.M.

Accepted By,

Trustee Name/Position	Signature	Date
Ryan Paskin/ Chair		
Al Peterson/Secretary		



Merced County Employees' Retirement Association

**Date:** May 26, 2022

**To:** MercedCERA Board of Retirement

**From:** Kristie Santos, Plan Administrator

**Subject:** Formally request that the Merced County Board of Supervisors adopt Government Code section 31522.3, approve and direct the MercedCERA Chair to sign a letter making the request and directed to Board of Supervisors Chair Lloyd Pareira, Jr., and approve the draft resolution to be presented to the Board of Supervisors on behalf of the MercedCERA Board of Retirement.

**Item Number:** 1

**Item Type:** Action

**Staff Recommendation:**

1. Formally request that the Merced County Board of Supervisors adopt Government Code section 31522.3, approve and direct the MercedCERA Chair to sign a letter making the request and directed to Board of Supervisors Chair Lloyd Pareira, Jr., and approve the draft resolution to be presented to the Board of Supervisors on behalf of the MercedCERA Board of Retirement.

**Discussion:**

The Merced County Employees' Retirement Association's (MercedCERA) Board of Retirement is formally requesting the Merced County Board of Supervisors to adopt Government Code section 31522.3, which will grant appointment and oversight authority of assistant administrators and (chief) investment officer to the MercedCERA Board of Retirement. Currently the MercedCERA Board is contemplating the (chief) investment officer position.

**Background**

Investment governance is a major responsibility and fiduciary requirement for the MercedCERA Board of Retirement. Investment governance can include things such as detailed due diligence, performance reporting, performance monitoring, manager disposition, cash flow analysis, asset reconciliation, negotiating terms of new funds (both private and public) and manager relations. While MercedCERA's investment consultants have typically handled some of these functions in the past, there are some functions that have not been addressed and where MercedCERA staff cannot solely rely on consultants to perform the required fiduciary duties.

Transparency in investments and the investment process has become a much greater issue in today's pension world, so too has the demand for resources dedicated to these functions. In the past, the traditional pension asset model of 65% equity, 35% fixed

income, and a buy and hold strategy, required little oversight. Today's contemporary pension asset model is much more complex as funds look to non-traditional asset types to enhance returns. There is a need to have dedicated staff on hand that can devote their entire time to the principles of investment governance. MercedCERA must strive to create more accountability and responsibility from within and give MercedCERA, the Board and our stakeholders a greater sense of control, confidence and understanding regarding the investment process.

The solution to the investment governance issue is grounded in the idea of taking more responsibility, control and accountability for the process itself. It should be understood that investment governance in this context does not mean actively managing (buying and selling) investments. It is critical that MercedCERA understand every aspect of the investment process, which in turn, should enhance the Board's overall comfort level. While the Board always has ultimate control over the decision-making process, there are pension management tools and oversight issues that have never been addressed or fully vetted. It is only natural that the MercedCERA Board play the greatest role in the investment decision-making process.

The investment area of MercedCERA touches nearly every part of the Organization. As such, the MercedCERA Board made the decision to create and recruit for an investment professional experienced in alternative investments. With the adoption of section 31522.3, according to the County Employees' Retirement Law of 1937 (CERL), the Retirement Board would have the authority to appoint and manage the investment position as part of the investment governance and oversight process.

The County Board of Supervisors adopted Government Code section 31522.2 via Resolution 1999 - 219 which gave the Board of Retirement appointment and oversight authority of the Plan Administrator. This oversight, over the years, has afforded the MercedCERA Board the ability to closely monitor the performance and governance of the MercedCERA organization, as a whole. Oversight of the organization is also under Article XVI, section 17, of the California Constitution and the County Employees' Retirement Law of 1937 (CERL), which provide the Board of Retirement with the plenary authority and fiduciary responsibility for the investment of moneys and administration of the system, and the Board of Retirement is the governing body for the employees it appoints.

With this approval, the Board of Retirement would formally ask the Merced County Board of Supervisors to adopt Government Code section 31522.3 which will facilitate the oversight of the (chief) investment position with the Retirement Board.

**Staff Recommendation:**

Formally request that the Merced County Board of Supervisors adopt Government Code section 31522.3, approve and direct the MercedCERA Chair to sign a letter making the request and directed to Board of Supervisors Chair Lloyd Pareira, Jr., and approve the draft resolution to be presented to the Board of Supervisors on behalf of the MercedCERA Board of Retirement.



Merced County Employees' Retirement Association

May 26, 2022

The Honorable Supervisor Lloyd Pareira, Jr.  
Chair, Merced County Board of Supervisors  
2222 M Street  
Merced, CA 95340

Dear Supervisor Pareira:

At its May 26, 2022, meeting, the Merced County Employees' Retirement Association ("MercedCERA") Board of Retirement ("Board", "the Board") decided to formally request that the Merced County Board of Supervisors adopt Government Code section 31522.3, which would provide the Board with appointment authority and oversight of assistant administrator and chief investment officer positions for MercedCERA.

The MercedCERA Board of Retirement is tasked with oversight of the MercedCERA organization and pension fund under Article XVI, section 17, of the California Constitution and the County Employees' Retirement Law of 1937 (CERL), which provide the Board of Retirement with the plenary authority and fiduciary responsibility for the investment of moneys and administration of the system. Investment governance is a major responsibility and fiduciary requirement for the MercedCERA Board. Investment governance can include things such as detailed due diligence, performance reporting, performance monitoring, manager disposition, cash flow analysis, asset reconciliation, negotiating terms of new funds (both private and public) and manager relations. Currently, the MercedCERA Board is contemplating the appointment authority and oversight over the chief investment officer position.

MercedCERA's pension fund is very complex; as pension funds look to non-traditional asset types to enhance returns. MercedCERA's portfolio consists of forty three percent (43%) alternative investments. Alternative investments are very complex and usually long term in nature. There is a need to have dedicated staff on hand that can devote their entire time to the principles of investment governance with direct oversight from the MercedCERA Board. By adopting Government Section Code 31522.3 and giving the MercedCERA Board oversight of the Chief Investment Officer position, the Board believes there will be more accountability and responsibility from within and give our stakeholders a greater sense of control, confidence and understanding regarding the investment of fund assets.

The County Board of Supervisors adopted government section code 31522.2 via Resolution 1999-219 which gave the Board of Retirement the authority and oversight of the Plan Administrator position. This oversight over the years has afforded the MercedCERA Board the ability to closely monitor the performance and governance of the MercedCERA organization, as a whole.



The MercedCERA Board of Retirement is formally requesting that the Merced County Board of Supervisors adopt Government Code section 31522.3 for the continued oversight and wellbeing of the MercedCERA pension fund.

Respectfully,

Ryan Paskin  
Chair, MercedCERA Board of Retirement

BEFORE THE BOARD OF SUPERVISORS  
OF THE COUNTY OF MERCED, STATE OF CALIFORNIA

IN THE MATTER OF:  
ADOPTING GOVERNMENT CODE SECTION  
31522.3 PROVIDING FOR APPOINTMENT OF  
ASSISTANT ADMINISTRATORS AND CHIEF  
INVESTMENT OFFICERS BY THE MERCED  
COUNTY EMPLOYEES' RETIREMENT  
ASSOCIATION'S BOARD OF RETIREMENT

RESOLUTION NO. \_\_\_\_\_

WHEREAS, Government Code section 31522.1 of the County Employees Retirement Law of 1937 (the "CERL") authorizes the Board of Retirement of the Merced County Employees' Retirement Association (the "Association") to appoint such administrative, technical, and clerical personnel as are required to accomplish the necessary work of the Retirement Association; and

WHEREAS, on June 14, 1983, the Board of Retirement adopted Government Code section 31522.1; and

WHEREAS, Government Code section 31522.2 authorizes the Board of Retirement, if it has appointed personnel under Government Code section 31522.1, to appoint an administrator as a County employee exempt from County civil service and merit system rules, provided that the Board of Supervisors has adopted a resolution making that section applicable in the County of Merced, and

WHEREAS, on December 21, 1999, the Board of Supervisors, by resolution, made Government Code section 31522.2 applicable in the County of Merced and the Board of Retirement has subsequently appointed personnel to the position of administrator, and

WHEREAS, Government Code section 31522.3 authorizes the Board of Retirement, if it has appointed personnel under Government Code section 31522.1, to appoint assistant administrators and chief investment officers as County employees not subject to County civil service or merit system rules provided that the Board of Supervisors has adopted a resolution making that section applicable in the County of Merced, and

WHEREAS, under Article XVI, section 17, of the California Constitution and the CERL, the Board of Retirement has the plenary authority and fiduciary responsibility for the investment of moneys and administration of the system, and the Board of Retirement is the governing body for the employees it appoints, and

WHEREAS, the Board of Supervisors recognizes the need for and benefit to the Association of having assistant administrators and chief investment officers accountable to and appointed by the Board of Retirement.

NOW, THEREFORE, BE IT RESOLVED THAT, the Board of Supervisors hereby adopts and makes Government Code section 31522.3 applicable in the County of Merced.

BE IT FURTHER RESOLVED THAT, the Board of Supervisors acknowledges the Board of Retirement's authority over the administration of the retirement system, including but not limited to, the setting of salaries for personnel appointed by the Board of Retirement, and also acknowledges that such salaries as adopted by the Board of Retirement shall be included in the salary ordinance or salary resolution adopted by the Board of Supervisors for the compensation of County officers and employees.

I, **RAUL LOMELI MENDEZ**, Clerk of the Board of Supervisors of the County of Merced, do hereby certify that the foregoing resolution was regularly introduced, passed and adopted by said Board at a regular meeting thereof held on the \_\_\_\_\_ of \_\_\_\_\_, 2022 by the following vote:

**SUPERVISORS:**

AYES:

NOES:

ABSENT:

ABSTENTIONS:

WITNESS my hand and the Seal of this Board this \_\_\_\_\_ day of \_\_\_\_\_, 2022.

Raul Lomeli Mendez, Clerk of the Board

By: \_\_\_\_\_  
Deputy

### 31522.3 Assistant Administrators; Chief Investment Officers

(a) In a county in which the board of retirement or both the board of retirement and the board of investment have appointed personnel pursuant to [Section 31522.1](#) , the respective board or boards may elect to appoint assistant administrators and chief investment officers as provided for in this section. The positions of the assistant administrators and chief investment officers designated by the retirement board shall not be subject to county charter, civil service, or merit system rules. The persons so appointed shall be county employees and shall be included in the salary ordinance or salary resolution adopted by the board of supervisors for the compensation of county officers and employees. The assistant administrators and chief investment officers so appointed shall be directed by, shall serve at the pleasure of, and may be dismissed at the will of, the appointing board or boards. Specific charges, a statement of reasons, or good cause shall not be required as a basis for dismissal of the assistant administrators and chief investment officers by the appointing board or boards.

(b) This section shall not apply to any person who was an assistant administrator or a chief investment officer and was included in the county civil service or was subject to merit system rules on December 31, 1996.

(c) This section shall only apply to a county of the third class, a county of the eighth class, a county of the 14th class, a county of the 15th class, or a county of the 18th class, as provided by [Sections 28020](#) , [28024](#) , [28029](#) , [28035](#) , [28036](#) , and [28039](#) .

(d) Notwithstanding subdivision (c), this section shall also apply to any county if the board of supervisors, by resolution adopted by majority vote, makes this section applicable in the county.

**Merced County Employees'  
Retirement Association**

**May 26, 2022**

**April Market Update and  
Portfolio Analysis**

- 1. Economic and Market Update as of April 30, 2022**
- 2. Portfolio Downside Scenario Analysis**
- 3. Disclaimer, Glossary, and Notes**

# **Economic and Market Update**

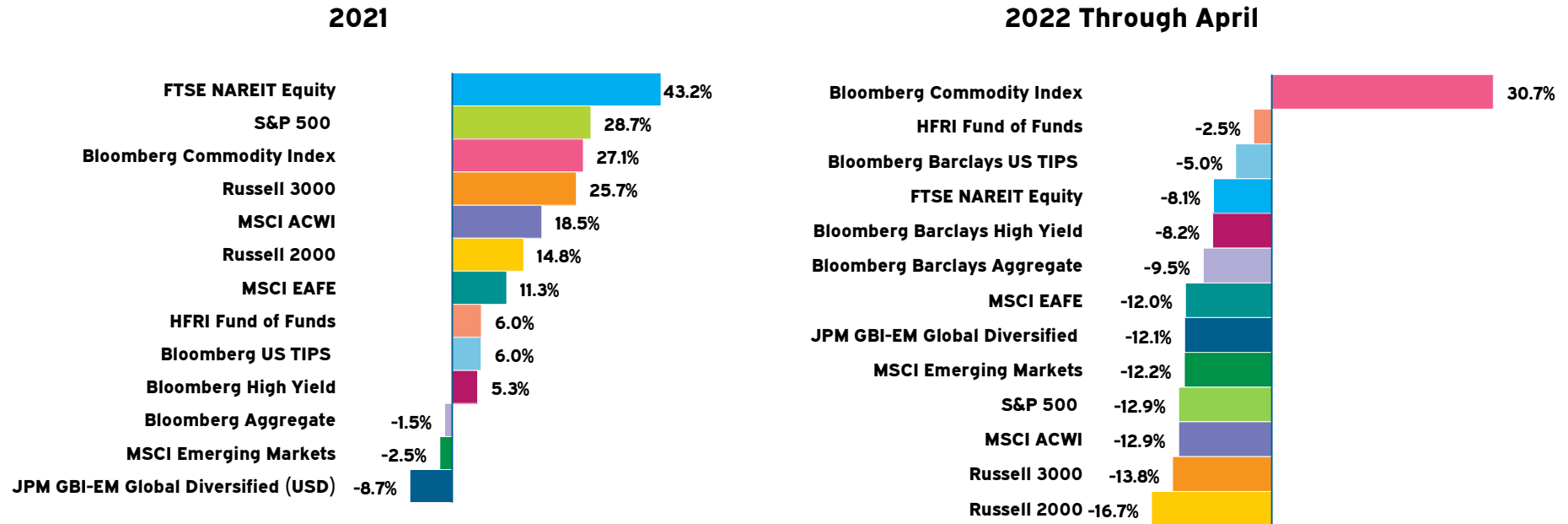
Data as of April 30, 2022

### Commentary

- Market volatility rose sharply in April due to continued inflation pressures, driven by supply chain issues, global stimulus, and the war in Ukraine.
- Except for commodities, all asset classes declined in April.
  - Equities fell across the board with the US experiencing the steepest declines.
  - Value-oriented equities outpaced growth in the US, influenced by higher interest rates and notable weakness in some high-profile technology companies.
  - The global bond selloff continued, as rates rose further on inflation fears and policy expectations.
  - Rates rose across the US yield curve, with the curve steepening after a brief early month inversion.
  - Inflation remains high globally given lingering supply issues from the pandemic and the conflict in Ukraine.
  - The pace of policy tightening will likely increase due to persistent inflation.
- The conflict in Ukraine, lingering COVID-19 issues, persistent inflation, and strict lockdowns in China will all have considerable economic and financial consequences for the global economy going forward.



### Index Returns<sup>1</sup>



→ Outside of emerging markets and the broad US investment grade bond market (Bloomberg Aggregate), most asset classes rose in 2021.

→ In April, most major asset classes extended their losses from the first quarter, with US stocks and bonds having one of their worst starts to a year on record. Commodities continue to be the one exception to the trend, adding 4.1% in April and bringing the year-to-date return to over 30%.

<sup>1</sup> Source: Bloomberg and FactSet. Data is as of April 30, 2022.

### Domestic Equity Returns<sup>1</sup>

Domestic Equity	April (%)	Q1 (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
S&P 500	-8.7	-4.6	-12.9	-0.5	13.8	13.7	13.6
Russell 3000	-9.0	-5.3	-13.8	-3.9	13.1	13.0	13.2
Russell 1000	-8.9	-5.1	-13.6	-2.8	13.6	13.4	13.5
Russell 1000 Growth	-12.1	-9.0	-20.0	-6.0	16.7	17.3	15.5
Russell 1000 Value	-5.6	-0.7	-6.3	0.5	9.6	9.1	11.1
Russell MidCap	-7.7	-5.7	-12.9	-7.1	10.5	10.7	11.9
Russell MidCap Growth	-11.3	-12.6	-22.4	-17.7	8.7	12.1	12.1
Russell MidCap Value	-5.9	-1.8	-7.7	-0.9	10.2	8.6	11.3
Russell 2000	-9.9	-7.5	-16.7	-17.9	6.7	7.2	9.9
Russell 2000 Growth	-12.3	-12.6	-23.3	-27.4	4.1	7.1	9.8
Russell 2000 Value	-7.8	-2.4	-10.0	-7.7	8.4	6.7	9.7

#### US Equities: Russell 3000 Index declined 9%, and value indices outperformed growth in April.

- The steep declines in US stocks were driven by an overall weakening of economic data and persistent inflation, leading to expectations for the Federal Reserve to increase rates much faster than previously expected.
- Value stocks declined far less than growth stocks for the month, maintaining the recent trend as rising rates and inflation continued to weigh on growth companies.
- Large company stocks outpaced small company stocks for the month, extending year-to-date relative outperformance.

<sup>1</sup> Source: Bloomberg. Data is as of April 30, 2022.

### Foreign Equity Returns<sup>1</sup>

Foreign Equity	April (%)	Q1 (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
MSCI ACWI ex. US	-6.3	-5.4	-11.4	-11.3	4.3	4.9	5.0
MSCI EAFE	-6.5	-5.9	-12.0	-9.1	4.4	4.8	5.7
MSCI EAFE (Local Currency)	-1.4	-3.7	-5.1	2.9	6.5	6.0	8.7
MSCI EAFE Small Cap	-6.9	-8.5	-14.8	-14.4	4.9	5.0	7.6
MSCI Emerging Markets	-5.6	-7.0	-12.2	-19.3	2.2	4.3	3.0
MSCI Emerging Markets (Local Currency)	-3.5	-6.1	-9.4	-15.3	4.1	6.2	6.0
MSCI China	-4.1	-14.2	-17.7	-37.1	-5.0	2.1	3.9

#### International Developed Market Equities: MSCI EAFE -6.5% in April.

- Non-US stocks fell less than US stocks in April, leading to their smaller year-to-date declines.
- The war in Ukraine, high inflation, continued strength in the US dollar, and slowing growth all weighed on stocks in Europe. A particularly weak currency and diverging monetary policy impacted Japan's results.
- Like the US, value stocks outperformed growth stocks by a wide margin across developed markets, but not in emerging markets where value and growth declined equally in the month of April.

#### Emerging Markets: MSCI EM -5.6% in April.

- Emerging market stocks suffered negative returns in April but outperformed developed market stocks.
- China's strict COVID-19 policies, increased hawkishness from the US Fed, the war in Ukraine, and US dollar strength all contributed to declines.

<sup>1</sup> Source: Bloomberg. Data is as of April 30, 2022.

### Fixed Income Returns<sup>1</sup>

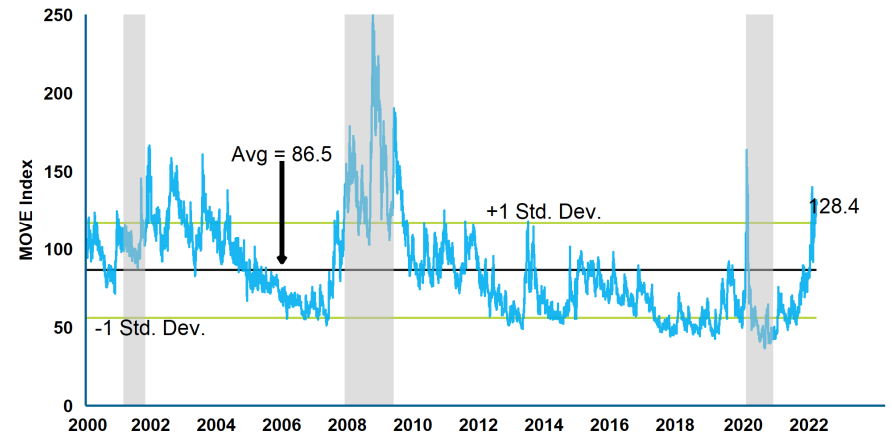
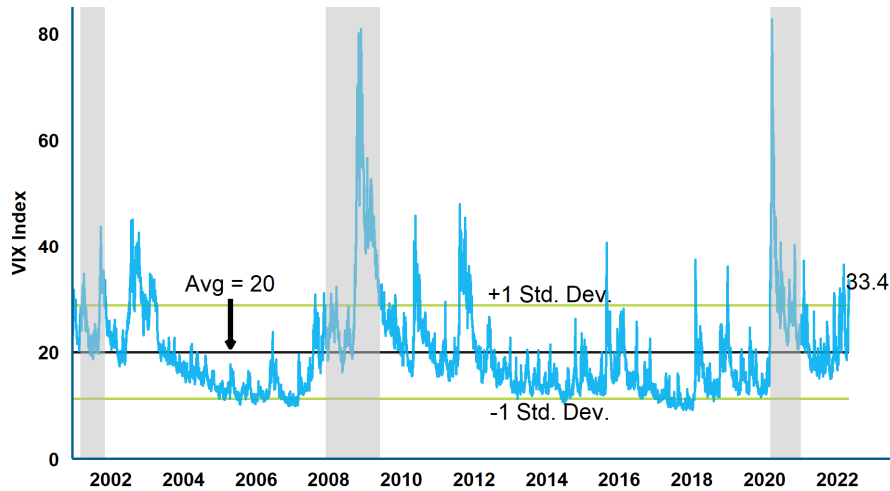
Fixed Income	April (%)	Q1 (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Current Yield (%)	Duration (Years)
Bloomberg Universal	-3.7	-6.1	-9.6	-8.5	0.6	1.4	2.1	3.9	6.5
Bloomberg Aggregate	-3.8	-5.9	-9.5	-8.4	0.4	1.2	1.7	3.5	6.7
Bloomberg US TIPS	-2.0	-3.0	-5.0	0.7	5.4	3.9	2.3	3.1	7.5
Bloomberg High Yield	-3.6	-4.8	-8.2	-5.2	2.8	3.7	5.3	7.0	4.8
JPM GBI-EM Global Diversified (USD)	-6.0	-6.5	-12.1	-15.9	-3.1	-1.3	-1.4	6.9	4.9

#### Fixed Income: Bloomberg Universal -3.7% in April.

- Continued concerns about policy tightening and inflation led to rates rising further in April resulting in the broad US investment grade bond market (Bloomberg Aggregate) having its worst start to a year on record. The nominal 10-year Treasury yield approached 3% by month-end and real yields moved toward becoming positive (this eventually happened after month-end).
- US credit spreads continued to widen, particularly in high yield, as risk assets fell.
- Emerging market debt experienced the worst declines for the month and year-to date periods with the conflict in Ukraine, rising rates in the US, and strict lockdowns in China all contributing.

<sup>1</sup> Source: Bloomberg. JPM GBI-EM is from InvestorForce. Data is as of April 30, 2022.

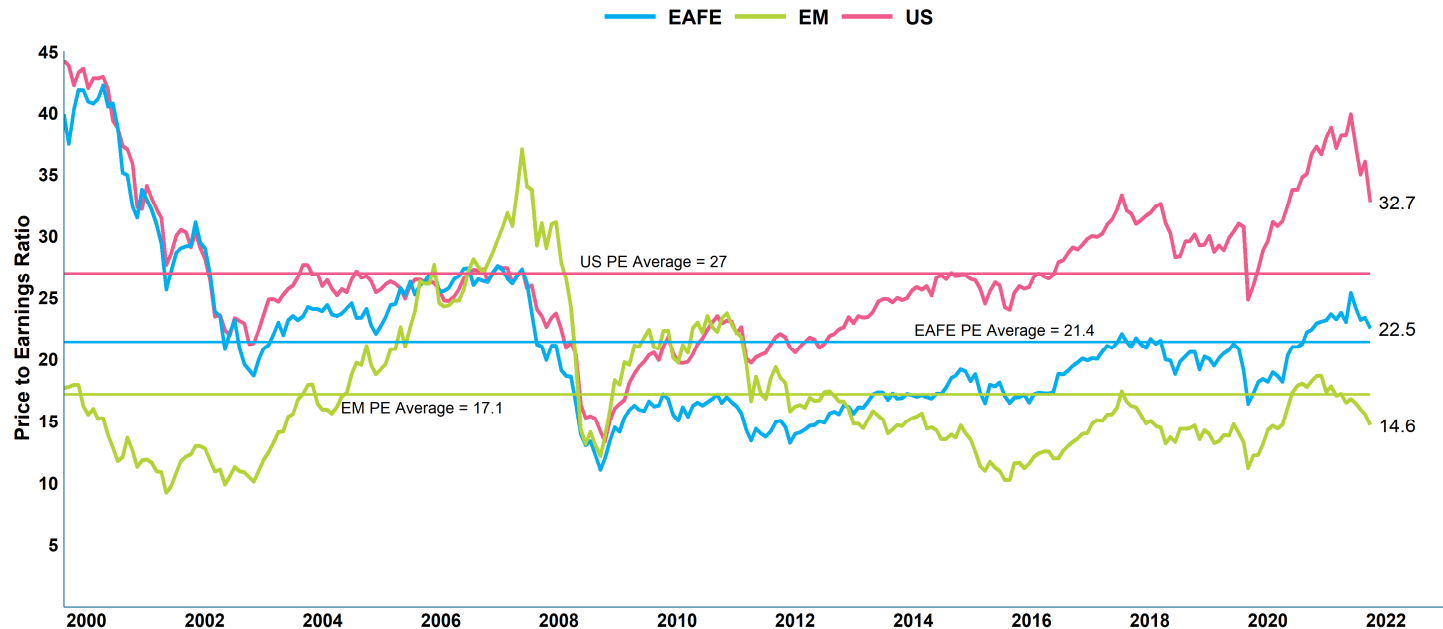
**Equity and Fixed Income Volatility<sup>1</sup>**



- Volatility in both equities (VIX) and fixed income (MOVE) surged in April remaining well above long run averages.
- Concerns over high inflation and the related faster pace of expected policy tightening has led to volatility across markets remaining elevated.

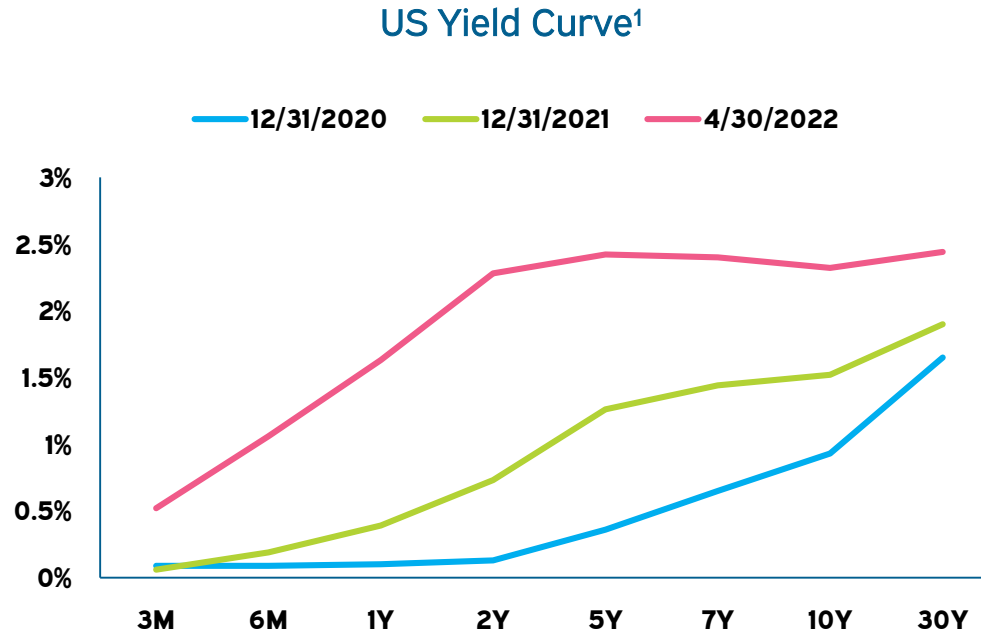
<sup>1</sup> Equity and Fixed Income Volatility – Source: Bloomberg. Implied volatility as measured using VIX Index for equity markets and the MOVE Index to measure interest rate volatility for fixed income markets. Data is as of April 2022. The average line indicated is the average of the VIX and MOVE values between January 2000 and the present month-end respectively.

**Equity Cyclically Adjusted P/E Ratios<sup>1</sup>**



- After a pause in March, US stocks resumed their sell-off in April. Despite the recent sell-off, valuations remain well above long-term averages (near +2 standard deviations).
- International developed market valuations remain below the US, with those for emerging markets under the long-term average.

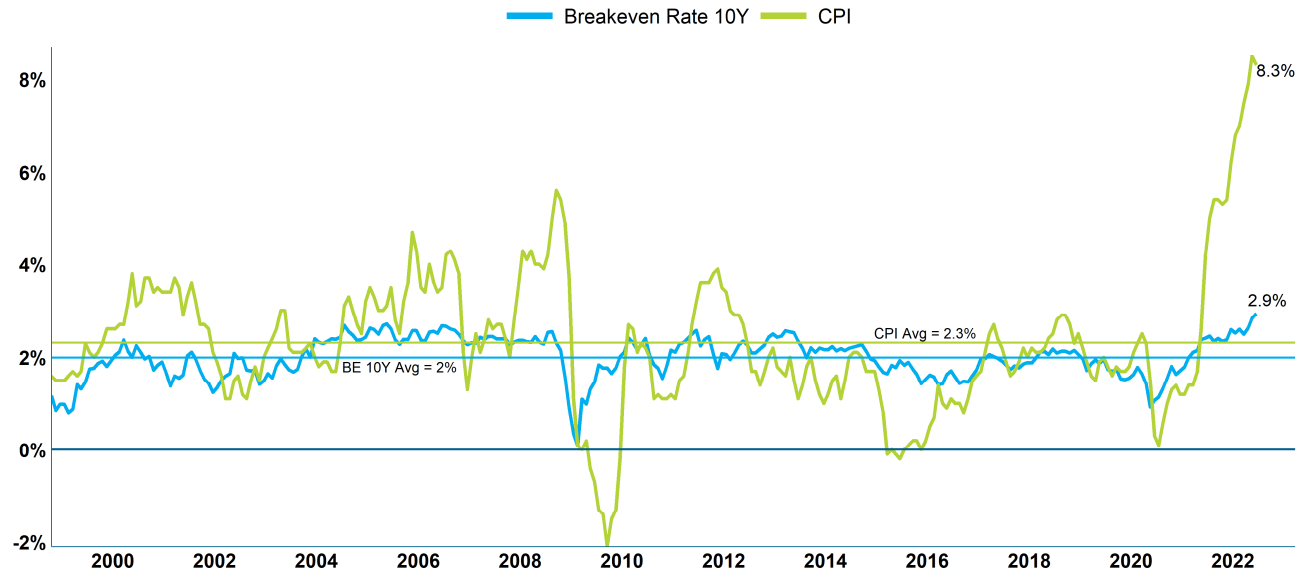
<sup>1</sup> US Equity Cyclically Adjusted P/E on S&P 500 Index. Source: Robert Shiller, Yale University, and Meketa Investment Group. Developed and Emerging Market Equity (MSCI EAFE and EM Index) Cyclically Adjusted P/E – Source: MSCI and Bloomberg. Earnings figures represent the average of monthly “as reported” earnings over the previous ten years. Data is as of April 30, 2022. The average line is the long-term average of the US, EM, and EAFE PE values from December 1999 to month-end respectively.



- In April, the trend of higher rates across maturities persisted as markets continue to reprice inflation, rate expectations, and an accelerated pace of the Federal Reserve reducing its balance sheet.
- After a brief inversion at the start of the month, which historically has often signaled building recessionary pressures, the curve steepened, with the spread between two-year and ten-year Treasuries finishing April at 22.7 basis points.

<sup>1</sup> Source: Bloomberg. Data is as of April 30, 2022.

**Ten-Year Breakeven Inflation and CPI<sup>1</sup>**

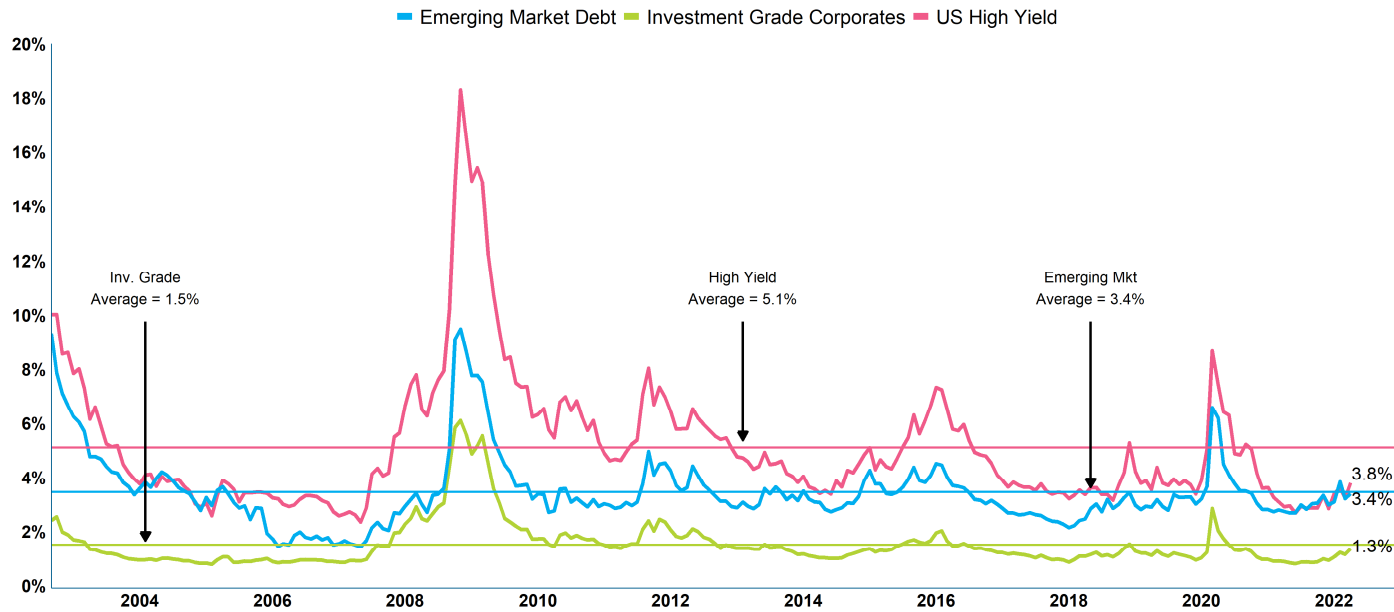


- Inflation expectations (breakevens) increased slightly in April making a new peak above 3% during the month. It is worth noting that breakevens declined significantly after month-end, on expectations inflation could be peaking.
- Trailing twelve-month CPI declined slightly in April (8.3% versus 8.5%) remaining well above the long-term average of 2.3%.
- Rising prices for energy and food, and for new and used cars, remained key drivers of higher inflation.

<sup>1</sup> Source: Bloomberg. Data is as of April 30, 2022. The CPI and 10 Year Breakeven average lines denote the average values from August 1998 to the present month-end respectively. Breakeven values represent month-end values for comparative purposes.



**Credit Spreads vs. US Treasury Bonds<sup>1</sup>**



- Credit spreads (the spread above a comparable maturity Treasury) increased further in April in the risk-off environment extending losses for the year, particularly for riskier bonds.
- In the US, spreads for high yield increased more than investment grade. Emerging market spreads also increased during the month but finished lower than US high yield.
- Despite the recent increase, US high yield spreads remain well below the long-term average (3.8% versus 5.1%).

<sup>1</sup> Sources: Bloomberg. Data is as of April 30, 2022. Average lines denote the average of the investment grade, high yield, and emerging market spread values from August 2000 to the present month-end respectively.

### Global Economic Outlook

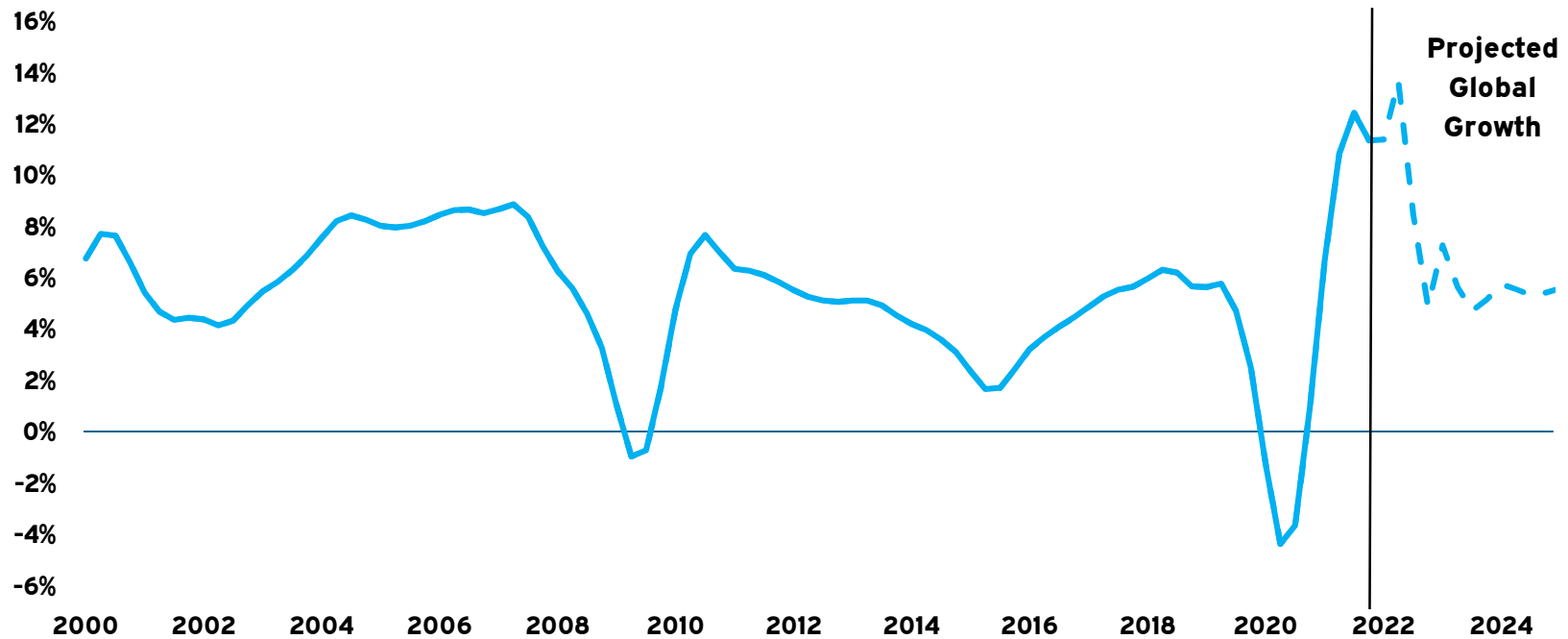
The IMF significantly lowered global growth forecasts in their latest projections, driven by the economic impacts of the war in Ukraine.

- The IMF forecasts final global GDP to come in at 6.1% in 2021 and 3.6% in 2022 (0.8% below the prior 2022 estimate), both still above the past ten-year average of 3.0%.
- In advanced economies, GDP is projected to increase 3.3% in 2022 and 2.4% in 2023. The US has limited economic ties with Russia but saw another downgrade in the 2022 growth forecast (3.7% versus 4.0%) largely due to policy tightening happening faster than previously expected. The euro area saw a significant downgrade in expected growth (2.8% versus 3.9%) in 2022 as rising energy prices particularly weigh on the region that is a net importer of energy. The Japanese economy is expected to grow 2.4% this year.
- Growth projections for emerging markets are higher than developed markets, at 3.8% in 2022 and 4.4% in 2023. China's growth was downgraded (4.4% versus 4.8%) for 2022 given tight COVID-19 restrictions and continued property sector problems.
- The global inflation forecast was significantly increased for 2022 (7.4% versus 3.8%) due to the war in Ukraine.

	Real GDP (%) <sup>1</sup>			Inflation (%) <sup>1</sup>		
	IMF 2022 Forecast	IMF 2023 Forecast	Actual 10 Year Average	IMF 2022 Forecast	IMF 2023 Forecast	Actual 10 Year Average
World	3.6	3.6	3.0	7.4	4.8	3.5
Advanced Economies	3.3	2.4	1.6	5.7	2.5	1.5
US	3.7	2.3	2.1	7.7	2.9	1.9
Euro Area	2.8	2.3	0.9	5.3	2.3	1.2
Japan	2.4	2.3	0.5	1.0	0.8	0.5
Emerging Economies	3.8	4.4	4.2	8.7	6.5	5.1
China	4.4	5.1	6.7	2.1	1.8	2.1

<sup>1</sup> Source: IMF World Economic Outlook. Real GDP forecasts from April WEO Update. Inflation forecasts are as of the April 2022 Update. "Actual 10 Year Average" represents data from 2012 to 2021.

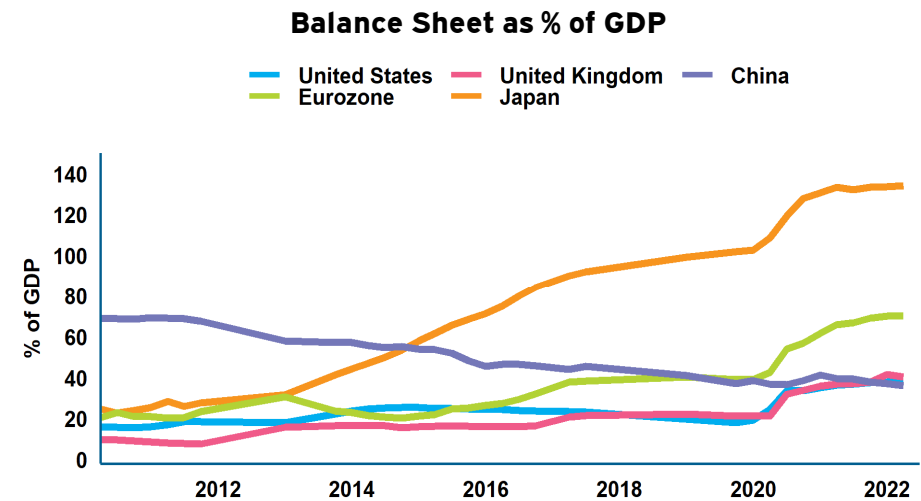
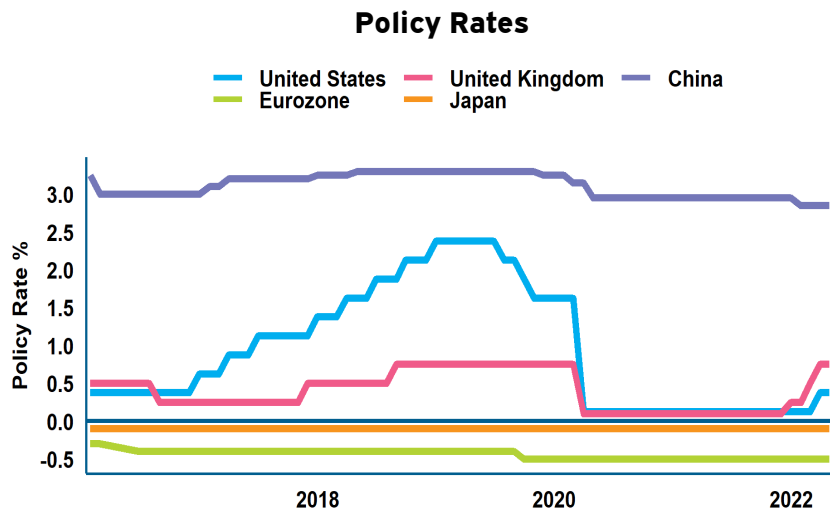
**Global Nominal Gross Domestic Product (GDP) Growth<sup>1</sup>**



- Global economies are expected to slow in 2022 compared to 2021 but are forecasted to have another year of largely above-trend growth as economies continue to emerge from the pandemic.
- Looking forward, the track of the conflict between Russia and Ukraine, continued supply chain issues, ongoing inflationary pressures, tighter monetary policy, and lingering pandemic problems all remain key with the risk for continued downgrades in growth forecasts.

<sup>1</sup> Source: Oxford Economics (World GDP, US\$ prices & PPP exchange rate, nominal, % change YoY). Updated April 2022.

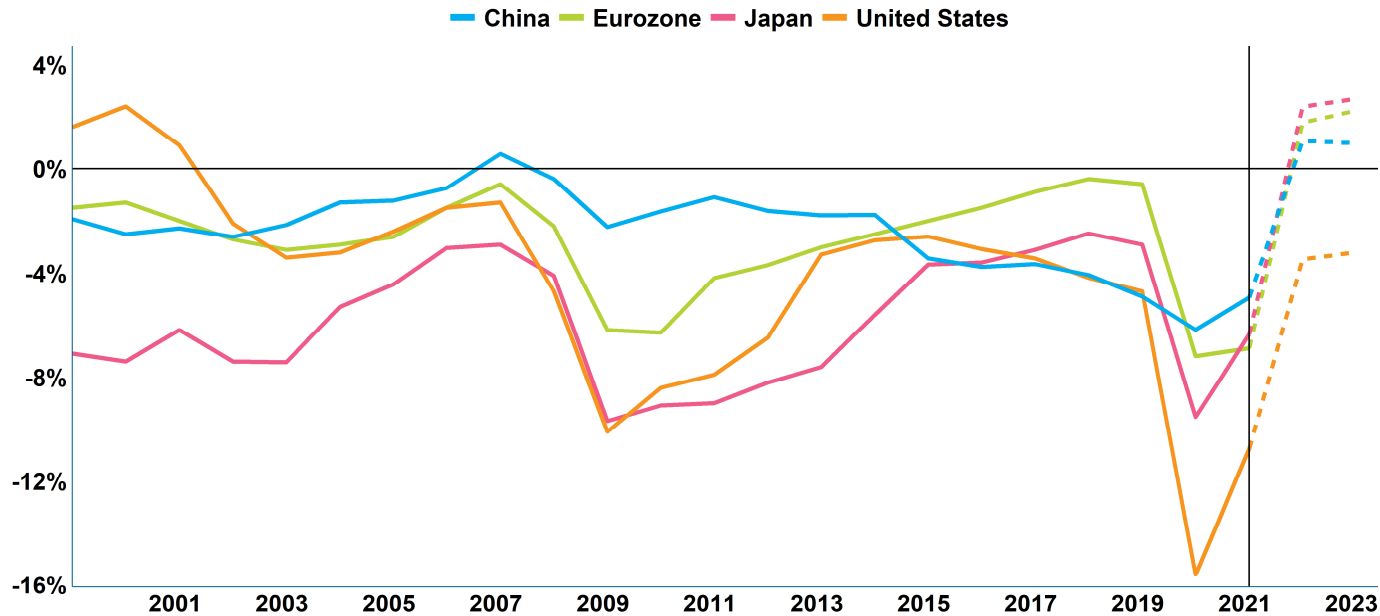
### Central Bank Response<sup>1</sup>



- After global central banks took extraordinary action to support economies during the pandemic including policy rate cuts and emergency stimulus through quantitative easing (QE), many are considering reducing support in the face of high inflation.
- The pace of withdrawing support will likely vary across central banks with the US expected to take a more aggressive approach. The risk remains for a policy error, particularly overtightening, as the war in Ukraine and a tough COVID-19 policy in China could suppress global growth.
- The one notable outlier is China, where the central bank recently lowered rates and reserve requirements in response to slowing growth.

<sup>1</sup> Source: Bloomberg. Policy rate data is as of April 30, 2022. China policy rate is defined as the medium-term lending facility 1 year interest rate. Balance sheet as % of GDP is based on quarterly data and is as of March 31, 2022.

**Budget Surplus / Deficit as a Percentage of GDP<sup>1</sup>**

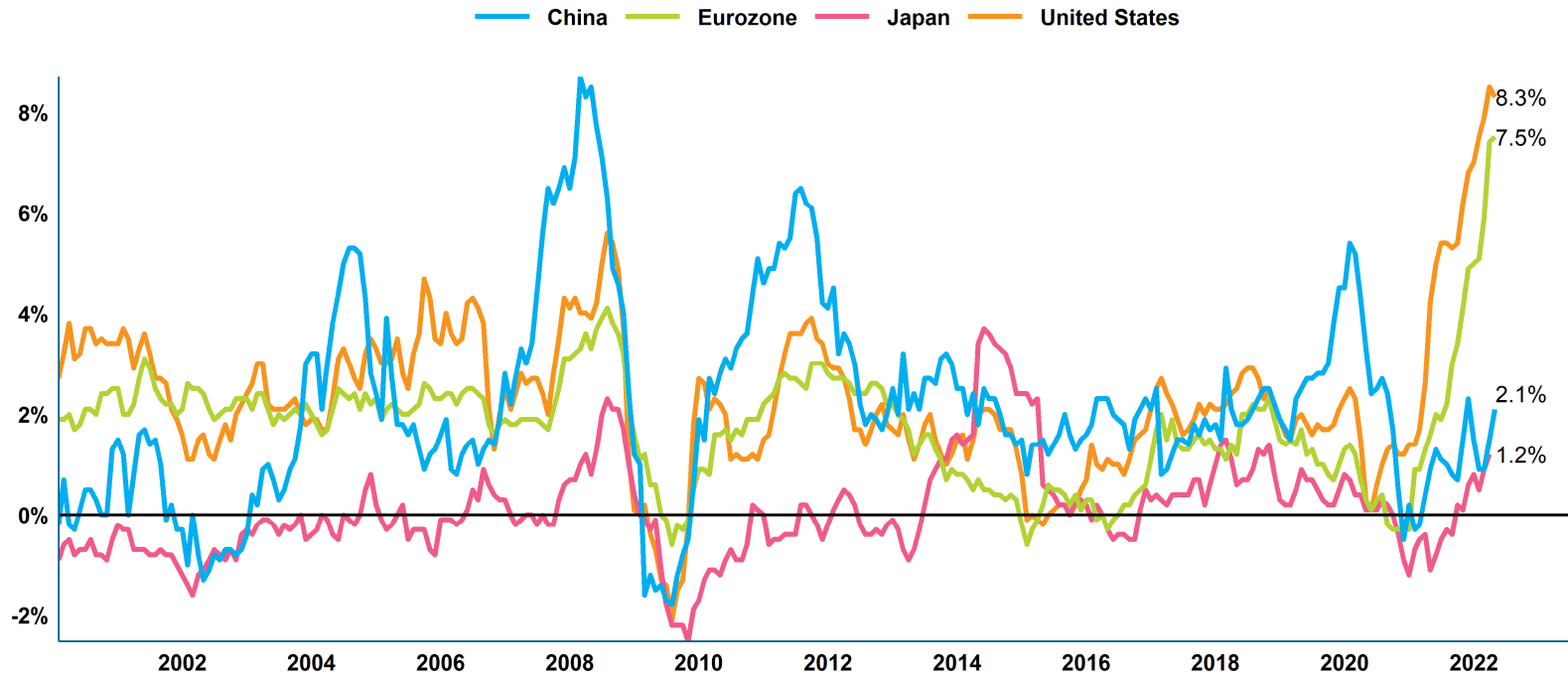


→ Budget deficits as a percentage of GDP drastically increased for major world economies, particularly the US, due to massive fiscal support and the severe economic contraction's effect on tax revenue in 2020 and 2021.

→ As fiscal stimulus programs end, and economic recoveries continue, deficits should improve in the coming years.

<sup>1</sup> Source: Bloomberg. Data is as of March 31, 2022. Projections via IMF Forecasts from April 2022 Report. Dotted lines represent 2022 and 2023 forecasts.

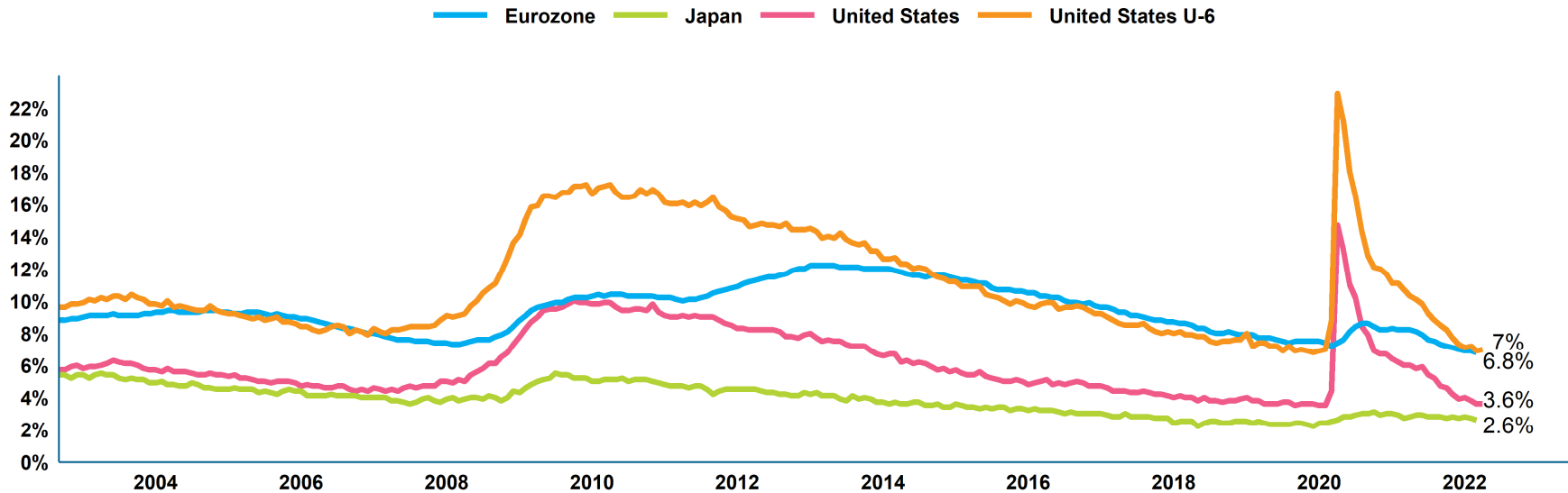
**Inflation (CPI Trailing Twelve Months)<sup>1</sup>**



- Inflation increased dramatically from the lows of the pandemic, particularly in the US and Eurozone where it remains at levels not seen in decades.
- Supply issues related to the pandemic and higher prices in many commodities driven by the Russia and Ukraine conflict have been key drivers of inflation globally.

<sup>1</sup> Source: Bloomberg. Data is as of April 2022, except for Japan, where the most recent data available is as of March 31, 2022.

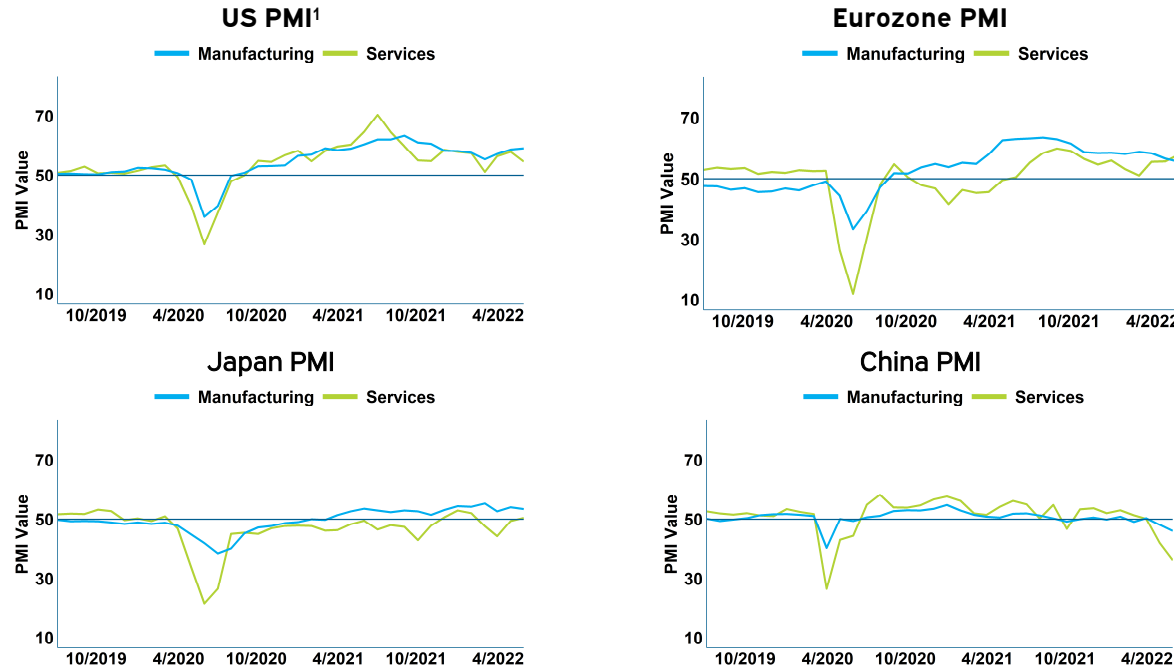
### Unemployment<sup>1</sup>



- As economies have largely reopened, helped by vaccines for the virus, improvements have been seen in the labor market.
- US unemployment, which experienced the steepest rise from the pandemic, has declined back to pre-pandemic levels. The broader measure (U-6) that includes discouraged and underemployed workers declined but is much higher at 7.0%.

<sup>1</sup> Source: Bloomberg. Data is as of April 30, 2022, for the US. The most recent data for Eurozone and Japanese unemployment is as of March 31, 2022.

### Global PMIs

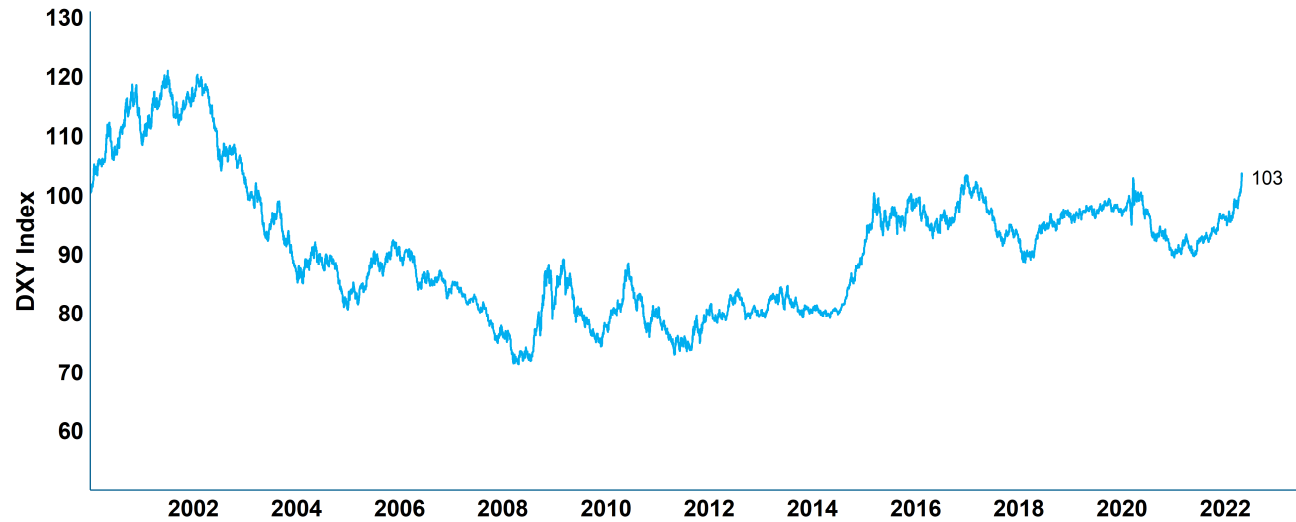


- After improvements from the lows of the pandemic, Purchasing Managers Indices (PMI), based on surveys of private sector companies, have experienced some pressures recently.
- Service sector PMIs have seen some improvements in the US and Europe lately as the effects of the Omicron variant wane, while Japan and China remain weaker due to a rise in COVID-19 cases, with China still in contraction due to their strict policies.
- In most countries, manufacturing PMIs are in expansion territory as pandemic-related production issues ease and orders increase. China is the one exception, though, with the manufacturing PMI falling below 50 due to increased COVID-19 restrictions.

<sup>1</sup> Source: Bloomberg. US Markit Services and Manufacturing PMI, Caixin Services and Manufacturing PMI, Eurozone Markit Services and Manufacturing PMI, Jibun Bank Services and Manufacturing PMI. Data is as of April 2022. Readings below 50 represent economic contractions.



US Dollar versus Broad Currencies<sup>1</sup>



- The US dollar continued its trend of strengthening against a broad basket of peers in April of 2022 with further increases after month-end.
- Safe-haven flows, relatively stronger growth, and higher rates have all been key drivers of the dollar’s on-going strength.
- The euro, yen, and yuan have all experienced significant declines versus the dollar, adding to inflation and slowing growth concerns.

<sup>1</sup> Source: Bloomberg. Data as of April 30, 2022.

## Summary

### Key Trends in 2022:

- The war in Ukraine has created significant uncertainty, with a wide range of potential outcomes. Volatility will likely remain high.
- Expect growth to slow globally in 2022 but remain above the long-term trend for the year. The pandemic's impact on economic activity and the war will be key.
- Inflationary pressures could linger, particularly if the Russian invasion of Ukraine intensifies or expands.
- The end of many fiscal programs is expected to put the burden of continued growth on consumers. Higher energy and food prices will depress consumer ability to spend in other areas.
- Monetary policy will likely tighten globally but will remain relatively accommodative. The risk of overtightening policy impacting growth remains.
- Valuations remain high in the US, but relatively low interest rates and strong margins could be supportive of equity markets.
- Outside the US, equity valuations remain lower in both emerging and developed markets, but risks remain, including continued strength in the US dollar, higher inflation particularly weighing on Europe, and China maintaining its restrictive COVID-19 policies.

## **Portfolio Downside Scenario Analysis**

### Scenario Analysis Overview

- The MercedCERA portfolio is invested across various asset classes with the objective of producing sufficient returns to ensure long-term sustainability of the plan.
- At the last meeting, we discussed how the MercedCERA portfolio is expected to perform in different market environments.
- One of the key benefits of a diversified portfolio asset allocation is reducing return volatility – by distributing asset allocation across various asset classes, the portfolio's return is less likely to be significantly impacted by underperformance of a particular asset class.
- We have prepared the following analyses, depicting the return expected in historical/hypothetical market downturn scenarios, given the current portfolio characteristics (note that in periods where certain asset class benchmarks do not/did not exist, the best available proxy is used).
- The scenario analyses show that the MercedCERA portfolio has significant equity risk, as most pension plans do given their long-term assumed rate of returns, and that it should expect to see negative returns about 1 in every 3 years, and see significant drawdowns during periods of equity market distress.

Asset Allocation Policy<sup>1</sup>

	MCERA Policy (%)
US Large Cap	22
Developed Market Equity (non-US)	11
Emerging Market Equity	8
Private Equity	15
Direct Lending	5
Core Private Real Estate	8
Investment Grade Bonds	11
Opportunistic Fixed Income	5
Hedge Funds	10
Real Assets	5
Natural Resources (Private)	2
Commodities (naive)	1
Infrastructure (Core Private)	2
Expected Return (20 years)	7.13
Standard Deviation	13.7
Probability of Achieving 6.5% over 20 Years	57.7

<sup>1</sup> Expected return and standard deviation are based upon Meketa Investment Group's 2022 Annual Asset Study. Throughout this document, returns for periods longer than one year are annualized.

#### MVO-Based Risk Analysis

Scenario	MCERA Policy (%)
Worst Case Returns (1)	
OneYear (annualized)	-20.1
ThreeYears (annualized)	-9.6
FiveYears (annualized)	-6.1
TenYears (annualized)	-2.4
TwentyYears (annualized)	0.3
Probability of Experiencing Negative Returns	
OneYear	29.4
ThreeYears	17.4
FiveYears	11.2
TenYears	4.3
TwentyYears	0.8
Probability of Achieving at least a 6.5% Return	
OneYear	51.7
ThreeYears	53.0
FiveYears	53.9
TenYears	55.5
TwentyYears	57.7

<sup>1</sup> "Worst Case" Return Projections assume a negative three standard deviation event (i.e., it encompasses >99% of possible outcomes).

**Historical Negative Scenario Analysis<sup>1</sup>**  
*(Cumulative Return)*

Scenario	MCERA Policy (%)
COVID-19 Market Shock (Feb 2020-Mar 2020)	-17.5
Taper Tantrum (May - Aug 2013)	0.6
Global Financial Crisis (Oct 2007 - Mar 2009)	-28.2
Popping of the TMT Bubble (Apr 2000 - Sep 2002)	-16.9
LTCM (Jul - Aug 1998)	-8.5
Asian Financial Crisis (Aug 97 - Jan 98)	2.1
Rate spike (1994 Calendar Year)	4.1
Early 1990s Recession (Jun - Oct 1990)	-5.0
Crash of 1987 (Sep - Nov 1987)	-11.0
Strong dollar (Jan 1981 - Sep 1982)	0.8
Volcker Recession (Jan - Mar 1980)	-3.7
Stagflation (Jan 1973 - Sep 1974)	-20.1

→ Merced CERA Policy exhibits significant downside participation in recent equity market downturn scenarios, as we discussed during the last asset allocation review.

<sup>1</sup> See the Appendix for our scenario inputs. In periods where the ideal benchmark was not yet available we used the next closest benchmark(s) as a proxy.

Stress Testing: Impact of Market Movements (Expected Return under Stressed Conditions)<sup>1</sup>

Scenario	MCERA Policy (%)
10-year Treasury Bond rates rise 100 bps	4.7
10-year Treasury Bond rates rise 200 bps	-0.1
10-year Treasury Bond rates rise 300 bps	-3.0
Baa Spreads widen by 50 bps, High Yield by 200 bps	0.0
Baa Spreads widen by 300 bps, High Yield by 1000 bps	-21.6
Trade Weighted Dollar gains 10%	-4.4
Trade Weighted Dollar gains 20%	-3.0
U.S. Equities decline 10%	-6.4
U.S. Equities decline 25%	-17.6
U.S. Equities decline 40%	-26.3
Inflation slightly higher than expected	-0.3
Inflation meaningfully higher than expected	-4.7
Low Growth and Low Inflation	-6.4
Low Growth and High Inflation	-9.8
Brief, moderate inflation spike	-3.1
Extended, moderate inflation spike	-6.0
Brief, extreme inflation spike	-7.8
Extended, extreme inflation spike	-10.7

→ The Merced CERA Portfolio is challenged in an inflationary environment, as expected.

<sup>1</sup> Assumes that assets not directly exposed to the factor are affected nonetheless. See the Appendix for further details.



## **Disclaimer, Glossary, and Notes**

WE HAVE PREPARED THIS REPORT (THIS "REPORT") FOR THE SOLE BENEFIT OF THE INTENDED RECIPIENT (THE "RECIPIENT").

SIGNIFICANT EVENTS MAY OCCUR (OR HAVE OCCURRED) AFTER THE DATE OF THIS REPORT AND THAT IT IS NOT OUR FUNCTION OR RESPONSIBILITY TO UPDATE THIS REPORT. ANY OPINIONS OR RECOMMENDATIONS PRESENTED HEREIN REPRESENT OUR GOOD FAITH VIEWS AS OF THE DATE OF THIS REPORT AND ARE SUBJECT TO CHANGE AT ANY TIME. ALL INVESTMENTS INVOLVE RISK. THERE CAN BE NO GUARANTEE THAT THE STRATEGIES, TACTICS, AND METHODS DISCUSSED HERE WILL BE SUCCESSFUL.

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CERTAIN INFORMATION CONTAINED IN THIS REPORT MAY CONSTITUTE "FORWARD - LOOKING STATEMENTS," WHICH CAN BE IDENTIFIED BY THE USE OF TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "AIM," "ANTICIPATE," "TARGET," "PROJECT," "ESTIMATE," "INTEND," "CONTINUE" OR "BELIEVE," OR THE NEGATIVES THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. ANY FORWARD-LOOKING STATEMENTS, FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS IN THIS PRESENTATION ARE BASED UPON CURRENT ASSUMPTIONS. CHANGES TO ANY ASSUMPTIONS MAY HAVE A MATERIAL IMPACT ON FORWARD - LOOKING STATEMENTS, FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS. ACTUAL RESULTS MAY THEREFORE BE MATERIALLY DIFFERENT FROM ANY FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS IN THIS PRESENTATION.

PERFORMANCE DATA CONTAINED HEREIN REPRESENT PAST PERFORMANCE. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

**Credit Risk:** Refers to the risk that the issuer of a fixed income security may default (i.e., the issuer will be unable to make timely principal and/or interest payments on the security.)

**Duration:** Measure of the sensitivity of the price of a bond to a change in its yield to maturity. Duration summarizes, in a single number, the characteristics that cause bond prices to change in response to a change in interest rates. For example, the price of a bond with a duration of three years will rise by approximately 3% for each 1% decrease in its yield to maturity. Conversely, the price will decrease 3% for each 1% increase in the bond's yield. Price changes for two different bonds can be compared using duration. A bond with a duration of six years will exhibit twice the percentage price change of a bond with a three-year duration. The actual calculation of a bond's duration is somewhat complicated, but the idea behind the calculation is straightforward. The first step is to measure the time interval until receipt for each cash flow (coupon and principal payments) from a bond. The second step is to compute a weighted average of these time intervals. Each time interval is measured by the present value of that cash flow. This weighted average is the duration of the bond measured in years.

**Information Ratio:** This statistic is a measure of the consistency of a portfolio's performance relative to a benchmark. It is calculated by subtracting the benchmark return from the portfolio return (excess return), and dividing the resulting excess return by the standard deviation (volatility) of this excess return. A positive information ratio indicates outperformance versus the benchmark, and the higher the information ratio, the more consistent the outperformance.

**Jensen's Alpha:** A measure of the average return of a portfolio or investment in excess of what is predicted by its beta or "market" risk.  $\text{Portfolio Return} - [\text{Risk Free Rate} + \text{Beta} * (\text{market return} - \text{Risk Free Rate})]$ .

**Market Capitalization:** For a firm, market capitalization is the total market value of outstanding common stock. For a portfolio, market capitalization is the sum of the capitalization of each company weighted by the ratio of holdings in that company to total portfolio holdings; thus it is a weighted-average capitalization. Meketa Investment Group considers the largest 65% of the broad domestic equity market as large capitalization, the next 25% of the market as medium capitalization, and the smallest 10% of stocks as small capitalization.

**Market Weighted:** Stocks in many indices are weighted based on the total market capitalization of the issue. Thus, the individual returns of higher market-capitalization issues will more heavily influence an index's return than the returns of the smaller market-capitalization issues in the index.

**Maturity:** The date on which a loan, bond, mortgage, or other debt/security becomes due and is to be paid off.

**Prepayment Risk:** The risk that prepayments will increase (homeowners will prepay all or part of their mortgage) when mortgage interest rates decline; hence, investors' monies will be returned to them in a lower interest rate environment. Also, the risk that prepayments will slow down when mortgage interest rates rise; hence, investors will not have as much money as previously anticipated in a higher interest rate environment. A prepayment is any payment in excess of the scheduled mortgage payment.

**Price-Book Value (P/B) Ratio:** The current market price of a stock divided by its book value per share. Meketa Investment Group calculates P/B as the current price divided by Compustat's quarterly common equity. Common equity includes common stock, capital surplus, retained earnings, and treasury stock adjusted for both common and nonredeemable preferred stock. Similar to high P/E stocks, stocks with high P/B's tend to be riskier investments.

**Price-Earnings (P/E) Ratio:** A stock's market price divided by its current or estimated future earnings. Lower P/E ratios often characterize stocks in low growth or mature industries, stocks in groups that have fallen out of favor, or stocks of established blue chip companies with long records of stable earnings and regular dividends. Sometimes a company that has good fundamentals may be viewed unfavorably by the market if it is an industry that is temporarily out of favor. Or a business may have experienced financial problems causing investors to be skeptical about its future. Either of these situations would result in lower relative P/E ratios. Some stocks exhibit above-average sales and earnings growth or expectations for above average growth. Consequently, investors are willing to pay more for these companies' earnings, which results in elevated P/E ratios. In other words, investors will pay more for shares of companies whose profits, in their opinion, are expected to increase faster than average. Because future events are in no way assured, high P/E stocks tend to be riskier and more volatile investments. Meketa Investment Group calculates P/E as the current price divided by the I/B/E/S consensus of twelve-month forecast earnings per share.

**Quality Rating:** The rank assigned a security by such rating services as Fitch, Moody's, and Standard & Poor's. The rating may be determined by such factors as (1) the likelihood of fulfillment of dividend, income, and principal payment of obligations; (2) the nature and provisions of the issue; and (3) the security's relative position in the event of liquidation of the company. Bonds assigned the top four grades (AAA, AA, A, BBB) are considered investment grade because they are eligible bank investments as determined by the controller of the currency.

**Sharpe Ratio:** A commonly used measure of risk-adjusted return. It is calculated by subtracting the risk free return (usually three-month Treasury bill) from the portfolio return and dividing the resulting excess return by the portfolio's total risk level (standard deviation). The result is a measure of return per unit of total risk taken. The higher the Sharpe ratio, the better the fund's historical risk adjusted performance.

**STIF Account:** Short-term investment fund at a custodian bank that invests in cash-equivalent instruments. It is generally used to safely invest the excess cash held by portfolio managers.

**Standard Deviation:** A measure of the total risk of an asset or a portfolio. Standard deviation measures the dispersion of a set of numbers around a central point (e.g., the average return). If the standard deviation is small, the distribution is concentrated within a narrow range of values. For a normal distribution, about two thirds of the observations will fall within one standard deviation of the mean, and 95% of the observations will fall within two standard deviations of the mean.

**Style:** The description of the type of approach and strategy utilized by an investment manager to manage funds. For example, the style for equities is determined by portfolio characteristics such as price-to-book value, price-to-earnings ratio, and dividend yield. Equity styles include growth, value, and core.

**Tracking Error:** A divergence between the price behavior of a position or a portfolio and the price behavior of a benchmark, as defined by the difference in standard deviation.

**Yield to Maturity:** The yield, or return, provided by a bond to its maturity date; determined by a mathematical process, usually requiring the use of a “basis book.” For example, a 5% bond pays \$5 a year interest on each \$100 par value. To figure its current yield, divide \$5 by \$95—the market price of the bond—and you get 5.26%. Assume that the same bond is due to mature in five years. On the maturity date, the issuer is pledged to pay \$100 for the bond that can be bought now for \$95. In other words, the bond is selling at a discount of 5% below par value. To figure yield to maturity, a simple and approximate method is to divide 5% by the five years to maturity, which equals 1% pro rata yearly. Add that 1% to the 5.26% current yield, and the yield to maturity is roughly 6.26%.

$$\frac{5\% \text{ (discount)}}{5 \text{ (yrs. to maturity)}} = 1\% \text{ pro rata, plus } 5.26\% \text{ (current yield)} = 6.26\% \text{ (yield to maturity)}$$

**Yield to Worst:** The lowest potential yield that can be received on a bond without the issuer actually defaulting. The yield to worst is calculated by making worst-case scenario assumptions on the issue by calculating the returns that would be received if provisions, including prepayment, call, or sinking fund, are used by the issuer.

**NCREIF Property Index (NPI):** Measures unleveraged investment performance of a very large pool of individual commercial real estate properties acquired in the private market by tax-exempt institutional investors for investment purposes only. The NPI index is capitalization-weighted for a quarterly time series composite total rate of return.

**NCREIF Fund Index - Open End Diversified Core Equity (NFI-ODCE):** Measures the investment performance of 28 open-end commingled funds pursuing a core investment strategy that reflects funds' leverage and cash positions. The NFI-ODCE index is equal-weighted and is reported gross and net of fees for a quarterly time series composite total rate of return.

Sources: *Investment Terminology*, International Foundation of Employee Benefit Plans, 1999.  
*The Handbook of Fixed Income Securities*, Fabozzi, Frank J., 1991

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Throughout this report, numbers may not sum due to rounding.

Returns for periods greater than one year are annualized throughout this report.

Values shown are in millions of dollars, unless noted otherwise.

**Date:** May 26, 2022

**To:** MercedCERA Board of Retirement

**From:** Martha Sanchez, Benefits and Administration Manager

**Subject:** Post-Retirement Employment Policy

**Item Number:** 3

**Item Type:** Action

**Staff Recommendation:**

1. Approve the Post-Retirement Employment Policy and Retiree Reinstatement to Active Membership Application.

**Discussion:**

Although many of our MercedCERA members retire and cease further paid employment upon retirement, some members choose to return to work and reinstate as active full-time members. The implementation of the Public Employees' Pension Reform Act of 2013 (PEPRA) set specific guidelines on the ability of a retiree to work for a retirement system's participating employer. State and Federal regulations in place before PEPRA also set restrictions on employees who decided to return to work.

If a retiree chooses to work for an employer not participating with MercedCERA, the member may work for that employer and continue to receive their MercedCERA pension benefit. However, if a retiree decides to work for a MercedCERA participating employer or an independent contractor of a participating employer, Government Code Sections 31680.4, 31680.5, 31680.7 and Section 7522.56 apply to MercedCERA member's post-retirement employment. The Post-Retirement Employment Policy provides guidance as to the requirements needing to be adhered to when retirees return to work under two different circumstances.

Employment Without Reinstatement

Retirees who opt to return to work in a temporary or "Extra Help" capacity, without reinstating into active membership, must adhere to specific requirements. Some of these include how soon they can return to work, how much they will be paid, and how many annual hours may they work. These members are capped at 960 hours per year.

Employment Requiring Reinstatement

Retirees who instead decide to work in a permanent full-time capacity must reinstate to active membership status, suspending their MercedCERA pension benefit, and accruing new service retirement credit. The MercedCERA Board of Retirement is required, per Government Code Section 31680.4 to make a determination of the retiree's application for reinstatement. Included as an attachment to this agenda item is the MercedCERA

Reinstatement Application. Requests for application review will be forwarded by staff to the MercedCERA board when received from retiree and employer. Specific requirements are also stipulated in the policy related to when a reinstated member dies or is disabled during reemployment.

MercedCERA staff will monitor the compliance of this policy and applicable statutes as it relates to the employment of reinstated and non-reinstated employees, and work closely with participating employers to ensure adherence to the regulations.

**Staff Recommendation:**

Approve the Post-Retirement Employment Policy and Retiree Reinstatement to Active Membership Application.

## **POST-RETIREMENT EMPLOYMENT POLICY**

### **PURPOSE**

The purpose of this policy is to provide guidance on how Government Code Sections 31680.4, 31680.5, 31680.7 and Section 7522.56 apply to Merced County Employees' Retirement Association (MercedCERA) member's post-retirement employment.

### **POLICY**

This policy is applicable to all MercedCERA retired members returning to work for a MercedCERA participating employer, including the following: an employee working through a private third-party employer providing contract services to a participating employer, an independent contractor of a participating employer, or a direct employee of a participating employer. This policy does not apply to a retired MercedCERA member working in private industry or for any other Non-MercedCERA participating employer, so long as the employer is not providing contract services to a MercedCERA participating employer.

#### **Employment Without Reinstatement**

Government Code Section 7522.56 defines how quickly the retiree can return to work, how much the retiree can be paid, and how many hours the retiree can work annually without reinstatement from retirement or loss or interruption of benefits. A MercedCERA employer can determine the need to appoint a retiree to a regular position during an emergency to prevent stoppage of public business or because the retired person has skills needed to perform work of limited duration. The employer is to ensure no more than 960 hours are worked in a fiscal year. The rate of pay shall not be less than the minimum, nor exceed the maximum, paid by the employer to other employees performing comparable duties, divided by 173.333 to equal the hourly rate

A retired person is ineligible for post-retirement employment with a MercedCERA participating employer if, during the 12-month period prior to the appointment, the retiree received any unemployment insurance compensation arising out of prior employment with a MercedCERA participating employer. The retiree is to provide written certification to the employer that they are in compliance with this requirement.

A retiree is ineligible for employment with a MercedCERA participating employer for a period of 180 days following the date of retirement, unless the retiree meets one of the following conditions:

- At a public meeting, the governing body of the employer approves an item not on its consent calendar that certifies that the appointment of the retiree is necessary to fill a critically needed position.
  
- The retiree is a public safety officer or firefighter and is hired to perform those functions.



However, a retiree who accepted a retirement incentive upon retirement **must** wait 180 days following the date of retirement before being eligible for employment.

### **Employment Requiring Reinstatement**

Government Code Sections 31680.4, 31680.5 and 31680.7 govern the reinstatement of any person who has retired for service from a MercedCERA participating employer. The referenced code sections were adopted by the Merced County Board of Supervisors in Resolution Numbers 91-55 and 97-192. Any inconsistency between those code sections and this Policy shall be resolved in favor of the code sections.

A member retired for service and reemployed by a MercedCERA participating employer shall become an active member again when they submit an application to the Board of Retirement for reinstatement that is approved. The application is to include certification that the retiree is not incapacitated for the duties assigned to him/her. MercedCERA is not responsible for the costs related to the completion of any medical certifications.

The effective date of the member's reinstatement to active membership shall be the first day of the month following the date of reemployment. The retirement allowance of the member shall be effective up to the member's reemployment date and shall be resumed only upon the subsequent termination of the member's period of reemployment.

Under Government Code section 31680.7, during the period of reemployment, the member shall accrue retirement service credit at the same tier or benefit level which was applicable to the member during their original period of employment. The member's contribution rate will be based on the same age at entry, and the same statutory formula, which was used in calculating the member's contribution rate during their original period of employment. This applies to members who did not retire under the Early Incentive to Retire program.

Upon their termination from reemployment (excluding terminations due to death or disability), the member's retirement allowance will consist of the monthly retirement allowance previously received immediately before reemployment and, for Tier 1 members, the cost-of-living increases (COLA) that would have been added to the monthly retirement allowance had the member not been reemployed. This will be combined with the additional service credit accrued during reemployment. As stated previously, the additional retirement allowance will consist of the same benefit formula and tier upon which the member's original retirement allowance was calculated, but shall be based on the member's age upon termination of the reemployment time period and the member's final compensation.

For members who retired under the Early Incentive to Retire program, upon reinstatement, the member's rate of contributions and retirement allowance shall be determined as if the member was first entering the system. The member's allowance upon the termination of their period of reemployment will be the sum of their credited service during reemployment in accordance with the formula applicable to them at the time of reinstatement plus their original retirement, adjusted by any COLAs for Tier 1 members.

The retirement allowance payable to a member whose allowance prior to reinstatement was paid pursuant to an election under Section 31810 will have their allowance reduced as provided in that section. However, for a member who reinstates to active membership prior to attaining age 62, the reduction required by Section 31810 shall be the amount that is the actuarial value of the increase in the allowance from the date of retirement to the date of reinstatement.

### **Death or Disability During Reinstatement**

If, after reemployment a member becomes disabled and is granted a service-connected or non-service connected disability retirement by the Board of Retirement, the member's disability retirement allowance shall be the greater of either of the following:

- 1) The disability retirement allowance the member would have been entitled to receive if all of the member's service during his or her original period of employment and subsequent period of reemployment had been continuous.
- 2) The service retirement allowance the member would have been entitled to receive if the member had not become disabled and had voluntarily terminated his or her period of reemployment.

If the member dies during reemployment and leaves an eligible survivor or survivors entitled to receive a survivor's allowance, the allowance shall be the same amount that it would have been if all of the member's service during his or her original period of employment and subsequent period of reemployment had been continuous. If a lump sum death benefit is payable to the member's designated beneficiary instead of a survivor's allowance, the member's accumulated retirement contributions for purposes of computing the death benefit shall be the sum of the contributions made by the member during the period of reemployment, plus interest credited thereon, and the excess, if any, of the member's total contributions during the original period of employment, including interested credited thereon, over the total amount of retirement benefits paid to the member between the member's original retirement from employment and the member's reemployment.

Upon or after service retirement, the continuance shall be paid upon the member's death to the respective elected beneficiaries from each of the separate retirement period elections.

### **APPLICATION**

It is the employer's responsibility to determine the appropriate use of retired annuitants to meet public business needs in accordance with Government Code sections 31680.4, 31680.5, 31680.7 and 7522.56.

Participating employers shall establish an administrative process to monitor and track MercedCERA retired annuitants returning to regular or part-time work. Participating employers shall provide MercedCERA a report, no less than semi-annually (by January 31 and July 31 of each year), disclosing the names of the retired annuitants who have been employed, their hours worked, and their duration of service.



Merced County Employees' Retirement Association

It is the participating employer's responsibility to monitor and manage the retired annuitant's work hours to ensure compliance with this policy and applicable statutes. Participating employers shall notify MercedCERA when retired annuitants have worked the maximum allowable number of hours under Section 7522.56.

Any retired annuitant who works more than the maximum number of hours allowed in Section 7522.56 may be reinstated into full membership, and MercedCERA may suspend the retirement benefit to such retired annuitant as provided in Section 7522.56.

Such reinstatement to active employment will suspend the retired annuitant's retirement benefit until such time as he/she decides to re-retire. Upon reinstatement, the employee and employer will both be required to pay contributions (including interest) for the period of unlawful employment. The retirement benefits received during the member's employment will also be repaid to MercedCERA. Upon reinstatement, should the retiree wish to return as a retired annuitant to work for a MercedCERA participating employer, the return-to-work rules from Section 7522.56 will again apply.



Merced County Employees' Retirement Association

## RETIREE REINSTATEMENT TO ACTIVE MEMBERSHIP APPLICATION

**Purpose of the Form:** Suspend your retirement and reinstate as an active Merced County Employees' Retirement Association (MercedCERA) member under Gov. Code Section 31680.4, 31680.5 and 31680.7.

**Instructions:** Retiree- Complete Section 1, sign and provide form to your new employer's Human Resources Department.  
Human Resources Department- Complete Section 2 and send to the MercedCERA Office.

**To be eligible:** You must be receiving a retirement benefit from MercedCERA;  
You received a job offer from either Merced County or one of MercedCERA's participating employers;  
You are not incapacitated for the duties assigned in the new job; and  
The new job must qualify for membership into MercedCERA.

### Section 1—To be completed by Retiree

I hereby apply for reinstatement as an active member of MercedCERA. I understand that the Board of Retirement will determine my eligibility for reinstatement based upon the above eligibility criteria being met.

I understand that, if approved, my monthly retirement benefit will stop **effective on the date of my reemployment** and I will return to MercedCERA any benefits I received to which I am not entitled. I will begin to make contributions into the system and my contributions will be based on my age at original entry, **effective the first day of the month following my reemployment date.**

<b>Full Name:</b>	<b>Social Security #:</b>	<b>Phone #:</b>
<b>Member Signature:</b>	<b>Date:</b>	

### Section 2--- To be completed by Employer's Human Resources Representative

I certify that the MercedCERA member named above has completed a pre-employment medical screening and is not incapacitated for the duties assigned to him/her.

<b>Employer's Name:</b>	<b>Job Title of Member's Position:</b>
<b>Representative's Full Name:</b>	<b>Representative's Job Title and Phone Number:</b>
<b>Representative's Signature:</b>	<b>Date:</b>

### Section 3---To be completed by MercedCERA Office

<b>Approved</b> <input type="checkbox"/>	<b>MercedCERA Plan Administrator Signature:</b>	<b>Date:</b>	
<b>Denied</b> <input type="checkbox"/>	<b>Start Date of Reemployment:</b>	<b>Tier:</b>	<b>Age at Reinstatement:</b>

**Reinstatement to Active Membership Frequently Asked Questions**

- What is reinstatement?** Reinstatement allows a MercedCERA retiree to return to work, earn additional service credits and re-retire later.
- Who is eligible:** Anyone who is a retired member, provided they are medically able to perform the job.
- How do I return to work?** First, you apply for a full time job with either the County or one of the other participating MercedCERA employers. Next, you have to be offered a job. Third, you will fill out the Retiree Reinstatement to Active Membership Application. You will confirm your understanding of how your retirement benefits will be affected. Next, your prospective employer signs the form and sends it to the MercedCERA office for approval. Finally, your application is presented to the Board for possible approval.
- What happens if I am approved?** We will stop your retirement benefit effective on the date of reemployment and you will start making contributions into the system again, earning additional service credit.
- What if I already started the job?** If your application is filed late, but it is approved, you will need to repay the system for any pension benefits you received after the date of reemployment. We will also collect any contributions which should have been paid, but were not.
- How are contributions computed?** We will use your original age of entry into the system.
- What Tier will I be placed in?** You will be placed in the tier used to calculate your original retirement.
- What happens when I retire again?** You will get two benefits added together. The first benefit will be the one you were getting before, including costs of living (COLA) increases that may have been granted while you were reemployed (Tier 1 only). The second benefit will be computed on the service and salary you earned after you came back to work.
- Can I change retirement option?** No, your original retirement benefit option cannot be changed.
- Can I take a refund of my account?** No.
- What if I become disabled?** If the Board grants a service or non-service connected disability during your reemployment, you will receive the higher of two options; the disability retirement allowance you would have been entitled to if all of your service during your original period of employment and subsequent reemployment had been continuous or the amount you were entitled to receive had you not become disabled and had voluntarily terminated your period of reemployment.
- What if I die while reemployed?** The amount your beneficiary will receive is based on whether you elected for a survivor's allowance or a lump sum to be payable upon your death. MercedCERA staff can assist you with further details.
- How is my health insurance affected?** We recommend you contact:  
Merced County Risk Management 209-385-7356 for County retirees  
Merced Superior Court Human Resources 209-725-4103 for Court retirees