Merced County Employees' Retirement Association

2020

Comprehensive Annual Financial Report

For the fiscal years ended June 30, 2020 and 2019

Inside Front Cover — Page Intentionally Left Blank

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2020 and 2019

Issued by:

Kristen Santos

Plan Administrator

Mark A. Harman

Fiscal Manager

Merced County Employees' Retirement Association
A Pension Trust Fund of the County of Merced, California

3199 M Street, Merced, CA 95348

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www.co.merced.ca.us/2145/Retirement

MercedCERA's mission is to provide benefits to its members, to manage assets prudently in accordance with plan provisions, and to provide competent and efficient services to our members

Merced County Employees’ Retirement Association

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Introductory Section

Merced County Employees' Retirement Association

Letter of Transmittal

December 18, 2020

Dear Board Members:

As the Plan Administrator of the Merced County Employees' Retirement Association (MercedCERA or the Association), I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2020 and 2019. This report is intended to provide readers with complete and reliable information about MercedCERA's financial status, compliance with the law and MercedCERA policies. This is MercedCERA's 70th year of operation.

MercedCERA's Mission Statement and Core Values

MercedCERA's mission is to provide benefits to its members, manage assets prudently in accordance with plan provisions, and provide competent and efficient services to our members.

The Comprehensive Annual Financial Report (CAFR)

MercedCERA management is responsible for both the accuracy of the data and the completeness and fairness of the financial information contained in this CAFR. The CAFR is presented in five sections:

- The **Introductory Section** describes MercedCERA's management and organizational structure, identifies the members of the MercedCERA Board of Retirement (Board), provides a listing of professional consultants utilized by MercedCERA, and presents this Letter of Transmittal.
- The **Financial Section** presents the report of the independent auditor, Brown Armstrong Accountancy Corporation, along with MercedCERA management's discussion and analysis, basic financial statements, required supplementary schedules, other supplemental schedules, and other information.
- The **Investment Section** contains a report on MercedCERA's investment performance from MercedCERA's general investment consultant, Meketa Investment Group, along with information regarding MercedCERA's investment policies, asset allocation, investment holdings, and investment management fees.
- The **Actuarial Section** contains the independent actuary's certification letter from MercedCERA's actuary, Cheiron, Inc., along with a summary of actuarial assumptions and funding methods, and actuarial statistics.
- The **Statistical Section** presents information pertaining to MercedCERA's operations on a multi-year basis. The financial and operating information provides contextual data for MercedCERA's fiduciary net position, contributions, refunds, and different types of retirement benefits.

MercedCERA and its Services

MercedCERA is a public employee retirement system established by the County of Merced on July 1, 1950. MercedCERA is administered by the MercedCERA Board of Retirement to provide retirement, disability, death, and survivor benefits for eligible employees of the County of Merced, Superior Court of California for the County of Merced, and the Merced Cemetery District pursuant to the California Constitution, the County Employees' Retirement Law of 1937, Government Code Section 31450 et. seq. (the 1937 Act), and the by-laws, policies, and procedures adopted by the MercedCERA Board. The County of Merced Board of Supervisors may also adopt resolutions, as permitted by the 1937 Act, which may affect benefits of MercedCERA members.

The MercedCERA Board is responsible for the general management of the Association, including making benefit determinations and managing the investment of the Association's assets. The day-to-day management of MercedCERA is vested in the Plan Administrator appointed by the Board.

The Board is comprised of nine members and two alternates: two elected by the active general membership, one regular and one alternate elected by the active safety membership, one regular and one alternate elected by the retired membership, four appointed by the County of Merced Board of Supervisors, and the County of Merced Treasurer, who serves as an ex-officio member. With the exception of the County Treasurer, Board members serve three-year terms, with no term limits.

Financial Information

A review of MercedCERA's fiscal affairs for the years ended June 30, 2020 and 2019 is presented in Management's Discussion and Analysis (MD&A), which is located in the Financial Section of this CAFR. Together, the MD&A and this Letter of Transmittal provide an expanded overview of MercedCERA's financial activities for the fiscal years reported.

The audit of MercedCERA's financial statements has been performed by an independent auditor, Brown Armstrong Accountancy Corporation, who has determined that the financial statements are presented in conformity with Generally Accepted Accounting Principles (GAAP) and are free of material misstatement and that sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. This document has been prepared in compliance with the Governmental Accounting Standards Board (GASB) Statement No. 82 and all prior and relevant standards.

Management is responsible for establishing and maintaining appropriate internal controls to ensure that MercedCERA's assets are protected from loss, theft, or misuse. We believe that internal controls are designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefits to be derived and the assessment of control should not exceed the benefits to be derived and the assessment of costs and benefits requires estimates and judgments by management.

As of June 30, 2020, MercedCERA's fiduciary net position restricted for pension benefits totaled approximately $919.8 million reflecting an increase of approximately $53.3 million or 6.2% in fiduciary net position from the end of the previous fiscal year. This was primarily attributable to increase in fair value of investments.

Actuarial Funding Status

MercedCERA's funding objective is to meet long-term benefit obligations by maintaining a well-funded plan and obtaining optimum investment returns consistent with a prudent level of risk. The higher the level of plan funding, the larger the ratio of assets accumulated to actuarial accrued liability and the higher the level of investment return potential.

Pursuant to provisions in the 1937 Act, MercedCERA engages an independent actuarial firm to perform annual actuarial valuations of the Association. As part of the valuation, economic assumptions are reviewed and, in addition, every three years a triennial experience study of MercedCERA membership is conducted and demographic and economic assumptions are reviewed and modified as necessary. The most recent experience study was conducted in 2019. As a result of the study, several economic and demographic assumptions were changed. The most recent actuarial valuation as of June 30, 2019, reported the Association's actuarial funding status (the ratio of assets to actuarial liabilities) is 63.2%. This decrease in funding ratio (63.2% from 63.5% as of June 30, 2018) was primarily due to a combination of MercedCERA's market value of assets increasing at a rate slower than the increase of the actuarial liabilities, which was driven by changes in the assumptions.

Investments

The Board has fiduciary control of all investments of MercedCERA and is responsible for establishing investment objectives, strategies, and policies. Pursuant to the California Constitution and the 1937 Act, the Board is authorized to invest in any form or type of investment to create a portfolio deemed prudent in the informed judgement of the Board. In making decisions regarding the MercedCERA investment portfolio, the Board acts in a fiduciary capacity and must discharge its duties in accordance with fiduciary principles. In carrying out its investment responsibilities, the Board receives guidance from professional investment consultants, Meketa Investment Group, Inc. and Cliffwater, LLC.

The Board of Retirement has adopted Investment Policies, which provide the framework for the management of MercedCERA's investments. The Investment Policies establish the investment program goals, asset allocation policies, performance objectives, investment management policies, and risk controls.

The Investment Policies also delineate the principal fiscal duties of the Board, MercedCERA's custodial bank, MercedCERA staff, and investment managers.

The asset allocation plan adopted by the Board is an integral part of MercedCERA's investment program. It is designed to provide an optimum mix of asset classes with return expectations to satisfy the expected growth of liabilities while finding a tolerable level of risk exposure. A summary of the asset allocation plan is located in the Investment Section of this CAFR.

The assets of MercedCERA are exclusively managed by external professional investment management firms. A listing of the investment service providers and investment fees is located on pages 83 and 82, respectively.

For the fiscal year ended June 30, 2020, MercedCERA's investment return, net of fees, was a positive 6.4% and the annualized rate of return, net of fees, over the last three and five years was a positive 6.9% and 6.6%, respectively.

Service Efforts and Accomplishments

- Adopted and implemented a cost-of-living adjustment (COLA) of 2.5% effective April 1, 2020 for Tier 1 retired members.
- For the sixteenth consecutive year, MercedCERA was awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting for MercedCERA's 2018-2019 Comprehensive Annual Financial Report.
- Approved subscriptions in the following hedge funds:
  - Marshall Wace Global Opportunities Fund – $9,000,000
  - Sculptor Credit Opportunity Fund – $15,000,000
- Approved commitments for each of the following private investments (regardless of funding progress at June 30, 2020):
  - Cortec VII – $10,000,000
  - Summit Venture Capital V – $8,000,000
  - Silver Point Capital Specialty Credit Fund – $8,000,000
  - Cerberus Real Estate Debt Fund – $7,000,000
  - Marlin Heritage Europe II – €7,000,000

- Thoma Bravo Discover Fund III – $8,000,000

- Adopted the 2019 actuarial valuation report as presented by Cheiron, Inc.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to MercedCERA for its CAFR for the Fiscal Year Ended June 30, 2019. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. This is MercedCERA’s sixteenth Certificate of Achievement for excellence in Financial Reporting. We believe our current report continues to conform to the Certificate of Achievement program requirements.

Acknowledgements

The compilation of this report reflects the dedicated efforts of MercedCERA’s Fiscal Staff, Mark Harman and Ninebra Maryoonani. I would also like to thank MercedCERA’s professional consultants; our actuary, our investment consultants, and our auditor for their assistance.

Sincerely,

Kristen Santos

Plan Administrator

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Merced County
Employees' Retirement Association
California

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morrill

Executive Director/CEO

Merced County Employees' Retirement Association

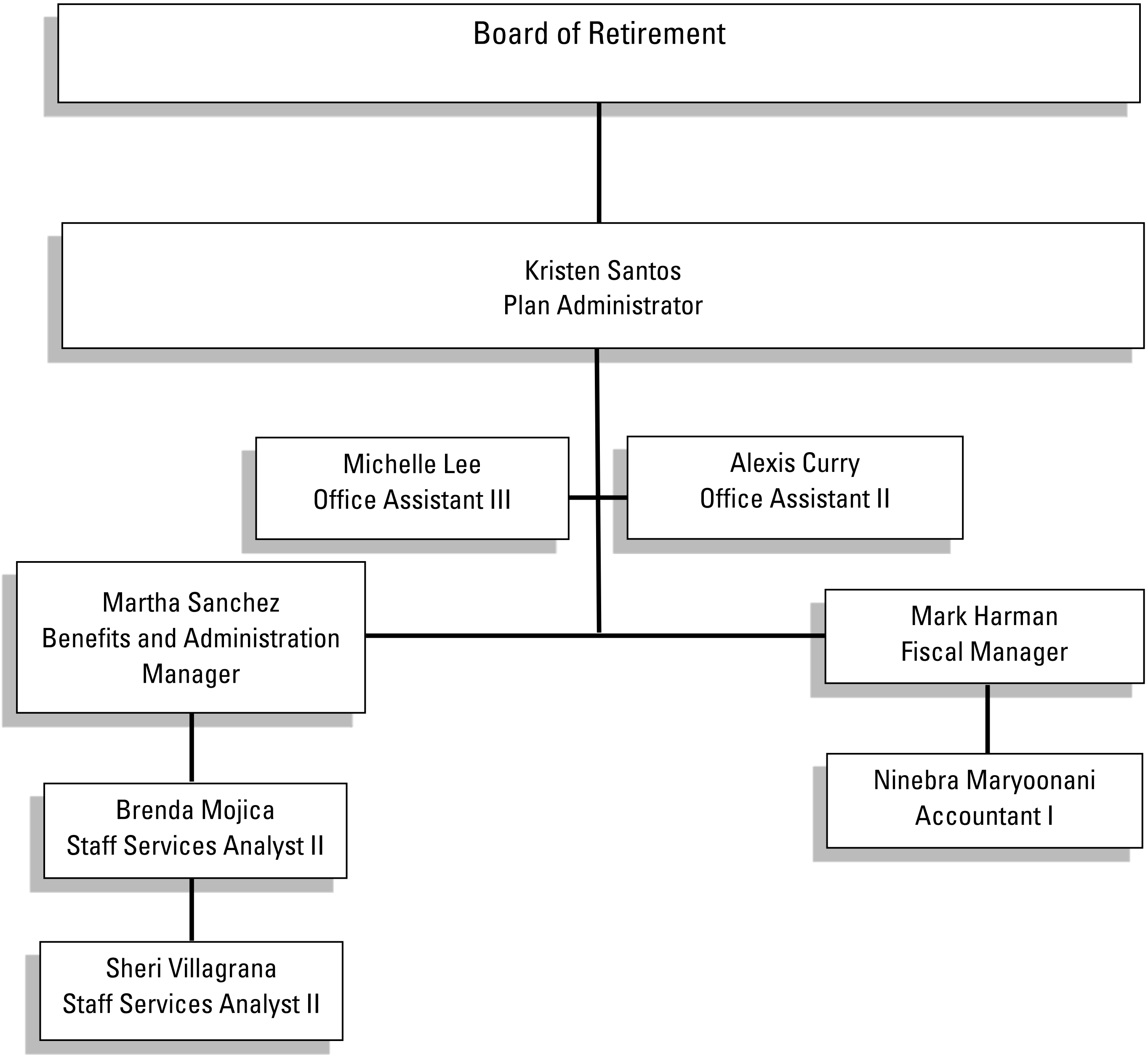
Members of the Board of Retirement
As of June 30, 2020

Trustees	Term Expiration	Appointed/Elected by
Ryan Paskin, Chair	December 31, 2022	Board of Supervisors
Scott Johnston, Vice Chair, Alternate	December 31, 2020	Retired Members
Alfonse Peterson, Secretary	December 31, 2021	Board of Supervisors
Karen Adams, County Treasurer	Permanent by office	Ex-officio Member
Janey Cabral	December 31, 2020	General Members
David Ness	December 31, 2022	Board of Supervisors
Scott Silveira	December 31, 2021	Board of Supervisors
Darlene Ingersoll	December 31, 2022	General Members
Jason Goins	December 31, 2022	Safety Members
Kalisa Rochester, Alternate	December 31, 2022	Safety Members
Michael Rhodes	December 31, 2020	Retired Members

Merced County Employees' Retirement Association

Administrative Organization Chart

As of June 30, 2020



Merced County Employees' Retirement Association

List of Professional Consultants
As of June 30, 2020

<u>**Consulting Services**</u>

Investment Consultant

Meketa Investment Group, Inc.

Cliffwater, LLC

Actuary

Cheiron, Inc.

Segal Consulting

Auditor

Brown Armstrong Accountancy Corporation

Master Custodian

Northern Trust Corporation

Electronic Systems Services

Merced County Information Systems

Legal Counsel

Merced County Counsel

Ted Cabral

Nossaman LLP

Public Pension Consultants, Inc.

Hanson Bridgett LLP

Medical Advisor

National Disability Evaluations, Inc.

Commission Recapture Brokers

ConvergEx Group

Capital Institutional Services, Inc.

A list of Investment Services Providers can be found on pages 83 and 84.

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Financial Section

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1919 GRAND CANAL BLVD
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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement of the
Merced County Employees' Retirement Association
Merced, California

Report on the Basic Financial Statements and Other Information

We have audited the accompanying Statements of Fiduciary Net Position of the Merced County Employees' Retirement Association (MercedCERA), a component unit of the County of Merced, as of June 30, 2020 and 2019, the related Statements of Changes in Fiduciary Net Position for the fiscal years then ended, and the related notes to the basic financial statements, which collectively comprise MercedCERA's basic financial statements as listed in the table of contents. We have also audited the Schedule of Cost Sharing Employer Allocations and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan totals for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions (specified column totals) (other information) as of and for the fiscal year ended June 30, 2020, listed as other information in the table of contents.

Management's Responsibility for the Basic Financial Statements and Other Information

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the basic financial statements and other information referred to above present fairly, in all material respects, the fiduciary net position of MercedCERA as of June 30, 2020 and 2019; its changes in fiduciary net position for the fiscal years then ended; and the Schedule of Cost Sharing Employer Allocations and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan totals for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense excluding that attributable to employer-paid member contributions (specified column totals) as of and for the fiscal year ended June 30, 2020, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Additional Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise MercedCERA's basic financial statements and other information. The other supplemental schedules and the introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2020, on our consideration of MercedCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MercedCERA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MercedCERA's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 18, 2020

Merced County Employees' Retirement Association

Management's Discussion and Analysis

We are pleased to provide this overview and analysis of the financial activities of the Merced County Employees' Retirement Association (MercedCERA or the Association) for fiscal years ended June 30, 2020 and 2019. We encourage readers to consider the information presented here in conjunction with the additional information furnished in the Letter of Transmittal and the financial statements following this section.

Financial Highlights

- At the close of the fiscal year June 30, 2020, MercedCERA's fiduciary net position restricted for pensions totaled \$919.8 million. All of the fiduciary net position is available to meet MercedCERA's ongoing obligations to plan participants and their beneficiaries.
- During fiscal year 2020, MercedCERA's fiduciary net position restricted for pensions increased by \$53.3 million. This change mostly reflects the increase in fair value of investments.
- MercedCERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2019, the date of MercedCERA's last actuarial funding valuation, MercedCERA's funded ratio was 63.2%. In general, this indicates that for every one dollar of benefits due, MercedCERA has approximately \$0.63 of assets available for payment.
- Additions, as reflected in the Statements of Changes in Fiduciary Net Position, were \$135.4 million in the fiscal year ended June 30, 2020. These additions include employer and employee contributions of \$78.2 million, investment income of \$9.4 million, other income of \$85.4 thousand, a net appreciation in the fair value of investments of \$50.6 million, and investment expenses of \$2.9 million.
- Deductions, as reflected in the Statements of Changes in Fiduciary Net Position, increased from \$77.1 million to \$82.1 million in the current fiscal year (an increase of approximately 6.44%). This increase was primarily due to benefits paid.

Overview of the Financial Statements

The following discussion and analysis are intended to help the reader understand the purpose and meaning of the key components within the financial section. The financial statements are comprised of the ***Statements of Fiduciary Net Position*** and the ***Statements of Changes in Fiduciary Net Position.***

The ***Statements of Fiduciary Net Position*** are a snapshot of account balances as of the fiscal year ends. They indicate the assets available for future payment to retirees and any current liabilities. The difference between assets and liabilities represents the fiduciary net position restricted for pensions. The statements also present prior year-end balances for comparative purposes.

The ***Statements of Changes in Fiduciary Net Position*** provide a view of the current year additions to and deductions from the Association that caused the change in the net position during the fiscal years.

MercedCERA's financial statements are in compliance with the generally accepted accounting principles in the United States of America (GAAP) and reporting guidelines set forth in Governmental Accounting Standards Board (GASB) Statement Nos. 28, 34, 40, 44, 51, 53, 63, 67, 72, and 82. These pronouncements require certain disclosures, and also require that defined pension plans of state and local governments report use the full accrual method of accounting. MercedCERA complies with all material requirements of these pronouncements.

These financial statements report information about MercedCERA's financial activities. As previously noted, the statements include all assets and liabilities using the full accrual basis of accounting. The current year's additions are recognized when earned and deductions are recognized when incurred regardless of when cash is received or paid. Investment gains or losses are shown at the trade date, not the settlement date. In addition, both realized and unrealized gains and losses are reported. All capital assets are depreciated over their useful lives.

The information reported regarding MercedCERA's fiduciary net position restricted for pensions is generally considered to be a good measure of MercedCERA's financial position. Over time, increases or decreases in the Association's net position is one indicator of whether the Association's financial health is improving or deteriorating. Other factors, however, such as investment market conditions and the employers' net pension liability, should also be considered in measuring the Association's overall health.

The ***Notes to Basic Financial Statements*** are an integral part of the financial report and provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information. The ***Required Supplementary Information*** includes the Schedules of Changes in Net Pension Liability and Related Ratios, Schedules of Employer Contributions, and the Schedules of Investment Returns. The Schedules of Changes in Net Pension Liability and Related Ratios present the changes in the employers' net pension liability. The Schedules of Employer Contributions provide historical information about actuarial determined contributions of the employer and the actual contributions made. The Schedules of Investment Returns represent the investment returns weighted by the cash inflows and outflows from the investment funds. Together, these schedules and the supporting ***Notes to Required Supplementary Information*** provide information to help promote understanding of the Association's fiduciary net position in relation to the total pension liability, employers' actual contributions and investment returns over time. ***Other Supplemental Schedules*** represent information concerning MercedCERA's operations on a multi-year basis. Finally, ***Other Information*** consists of two schedules pertaining to GASB Statement No. 68*, Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27.* The two schedules include the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan and the Schedule of Cost Sharing Employer Allocations. Under GASB Statement No. 68, plan sponsors are required to report Net Pension Liability on their balance sheets and changes in Net Pension Liability on their operating statements as pension expenses, deferred inflows of resources, and deferred outflows of resources.

Financial Analysis

As previously noted, the Net Position may serve over time as a useful indication of MercedCERA's financial position. At the close of the fiscal year June 30, 2020, MercedCERA's net position exceeded its liabilities by $919.8 million. All of the Net Position is available to meet MercedCERA's ongoing obligations to plan participants and their beneficiaries. As of June 30, 2020, the Net Position totaled $919.8 million, which is $53.3 million more than the prior year. This result essentially reflects the increase in net investment income at fair value, regardless of the increase in benefits and administrative expenses.

MercedCERA's Management believes that the Association remains in a financial position that will enable MercedCERA to meet its future obligations to participants and beneficiaries. MercedCERA remains focused on the long-term performance of the fund, dependent on a strong and successful investment program, risk management, and strategic planning.

MercedCERA's Fiduciary Net Position

For Fiscal Years Ended June 30, 2020 and 2019:

	2020	2019	Increase/ (Decrease) Amount	% Change
Current and Other Assets	$17,533,476	$22,944,456	$(5,410,980)	-23.6%
Investments at Fair Value	901,161,517	845,415,437	55,746,080	6.6%
Capital Assets/Prepaid Expenses	1,837,838	1,653,115	184,723	11.2%
Total Assets	920,532,831	870,013,008	50,519,823	5.8%
Total Liabilities	717,759	3,509,724	(2,791,965)	-79.5%
Fiduciary Net Position Restricted for Pensions	$919,815,072	$866,503,284	$53,311,788	6.2%

For Fiscal Years Ended June 30, 2019 and 2018:

	2019	2018	Increase/ (Decrease) Amount	% Change
Current and Other Assets	$22,944,456	$30,099,764	$(7,155,308)	-23.8%
Investments at Fair Value	845,415,437	796,055,093	49,360,344	6.2%
Capital Assets/Prepaid Expenses	1,653,115	1,884,965	(231,850)	-12.3%
Total Assets	870,013,008	828,039,822	41,973,186	5.1%
Total Liabilities	3,509,724	1,385,852	2,123,872	153.3%
Fiduciary Net Position Restricted for Pensions	$866,503,284	$826,653,970	$39,849,314	4.8%

The decrease in current and other assets during the 2019-2020 fiscal year is mostly attributable to a large reduction in cash year-over-year. The decrease in total liabilities during the June 30, 2019 fiscal year is mostly due to having a decrease in securities purchased and no pending capital calls at year-end.

Reserves

Reserves are not required, nor recognized, under GAAP. These are not shown separately on the Statements of Fiduciary Net Position, but they equate to, and are accounts within, the Fiduciary Net Position Restricted for Pensions and are vital to MercedCERA's operations. MercedCERA's reserves are established from contributions and accumulation of investment income after satisfying investment and administrative expenses. Under GAAP, including Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans,* investments are stated at fair value rather than at cost, and fair value includes the recognition of unrealized gains and losses in the current period. These unrealized gains and losses are tracked in a reserve account called the Market Value Fluctuation Reserve. The Market Value Fluctuation Reserve decreased by $19.83 million in the current fiscal year mostly as a result of changing international equity managers and the concurrent realized gains resultant from liquidating the prior managers.

MercedCERA's Reserves

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

	2020	2019	2018
Active Members' Reserve	$110,614,910	$107,794,921	$105,474,936
Employer Advance Reserve	246,441,171	213,114,049	179,321,591
Retired Members' Reserve	290,820,111	288,219,524	284,111,465
Interest Fluctuation Reserve	116,239,196	81,842,477	85,096,244
Market Value Fluctuation Reserve	155,699,684	175,532,313	172,649,734
Total Reserves at Fair Value	$919,815,072	$866,503,284	$826,653,970

MercedCERA's Activities

A continuation of growth in financial markets resulted in the June 30, 2020 fiscal year increase of $53.3 million in MercedCERA's Net Position (an increase of 6.2% from the previous year). The key element of this increase was a moderate rise in the fair value of investments.

Additions to Fiduciary Net Position

The reserves needed to finance retirement benefits are normally accumulated through the collection of employer and employee contributions and through earnings on investment income (net of investment expenses). Additions to the fiduciary net position for the fiscal year ended June 30, 2020 totaled $135.4 million. Overall, additions for the fiscal year increased $18.4 million from the fiscal year ended June 30, 2019 primarily due to increased growth in the appreciation in fair value of investments year-over-year. In fiscal year 2018-2019, additions totaled $117.1 million, which was a decrease of $28.9 million from fiscal year 2017-2018. The employer contribution rate has decreased due to changes in the actuarial valuation dated June 30, 2018 despite impacts from the phase in of the prior actuarial experience study from 2016. Additionally, Merced County has contributed an additional 1% in contributions during a portion the current fiscal year. The combination of the decreased employer contribution rate, additional 1% employer contribution, and increase in active membership resulted in a modest increase in employer contributions of approximately $827 thousand or 1.2% in fiscal year 2019-2020. The effect is considered nominal compared to the prior year. The Investment Section of this report provides a more detailed review of the investment markets and investment performance for the current fiscal year.

For Fiscal Years Ended June 30, 2020 and 2019:

	2020	2019	Increase/ (Decrease) Amount	% Change
Member Contributions	$10,796,855	$10,695,680	$101,175	0.9%
Employer Contributions	67,413,475	66,586,464	827,011	1.2%
Net Investment Income	57,232,017	39,728,950	17,503,067	44.1%
Total Additions	$135,442,347	$117,011,094	$18,431,253	15.8%

For Fiscal Years Ended June 30, 2019 and 2018:

	2019	2018	Increase/ (Decrease) Amount	% Change
Member Contributions	$10,695,680	$10,441,876	$253,804	2.4%
Employer Contributions	66,586,464	64,757,288	1,829,176	2.8%
Net Investment Income	39,728,950	70,689,084	(30,960,134)	-43.8%
Total Additions	$117,011,094	$145,888,248	$(28,877,154)	-19.8%

Deductions from Fiduciary Net Position

MercedCERA was created to provide lifetime retirement annuities, survivor benefits, and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the plan; refunds of contributions to terminated employees; and the cost of administering the Association. Effective for the 2011 fiscal year, the County Employees Retirement Law of 1937 (1937 Act) limits administration costs to the greater of 21/100ths of 1 percent of the Association's accrued actuarial liability or $2 million, as adjusted annually by the amount of an annual cost of living (COLA). The 1937 Act also allows for some expenses to be excluded from the calculation. These exclusions are investment, actuarial, custodial banking, legal, and technology expenses. Deductions for the current fiscal year totaled $82.1 million while in fiscal year 2018-2019 deductions totaled $77.1 million, an increase of 6.4% from the previous year. The increase in deductions can be primarily attributed to the retiree payroll increase of 6.1%.

For Fiscal Years Ended June 30, 2020 and 2019:

	2020	2019	Increase/(Decrease) Amount	% Change
Benefits Paid	$78,755,515	$74,238,692	$4,516,823	6.1%
Refunds of Contributions	910,147	571,983	338,164	59.1%
Administrative Expense	2,253,113	2,271,779	(18.666)	-0.8%
Actuarial Expense	211,784	79,326	132,458	167.0%
Total Deductions	$82,130,559	$77,161,780	$4,971,779	6.4%

For Fiscal Years Ended June 30, 2019 and 2018:

	2019	2018	Increase/(Decrease) Amount	% Change
Benefits Paid	$74,238,692	$69,836,223	$4,402,469	6.3%
Refunds of Contributions	571,983	883,987	(312,004)	-35.3%
Administrative Expense	2,271,779	2,177,186	94,593	4.3%
Actuarial Expense	79,326	106,210	(26,884)	-25.3%
Total Deduction	$77,161,780	$73,003,606	$4,158,174	5.7%

Change in Fiduciary Net Position

As of June 30, 2020, Fiduciary Net Position increased $53.3 million, resulting in a 6.2% increase in Fiduciary Net Position over the previous fiscal year. This increase is due primarily to the increase in the fair value of investments. As of June 30, 2019, Fiduciary Net Position increased $39.8 million, resulting in a 4.8% increase in the Fiduciary Net Position from the previous fiscal year.

MercedCERA's Fiduciary Responsibilities

MercedCERA's Board of Retirement and management are fiduciaries of the pension trust fund. Under the California Constitution, the Association's assets must be used exclusively for the benefit of the plan participants and their beneficiaries.

Requests for Information

This financial report is designed to provide MercedCERA's Board of Retirement, our membership, taxpayers, investment managers, creditors, and others with a general overview of MercedCERA's financial condition and to demonstrate accountability for the funds MercedCERA receives and manages. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to:

Merced County Employees' Retirement Association
Attn: Fiscal Operations
3199 M Street
Merced, CA 95348

T: 209.726.2724
F: 209.726.3637

Respectfully Submitted,

Mark A Harman

Mark A. Harman, MBA
Fiscal Manager
December 18, 2020

Merced County Employees' Retirement Association

Statements of Fiduciary Net Position
As of June 30, 2020 and 2019

Assets	**2020**	**2019**
Cash and short-term investments		
Cash invested with Merced County Treasurer	$907,845	$5,357,275
Cash invested with Northern Trust	11,231,143	12,994,323
Other cash and cash equivalents with Northern Trust	2,308,322	714,829
Total cash and short-term investments	14,447,310	$19,066,427
Receivables		
Bond interest	529,862	695,557
Dividends	34,419	66,725
Contributions	2,168,291	1,614,362
Distributions	353,594	479,675
Securities sold	-	960,340
Other	-	61,370
Total receivables	3,086,166	3,878,029
Investments		
U.S. government and agency obligations	28,695,023	31,156,159
Domestic fixed income	175,144,685	176,798,283
Common stock (domestic)	40,961,881	36,017,951
Common stock (index funds)	210,531,937	196,606,512
Common stock (international)	198,737,367	88,893,320
Common stock (international index funds)	-	86,579,292
Real estate	58,809,046	59,849,041
Alternative investments	188,281,578	169,514,879
Total investments	901,161,517	845,415,437
Prepaid expenses	112,554	22,598
Capital assets: Net of accumulated depreciation of $1,625,947 and $1,368,129	1,725,284	1,630,517
Total Assets	**920,532,831**	**870,013,008**
Liabilities		
Accounts payable	610,263	625,964
Securities purchased	22,093	877,676
Unclaimed contributions	85,403	85,403
Capital calls	-	1,920,681
Total Liabilities	**717,759**	**3,509,724**
Fiduciary Net Position Restricted for Pensions	**$919,815,072**	**$866,503,284**

The accompanying notes are an integral part of these basic financial statements.

Merced County Employees' Retirement Association

Statements of Changes in Fiduciary Net Position
For the fiscal years ended June 30, 2020 and 2019

Additions	**2020**	**2019**
Contributions		
Plan members	$10,796,855	$10,695,680
Employer	67,413,475	66,586,464
Total contributions	78,210,330	77,282,144
Investment income from investment activities		
Net appreciation in fair value of investments	50,658,752	33,767,403
Investment income	9,412,121	9,130,417
Other income	85,459	85,689
Less investment expenses	(2,924,315)	(3,254,559)
Total net investment income	57,232,017	39,728,950
Total Additions	**135,442,347**	**117,011,094**
Deductions		
Benefits paid	78,755,515	74,238,692
Refunds of contributions	910,147	571,983
Administrative expenses	2,253,113	2,271,779
Actuarial expenses	211,784	79,326
Total Deductions	**82,130,559**	**77,161,780**
Net increase	53,311,788	39,849,314
Fiduciary Net Position Restricted for Pensions		
Beginning of year	**866,503,284**	**826,653,970**
End of year	**$919,815,072**	**$866,503,284**

The accompanying notes are an integral part of these basic financial statements.

Note 1 - PLAN DESCRIPTION

A. General Information

The Merced County Employees' Retirement Association (MercedCERA or the Association) was established July 1, 1950, under and subject to the legislative authority of the State of California as enacted and amended in the County Employees Retirement Act of 1937 (the "1937 Act"). The Association was voter approved by a greater than 2/3 majority of the electorate of Merced County (the County). The Association was integrated with Social Security on January 1, 1956. Members of the Association at that time had a one–time option to convert to the new Association or remain in the previous system. MercedCERA administers a cost sharing, multiple-employer defined benefit pension plan (the Plan). MercedCERA's active employers are the County, the Merced Superior Courts, and Merced Cemetery District. MercedCERA's annual financial statements are included in the County's financial reports as a pension trust fund.

The management of the Association is vested in a Board of Retirement (Board) that consists of nine members and two alternates:

1. County Treasurer
2. Two elected general members
3. Four members appointed by the County Board of Supervisors
4. One elected retired member and one alternate
5. One elected safety member and one alternate

Day to day management of MercedCERA is vested in a Plan Administrator who is appointed by, and serves at the direction, of the Board of Retirement.

MercedCERA, with its own governing board, is an independent governmental entity separate and distinct from the County and derives its authority from California Government Code Section 31450 et seq., and the California Constitution.

B. Membership

Plan members are classified as either General or Safety members. Membership becomes effective on the first day of service. Members include all permanent employees appointed to permanent positions or permanent part-time positions within Merced County, Merced Superior Courts, and the Merced Cemetery District. Newly hired persons age 60 and over and elected officials may waive membership in the Association.

All employees hired prior to June 13, 1994 are members of Tier I. Executive "A" Level management appointed prior to December 31, 2012 per Amendment to County Board of Supervisors Resolution 94-89, effective July 1, 2000 are Tier I. The Tier I retirement benefit is based on the highest one year compensation. The minimum age to retire is 50 or any age with 30 years of service credit (20 years for Safety). General and Safety Tier I members are eligible for post-retirement cost-of-living adjustments (COLA).

The County Board of Supervisors adopted a new retirement tier (Tier II) for both General and Probation Safety members hired after June 13, 1994 and all other Safety members hired after July 1, 1998. Benefits for members under Tier II are based on 3 years final average salary and are not eligible for post-retirement COLAs. The minimum age to retire is 55 for

General members or any age with 30 years of service credit and 50 for Safety members or any age with 20 years of service credit.

The County Board of Supervisors adopted two more tiers in 2012 for both General and Safety members. Members hired between October 1, 2012 and December 31, 2012 are Tier III. Tier IV was adopted after the State of California approved Assembly Bill (AB) 340, the Public Employee Pension Reform Act of 2013 (PEPRA). New members defined by the new legislation and hired after January 1, 2013 are Tier IV. Both Tier III and Tier IV benefits are based on 3 years final average salary and are not eligible for post-retirement COLAs. For Tier III, the minimum age to retire is 55 for General members or any age with 30 years of service credit and 50 for Safety members or any age with 20 years of service credit. For Tier IV, the minimum age to retire is 52 for General members with 5 years of service credit and 50 for Safety members with 5 years of service credit.

As a result of existing litigation of Assembly Bills 340 and 197 (*Alameda County Deputy Sheriff’s Assn. et al v. Alameda County Employees’ Retirement Assn., et al. (2018) 19 Cal.App.5th 61*), on February 8, 2018, the Merced County Employees' Retirement Association Board adopted Resolution 2018-01, which made vacation payout earnings pensionable for MercedCERA legacy members (Tiers I, II, and III), capped at the lesser of a member’s annual vacation accrual amount, the leave hours actually included in the member’s vacation pay-off, or 160 hours. The Board subsequently adopted Resolution 2018-03 to further clarify certain aspects of its earlier Resolution 2018-01. For Tier I, II, and III members who retired on or after July 12, 2014, the adoption of both Resolutions means that a maximum of 160 hours of vacation leave, a maximum of one year’s vacation leave accrual, or the number of vacation hours actually included in the member’s vacation pay-off, whichever is less will be added to such retiree’s final average compensation, unless an exception applies.

Two new tiers were created for new members who established reciprocity with MercedCERA on or after February 8, 2018 (the date which Resolution 2018-01 was adopted). Reciprocal members employed by the Merced Superior Court will enter into General Tier II-R and those employed by Merced County will enter into either General Tier III-R or Safety Tier III-R. The benefits of these new tiers are the same as their respective non-reciprocal tiers. However, these reciprocal tier members will not be able to include the additional 160 hours of vacation payout earnings to their final compensation in the calculation of final average compensation. Additionally, the employer and member contribution rates are lower for the new Tiers because the additional up to 160 hours of vacation payout hours is not included in a member’s final compensation.

Membership Structure on June 30, 2020 was as follows:

	General Tiers					Safety Tiers					
Active Members	**I**	**II**	**III**	**III-R**	**IV**	**I**	**II**	**III**	**III-R**	**IV**	**Total**
Vested	59	731	45	17	249	10	153	5	1	35	1,305
Non-vested	-	9	-	1	712	-	-	-	-	117	839
Inactive Members											
Deferred vested	42	225	18	1	17	1	43	2	-	1	350
Deferred non-vested	3	71	9	-	294	1	7	1	-	42	428
Reciprocity	26	126	-	-	3	5	32	-	-	1	193
Unclaimed members	3	14	-	-	1	-	-	-	-	-	18
Total active and inactive members	133	1,176	72	19	1,276	17	235	8	1	196	3,133
Retired Members											
Service retirements	1,239	449	5	-	4	188	26	-	-	-	1,933
Beneficiaries	185	21	-	-	-	48	1	-	-	-	255
Service connected disability	33	18	-	-	-	64	28	-	-	-	143
Non-service connected disability	31	14	-	-	-	2	1	-	-	-	48
Survivors	14	6	-	-	-	4	2	-	-	-	26
Total retired members	1,502	508	5	-	4	306	58	-	-	-	2,383

Membership Structure on June 30, 2019 was as follows:

	General Tiers					Safety Tiers					
Active Members	**I**	**II**	**III**	**III-R**	**IV**	**I**	**II**	**III**	**III-R**	**IV**	**Total**
Vested	82	804	47	14	140	17	163	6	1	17	1,291
Non-vested	-	10	1	-	770	1	2	-	-	111	895
Inactive Members											
Deferred vested	47	213	17	-	8	1	40	1	-	1	328
Deferred non-vested	3	70	9	-	211	-	7	1	-	35	336
Reciprocity	32	128	-	-	2	7	32	-	-	1	202
Unclaimed members	3	14	-	-	-	-	-	-	-	-	17
Total active and inactive members	167	1,239	74	14	1,131	26	244	8	1	165	3,069
Retired Members											
Service retirements	1,251	407	4	-	-	179	18	-	-	-	1,859
Beneficiaries	190	19	-	-	-	47	1	-	-	-	257
Service connected disability	35	17	-	-	-	65	25	-	-	-	142
Non-service connected disability	31	12	-	-	-	2	1	-	-	-	46
Survivors	15	6	-	-	-	4	2	-	-	-	27
Total retired members	1,522	461	4	-	-	297	47	-	-	-	2,331

C. Benefit Provisions

- Safety members and General Tier I members with ten years of service and who have attained the minimum age of 50 are eligible to receive a lifetime monthly retirement benefit.
- General members with 10 years of service who have attained the minimum age of 55 in Tiers II, II-R, III and III-R are eligible to receive a lifetime benefit.
- Safety members with 20 years of service, regardless of age, are eligible for lifetime monthly retirement benefits for Tiers I, II, III, and III-R
- General members with 30 years of service, regardless of age, are eligible for lifetime monthly retirement benefits for Tiers I, II, II-R, III, and III-R.
- Members who are at least 70 years of age are eligible to retire, regardless of years of service, for all Tiers.
- Tier IV Safety members are eligible for retirement with 5 years of service and a minimum age of 50.
- Tier IV General members are eligible for retirement with 5 years of service and a minimum age of 52.
- The service retirement benefit is a percentage of monthly final average salary per year of service, depending on age at retirement and Tier.
- For members integrated with Social Security, the benefit is reduced by 1/3 of the percentage multiplied by the first $350 of the monthly final average salary, per year of service credited after January 1, 1956 (not applicable to Tier 4 Members).
- The actual benefit paid will also be affected by the benefit payment option selected by the member.

The County Board of Supervisors adopted Government Code Section 31676.17 of the 1937 Act for all County General members, Tier I and Tier II, except Merced Cemetery District members and any member who was deferred or in inactive reciprocity status prior to the dates of adoption, on March 15, 2005; Government Code Section 31664.1 for all Safety members, Tier I and Tier II, on July 1, 2005; Government Code Section 31676.17 for Superior Court of California and County members on November 4, 2005; Government Code Section 31676.1 for General members, Tier III, on October 1, 2012; and Government Code Section 31664 for all Safety members, Tier III, on October 1, 2012. The County adopted PEPRA Tier IV for all General and Safety members on January 1, 2013.

The following chart demonstrates the percentage of Final Average Salary a member of each tier would receive per year of service at different ages.

Percentage of Final Average Salary for Each Year of Service (Rounded) Current Employees				
	Tier I		Tier II / Tier II-R	
Retirement Age	**General**	**Safety**	**General**	**Safety**
50	2.00%	3.00%	-	3.00%
55	2.50%	3.00%	2.50%	3.00%
60+	3.00%	3.00%	3.00%	3.00%
	Tier III / Tier III-R		Tier IV	
Retirement Age	**General**	**Safety**	**General**	**Safety**
50	-	2.00%	-	2.00%
55	1.49%	2.62%	1.30%	2.50%
57	1.64%	2.62%	1.50%	2.70%
65	2.43%	2.62%	2.30%	2.70%
67+	2.43%	2.62%	2.50%	2.70%
Percentage of Final Average Salary for Each Year of Service (Rounded) for Merced Cemetery District, Deferred, and Inactive Reciprocal Members Prior to Enhanced Benefit Adoption Dates				
	Tier I		Tier II	
Retirement Age	**General**	**Safety**	**General**	**Safety**
50	1.24%	2.00%	-	2.00%
55	1.67%	2.62%	1.49%	2.62%
60	2.18%	2.62%	1.92%	2.62%
65+	2.61%	2.62%	2.43%	2.62%

(1) Retirement Options

Under the current "Fixed Formula" retirement, a member may elect the "**Unmodified**" allowance, which provides the maximum allowance to the member for life, with a continuance of 60% of the allowance to the spouse or registered domestic partner if the spouse or registered domestic partner is designated as beneficiary. No allowance, however, shall be paid to a surviving spouse or domestic partner unless he or she is married to the member or has been registered as a domestic partner at least one year prior to the date of retirement. In the event of the death of the retiree, spouse or domestic partner, any balance of the retiree's contributions, less retirement allowances received, is payable to an alternate beneficiary.

Option 1 - The member may elect to receive a slightly reduced monthly retirement allowance, payable throughout their life, with the provision that upon death, their accumulated contributions less the actual annuity payments received by the retiree will be paid to a designated beneficiary. Under this option, beneficiaries may be changed after retirement.

Option 2 - The member receives a considerably reduced monthly retirement allowance, with the provision that 100% of the retiree's benefit will continue to be paid after the member's death to a beneficiary named at the time of retirement. All payments stop at the death of both annuitants.

Option 3 - The member receives a reduced monthly retirement allowance, with the provision that 50% of the retiree's benefit will continue to be paid after the member's death to a beneficiary named at the time of retirement. As in Option 2, all payments stop at the death of both annuitants.

Option 4 - The member receives a reduced monthly retirement allowance for life. The reduction depends on the member's age and the age of the member's beneficiary(ies). This is the only option that allows for multiple beneficiaries. A beneficiary does not have to be a spouse or domestic partner, but must have an insurable interest in the member's life. This option also allows the member to assign the percent of continuance to each beneficiary. This option and any estimates for this option are calculated by MercedCERA's actuary and the cost is paid by the member.

(2) Cost-of-Living Adjustment

Annual COLAs to retirement allowances may be granted by the Retirement Board in accordance with governing law. The current maximum increase in a retirement allowance is 3% per year. Any increase is based on the change in the Bureau of Labor Statistics' Consumer Price Index (CPI) for All Urban Consumers for the calendar year prior to the April 1 effective date of the COLA. The amount of any actual CPI above the 3% maximum is accumulated. Accumulated COLAs may be used in future years, at the Board's discretion, when the cost-of-living change is less than the maximum 3%. Tiers II, II-R, III, III-R, and IV members are not eligible for any cost-of-living increases in their monthly retirement allowances.

(3) Disability Benefits

Members with five years of service, regardless of age, are eligible for non-service connected disability benefits. Member benefits are 1.5% (1.8% for Safety members) of final average salary for each year of service. If this benefit does not equal 1/3 of final average salary, the benefit is increased by the above percentage of final average salary for the years that would have been credited had the member worked to age 65 (age 55 for Safety members). The total benefit cannot exceed 1/3 of the final average salary.

If the disability is service connected, the member may retire regardless of length of service, and the benefit is 50% of final average salary, unless the member is also eligible for a service retirement, in which case the member receives the greater of the two amounts.

(4) Death Benefit Before Retirement

In addition to the return of the member's contributions plus interest, MercedCERA provides a basic death benefit payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the Association, based on the final year's average salary, but not to exceed six months' salary. Depending on length of service, a monthly allowance could be selected by the surviving spouse to be paid for the rest of his or her life as an alternate benefit.

If a member dies while eligible for service retirement or non-service connected disability, the spouse may receive 60% of the allowance that the member would have received for retirement on the day of his or her death in lieu of the basic death benefit. If the member was below the qualifying retirement age at the time of death, the surviving spouse may elect to leave the member's accumulated contributions on deposit until such time as the member would have attained the qualifying age had he or she lived, at which time the spouse may exercise the option above. Unmarried minor children of the deceased member may continue to receive this allowance until marriage or attaining age 18 (21 if full-time student in an accredited school), upon the death of the surviving spouse or in place of the spouse if he or she does not survive the death of the member.

If a member dies as a result of service-connected injury or disease arising out of the course of his or her employment, his or her surviving spouse may elect, in lieu of the basic death benefit, to receive a monthly allowance of 1/2 of the member's final compensation.

Unmarried minor children of the member may receive the same monthly allowance prior to their marriage or attaining age 18 (21 if a full-time student in an accredited school) if there is no surviving spouse or upon the death of the spouse.

(5) Death Benefit After Retirement

Once a member dies after retirement, a lump sum amount of $3,000 (Government Code Section 31789.3 adopted May 2, 2006) is paid to the beneficiary or estate. However, if the member is a reciprocal system member, this benefit is payable only to active members of the County at the time of retirement.

If the retirement was for service-connected disability, 100% of the amount the member was receiving at the time of death is continued to the surviving spouse for life. If the retirement was for other than a service-connected disability, there are several options available to the member.

(6) Terminated Members

A member leaving covered employment after completing five years of credited service becomes eligible for a deferred retirement allowance, provided the member lives to the minimum service retirement age and does not withdraw his or her accumulated contributions. A member must elect deferred status within 180 days after termination. Members leaving employment with less than five years of service are not eligible to receive a retirement benefit. Non-vested members (less than five years of service credit) may leave their contributions on deposit and continue to be credited interest or they can choose to withdraw their contributions at any time. A non-vested member that enters a reciprocal retirement system after terminating employment with a MercedCERA agency may wish to arrange for reciprocal benefits. Under a reciprocal arrangement, the member funds are kept on deposit with MercedCERA.

(7) Vesting

Active members of the Association receive a 100% vested interest in the Plan after five years of service, but cannot receive a service retirement benefit until they have been a member of the Association for ten years and obtained age fifty for Tier I General members; Tier I, Tier II, Tier III, and Tier III-R Safety members; and age fifty-five for Tier II, Tier II-R , Tier III, and Tier III-R General members. Members may receive a service retirement benefit after being a member of the Association for 30 years for General members and 20 years for Safety members regardless of age. Tier IV members can receive a service retirement benefit with five years of service credit and attaining age fifty-two for General members and age fifty for Safety members.

(8) Contribution Rates

The 1937 Act establishes the basic obligations for employer and member contributions to the Association. The actual employer and member contribution rates in effect each year are based on recommendations made by an independent actuary and adopted by the Board of Retirement.

Benefits payable by the Association are financed through member contributions; employer contributions from Merced County, Merced Cemetery District, Merced Superior Courts; and earnings from investments.

a. Member

MercedCERA members are required to contribute a percentage of their annual covered salary. The rates are set to provide a retirement amount that is equal to a fractional part of the highest year(s) salary, based on membership and tier. Government Code Section 31621.8 sets forth the basis for the determination of the normal rates of contribution for General Tier I, Tier II, and Tier II-R members. Government Code Section 31639.5 sets forth the basis for the normal rates of contribution for Safety Tier I and Tier II members. The law further provides that the contribution rates of members will be based on the age nearest birthday at the time of entrance into the Association. Section 31453 states that no adjustment will be included in the rates of contribution for time prior to the effective date of any revisions. Member basic contribution rates are based on entry age into the Association, except for Tier IV, which are 50% of the normal cost, and range between 2.94% and 19.21% for the fiscal years ended June 30, 2020 and June 30, 2019. For members integrated with Social Security, the contributions are reduced by 1/3 of such contribution payable with respect to the first $350 of monthly salary.

b. Plan Sponsors

The County of Merced, Merced Superior Court, and the Merced Cemetery District are required by statute to contribute the amounts necessary to finance the estimated benefits accruing to MercedCERA members not otherwise funded by employee contributions or investment earnings. Pursuant to provisions of the 1937 Act, the Board recommends annual contribution rates for adoption by the County Board of Supervisors each year based upon the rates recommended by the Association's actuary.

The employers' actuarially determined contribution (ADC) is an actuarially determined amount that is required on a sustained, ongoing basis to systematically fund the normal cost and to amortize the unfunded actuarial accrued liability (UAAL) attributed to past service cost over a period not to exceed thirty years. MercedCERA's actuarially determined contribution rates for the fiscal years ended June 30, 2020 and 2019 were 49.15% and 50.20%, respectively, of annual payroll.

In order to determine the ADC, the actuary must first adopt assumptions with respect to certain factors such as the following:

Non-economic assumptions

- The probabilities of members separating from active service on account of:
    1. Non-vested and vested withdrawal
    2. Retirement for service
    3. Mortality
    4. Service and non-service connected disability
- The mortality rates to be experienced among retired persons

Economic assumptions

- Rate of future investment earnings
    1. Inflation rate
    2. Real rate of return
- The relative increases in a member's salary from the date of the valuation to the date of separation from active service
    1. Merit increases
    2. Longevity increases
    3. COLA

Employer contribution rates vary from year to year and depend on the level of benefits established, the rate of return on investments, and the cost of administering benefits. MercedCERA's Schedules of Employer Contributions for the pension benefit plan are presented on page 55 in the Required Supplementary Information following the notes to the basic financial statements.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

While the Association is governed by the Board of Retirement and is considered an independent entity, it is a component unit of the County in accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an Amendment of GASB Statement No. 14.*

B. Basis of Accounting

MercedCERA's financial statements are prepared on an accrual basis of accounting, which recognizes income when earned and expenses when the obligation is incurred. Employer and employee contributions are recognized when due, pursuant to statutory or legal requirements per GASB Statement 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when currently due and payable in accordance with the benefit terms. The net appreciation (depreciation) in fair value of investments consists of realized and unrealized gains and losses on those investments.

C. Investment Expenses

Investment expenses include fees paid for investment consulting services, fund due diligence services, securities custodian services, and rebate and bank fees incurred during the reporting period. Fees paid are charged against the Association's investment earnings pursuant to Section 31596.1 of the 1937 Act.

D. General Administrative Expense

MercedCERA's administrative costs for the fiscal years ended June 30, 2020 and 2019 are calculated pursuant to Government Code Section 31580.2 (a) which provides that the administrative expenses incurred in any year may not exceed the greater of either (1) twenty-one hundredths of 1 percent (.21%) of the actuarial accrued liability of the Association or (2) two million dollars ($2,000,000), as adjusted annually by the amount of the annual cost-of-living adjustment computed in accordance with Article 16.5. Government Code Section 31580.2 (b) provides that expenditures for computer software, hardware, and computer technology consulting services in support of the computer products shall not be considered a cost of administration of the Association. The administrative limit per this Government Code Section allowed MercedCERA $2.734 million ($1,301.9 million x .21%) of administrative costs for the fiscal year ended June 30, 2020. For the fiscal years ended June 30, 2020 and 2019, total administrative costs were $2,253,113 and $2,271,779, respectively. Included in these figures are computer technology related activities, inclusive of associated depreciation expense, of $587,693 and $585,552, respectively. The costs of administering the Plan are financed by the earnings of the retirement fund.

E. Required Supplementary Information

The Schedules of the Changes in Net Pension Liability and Related Ratios and Schedules of Employer Contributions that provide information about the employer's annual contribution to the Plan as well as the annual investment returns are presented on pages 54 and 55.

F. Administrative Budget and Non-Administrative Projection

MercedCERA prepares an administrative budget, governed by Government Code Section 31580.2, which is subjected by the same section to a budgetary cap. Additionally, MercedCERA provides a non-administrative projection, which expenses are governed by Government Code Sections 31580.2(b), 31596.1, and 31529.9. MercedCERA's budgets and projections are on a fiscal year basis starting July 1 and ending June 30. Non-administrative expenditures are not subject to the budgetary cap in Government Code Section 31580.2. Projections are subject to change periodically. All expenditures are reported at MercedCERA's Administrative Board Meetings on a monthly and quarterly basis.

G. Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. Capital assets with an initial cost of more than $5,000 and an estimated useful life in excess of one year are depreciated. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets. Partial year depreciation is recognized based upon placed-in-service date of the asset. Equipment and furniture are depreciated over eight years. MercedCERA's pension administration system (an intangible asset) is amortized over ten years. Long-lived building improvements are depreciated over twenty years. Buildings are depreciated over thirty years.

MercedCERA reported $1,725,284 and $1,630,517 in capital assets as of June 30, 2020 and 2019, net of accumulated depreciation of $1,625,947 and $1,368,129, respectively. Of these amounts, $499,098 and $146,513 are for land held by the

Association as of June 30 2020 and 2019, which is not subject to depreciation.

Schedule of Capital Assets

For the fiscal year ended June 30, 2020

	Historical Cost	Net Balance at June 30, 2019	Reclassifications & Additions	Reclassifications & Deletions	Less Depreciation	Net Balance at June 30, 2020
Capital Assets, non-depreciable						
Land	$499,098	$146,513	$352,585	$ -	$ -	$499,098
Capital Assets, depreciable						
CPAS Software	2,408,181	1,304,431	-	-	240,818	1,063,613
Building	313,159	120,045	-	-	10,440	109,605
Office Furniture and Technology	83,710	17,881	-	-	3,540	14,341
Building Improvements	47,083	41,647	-	-	3,020	38,627
Totals	$3,351,231	$1,630,517	$352,585	$ -	$257,818	$1,725,284

Schedule of Capital Assets

For the fiscal year ended June 30, 2019

	Historical Cost	Net Balance at June 30, 2018	Reclassifications & Additions	Reclassifications & Deletions	Less Depreciation	Net Balance at June 30, 2019
Capital Assets, non-depreciable						
Land	$146,513	$146,513	$ -	$ -	$ -	$146,513
Capital Assets, depreciable						
CPAS Software	2,408,181	1,545,249	-	-	240,818	1,304,431
Building	313,159	130,483	-	-	10,438	120,045
Office Furniture and Technology	83,710	21,422	-	-	3,541	17,881
Building Improvements	47,083	5,828	38,203	-	2,384	41,647
Totals	$2,998,646	$1,849,495	$38,203	$ -	$257,181	$1,630,517

H. Methods Used to Value Investments

Investments are reported at fair value in the accompanying Statements of Fiduciary Net Position. Cash deposited in the Merced County Treasurer's pool is stated at fair value. The value of the Association's pool shares is determined on an amortized cost basis, which is not materially different from fair value.

The fair value of fixed income and equity investments are based upon the closing sale prices reported on recognized securities exchanges on the last business day of the period. For listed securities having no reported sales and for unlisted securities, fair value is based upon the last reported sales price.

GASB Statement No. 72, *Fair Value Measurements*, became effective for financial statements for fiscal years beginning after June 15, 2015. This statement enhances comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

The real estate investment holdings are determined by the partners using industry standard appraisal techniques and assumptions, which are updated annually, to determine the fair value of these holdings. The appraisals incorporate subjective judgments and consider assumptions including capitalization rates, discount rates, cash flows, and other factors that are not observable in the market.

The fair value of alternative investments (private equity, hedge funds, infrastructure, and natural resources) is based on the partners' most recent financial statements for the quarter ended June 30. The majority of MercedCERA's alternative investments are determined by the partnerships using unobservable inputs, which reflect the partnerships' own estimates about the assumptions that market participants would use in pricing the investments. The assumptions are based on the best information available in the circumstances, which might include the partnership's own data. The remaining of MercedCERA's alternative investments are determined by the partnerships based on quoted market prices in active markets.

Management, in consultation with the investment advisor, has determined the reasonableness of the procedures used to calculate fair value for real estate and alternative investments.

I. Securities Transactions and Related Investment Income

Securities transactions are accounted for on a trade date basis. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date. Stock dividends or stock splits are recorded as memo items and do not affect the total value of the securities. The Association presents, in the Statements of Changes in Fiduciary Net Position, the net appreciation in fair value of investments, which consists of realized and unrealized gains and losses on those investments.

J. Management's Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3 – CASH AND INVESTMENTS

A. Investment Stewardship

The Board has exclusive control over all investments of the Association and is responsible for establishing investment objectives, strategies and policies. Pursuant to the California Constitution and California Government Code Sections 31594 and 31595, the Board is authorized to invest in any investment the Board deems prudent.

(1) Investment Policy

The Board has adopted an Investment Policy, which provides the framework for the management of MercedCERA's investments. The Investment Policy establishes MercedCERA's investment objectives and defines the principal duties of the Board, the custodian bank, and the investment managers. The asset allocation plan is an integral part of the Investment Policy and is designed to provide an optimum and diversified mix of asset classes with return expectations to satisfy expected liabilities, while minimizing risk exposure. MercedCERA currently employs external investment managers to manage its assets subject to the provisions of the Investment Policy. Below is MercedCERA's adopted asset allocation policy as of June 30, 2020 and 2019.

Target Allocation	
Asset Class	**June 30, 2020 and 2019**
Domestic Equity	21%
Developed Markets Equity	10%
Emerging Markets Equity	8%
Private Equity	15%
Real Estate	8%
Domestic Fixed Income	18%
Opportunistic Credit	5%
Hedge Funds	10%
Real Assets	5%
	100%

(2) Rate of Return

For the fiscal years ended June 30, 2020 and June 30, 2019, the annual money-weighted rate of return on MercedCERA's investments was 6.6% and 5.5%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

B. Cash and Short-Term Investments

Cash and cash equivalents consist of short-term investments held by the Merced County Treasurer and MercedCERA's custodian bank, Northern Trust. Cash and cash equivalents are highly liquid investments with a short maturity. Cash and cash equivalents are recorded at cost, which approximates fair value.

(1) Merced County Treasury

Cash from deposits and the cash needed for daily operational purposes is held in a pooled account with other County funds. The Merced County Treasury Oversight Committee is responsible for regulatory oversight of the pool.

Interest on funds in the Merced County investment pool is computed quarterly based on the average daily balance. A deposit in the pooled account approximates fair value. The fair value of the Association's cash invested with the Merced County Treasurer totaled $907,845 and $5,357,275 at June 30, 2020 and 2019, respectively. Cash and investments included within the County Treasurer's pool are described in Merced County's Comprehensive Annual Financial Report.

(2) Short-Term Investment Funds and Funds Pooled with Northern Trust

The short-term investment funds that are in the custody of Northern Trust are liquidity funds. The cash is invested in short-term obligations and deposits, including U.S. treasury and agency obligations, corporate bonds, commercial paper, repurchase agreements, certificates of deposit, bankers acceptances, time deposits, and floating rate notes.

All participants in the Northern Trust pool proportionately share earnings and losses. Balances in the pooled accounts approximate fair value. At June 30, 2020 and 2019, short-term investments totaled $13,539,465 and $13,709,152, respectively, which is the total of cash invested with Northern Trust and other cash and cash equivalents with Northern Trust.

MercedCERA's cash and short-term investments stated at fair value as of June 30, 2020 and 2019 are as follows:

	Fair Value	
Cash and Short-term Investments	**2020**	**2019**
Cash invested with Merced County Treasury	$907,845	$5,357,275
Cash invested with Northern Trust	11,231,143	12,994,323
Other cash and cash equivalents with Northern Trust	2,308,322	714,829
Total cash and short-term investments	$14,447,310	$19,066,427

C. Fair Value Measurements

Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. MercedCERA holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of MercedCERA's activities, GASB Statement No. 72 establishes a hierarchy of inputs to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted process (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy. Categorization within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

Equity securities are generally valued based on quoted prices from an active market and are therefore categorized in Level 1. In the absence of quoted market prices, such as equity securities that trade infrequently or not at all, valuations are based on the last traded price or a price provided by the investment managers and generally categorized in Level 3.

Fixed income securities classified in Level 2 are valued using the latest bid prices or evaluated quotes from independent pricing vendors. The third-party vendors use a variety of methods when pricing these securities that incorporate relevant observable market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. Fixed income securities held in mutual funds are based on quoted prices in an active market and are therefore categorized in Level 1. When independent price sources are not available, debt securities are priced based on the last traded price or a valuation provided by the investment manager and are categorized in Level 3. In addition, debt securities held in commingled, limited partnerships, and similar vehicles are categorized in Level 3.

Funds priced using a net asset value (NAV) that is published daily and validated with a sufficient level of observable activity are categorized in Level 1. If observable activity is limited, yet supports that the NAV represents an exit value of the security at the measurement date, the securities are categorized in Level 2. Investments in nongovernmental entities that are measured at NAV as a practical expedient, such as alternative investments and real estate investments, are excluded from the fair value hierarchy if the NAV per share (or its equivalent) was calculated in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies. Funds not meeting these criteria are categorized in Level 3.

Investments in real estate, other than collective investment funds which are categorized in Level 3, have been valued based on the NAV per share (or its equivalent), as provided by the general partner. This type includes eight funds structured as limited partnerships. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 10 to 15 years.

MercedCERA is contracted with Cliffwater, LLC to assist with the Association's hedge fund portfolio that has the appropriate risk and return characteristics. Specifically, MercedCERA has ten hedge funds with low market risk (low beta), equity market downside protection and diversification with unique investment strategies such as shorting, arbitrage, currencies and commodities. Return characteristics include reasonable expected returns that outperform bonds, reasonable expected returns that will be less that the expected returns on stocks and generate alpha of 4% net of fees. MercedCERA is dedicated to building a diversified portfolio of the following strategies: market neutral, credit event, equity long short, global macro and multi-strategy. The fair values of the investments in these types has been determined using the NAV per share (or its equivalent) of the investments, as provided by the general partner. Funds may be subject to redemption restrictions, including lock-up periods and/or gate provisions, which prohibit redemptions for a specific time after capital is initially invested, or subject to limitations on the amount that can be withdrawn on any single redemption date.

Infrastructure includes five funds structured as limited partnerships that invest primarily in global infrastructure investments. The fair values of the investments in these types have been determined using the NAV per share (or its equivalents) of the investment as provided by the general partner.

Natural resources include seven funds structured as limited partnerships that invest primarily in debt, equity, partnership interests, direct asset investments, working interests, and royalty interests of public and private mining and metals companies and companies within the energy markets including but limited to, companies engaged in the exploration and production of oil and natural gas, coal, midstream, energy services, refining and marketing, power generation, renewable energy, and other commodity driven sectors. The fair values of the investments in these types has been determined using the NAV per share (or its equivalents) of the investment as provided by the general partner.

The private equity portfolio includes twenty-five funds structured as limited partnerships participating in diverse strategies including buyouts, venture capital/growth equity, and opportunistic funds which includes such categories as distressed debt (debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy), mezzanine, secondary, royalties, etc. The fair values of the investments in these types has been determined using the NAV per share (or its equivalent) of the investment as provided by the general partner. These funds have a finite term. Distributions will be received as the underlying investments are sold, which is expected to occur over a rolling 15-year period.

The Plan has the following recurring fair value measurements as of June 30, 2020:

Investments by Fair Value Level	June 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common Stock				
Domestic	$40,961,881	$ -	$ -	$40,961,881
Domestic Index Funds	210,531,937	-	-	210,531,937
International	198,737,367	-	-	198,737,367
US Government and Agency Obligations				
US Treasury and TIPS	11,337,463	-	11,337,463	-
US Government Agency Obligations	17,357,560	-	17,357,560	-
Domestic Fixed Income				
Asset Backed Securities	3,910,338	-	3,910,338	-
Collateralized Mortgage Obligations	229,024	-	229,024	-
Commercial Mortgage Backed Securities	728,361	-	728,361	-
Corporate and Other Credit	33,241,894	-	33,241,894	
Mutual Funds	116,646,551	116,646,551	-	-
Limited Partnerships	20,388,517			20,388,517
Total Investments by Fair Value Level	$654,070,893	$116,646,551	$66,804,640	$470,619,702
Investments Measured at the Net Asset Value (NAV)				
Real Estate	$58,809,046			
Alternative Investments				
Hedge Funds	91,200,267			
Infrastructure	20,629,552			
Natural Resources	12,145,858			
Private Equity	48,912,023			
Proxy Fund	15,393,878			
Total Alternative Investments	188,281,578			
Total Investments Measured at NAV	247,090,624			
Total Investments Measured at Fair Value and NAV	$901,161,517			

Investments Measured at the NAV	June 30, 2020	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real Estate*	$58,809,046	$25,550,926	See footnote	See footnote
Alternative Investments				
Hedge Funds**	91,200,267	-	Varies	Varies
Infrastructure	20,629,552	14,807,741	N/A	N/A
Natural Resources	12,145,858	21,237,945	N/A	N/A
Private Equity	48,912,023	52,564,892	N/A	N/A
Proxy Fund	15,393,878	-	Daily	T-2
Total Investments Measured at the NAV	$247,090,624	$114,161,504		

*UBS Trumbull Fund redemption is given by a pro rata share of funds available for disbursement, with a 60-day notice period. All other real estate funds are closed-ended private LP funds.

**The ten hedge funds that were funded as of June 30, 2020, have varying lockup periods and redemption notice requirements.

The Plan has the following recurring fair value measurements as of June 30, 2019:

Investments by Fair Value Level	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common Stock				
Domestic	$36,017,951	$ -	$ -	$36,017,951
Domestic Index Funds	196,606,512	-	-	196,606,512
International	88,893,320	-	-	88,893,320
International Index Funds	86,579,292	-	-	86,579,292
US Government and Agency Obligations				
US Treasury and TIPS	12,028,780	-	12,028,780	-
US Government Agency Obligations	19,127,379	-	19,127,379	-
Domestic Fixed Income				
Asset Backed Securities	4,175,638	-	4,175,638	-
Collateralized Mortgage Obligations	313,148	-	313,148	-
Commercial Mortgage Backed Securities	865,969	-	865,969	-
Corporate and Other Credit	22,507,341	-	22,507,341	-
Mutual Funds	128,201,372	128,201,372	-	-
Limited Partnerships	20,734,815	-	-	20,734,815
Total Investments by Fair Value Level	$616,051,517	$128,201,372	$59,018,255	$428,831,890
Investments Measured at the Net Asset Value (NAV)				
Real Estate	$59,849,041			
Alternative Investments				
Hedge Funds	76,663,345			
Infrastructure	21,967,120			
Natural Resources	12,064,903			
Private Equity	42,036,800			
Proxy Fund	16,782,711			
Total Alternative Investments	169,514,879			
Total Investments Measured at NAV	229,363,920			
Total Investments Measured at Fair Value and NAV	$845,415,437			

Investments Measured at the NAV	June 30, 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real Estate*	$59,849,041	$25,450,969	See footnote	See footnote
Alternative Investments				
Hedge Funds**	76,663,345	-	Varies	Varies
Infrastructure	21,967,120	20,364,139	N/A	N/A
Natural Resources	12,064,903	14,529,336	N/A	N/A
Private Equity	42,036,800	24,766,838	N/A	N/A
Proxy Fund	16,782,711	-	Daily	T-2
Total Investments Measured at the NAV	$229,363,920	$85,111,282		

*UBS Trumbull Fund redemption is given by a pro rata share of funds available for disbursement, with a 60-day notice period. All other real estate funds are closed-ended private LP funds.

**The nine hedge funds that were funded as of June 30, 2019, have varying lockup periods and redemption notice requirements.

D. Commission Recapture Policy

In order to minimize the net cost of trading, MercedCERA encourages its investment managers, on a "best efforts" basis, to execute 25% to 35% of total trades annually through brokers who have a commission recapture program. MercedCERA's policies require investment managers to seek the best price and execution on all trades. This means that commission recapture trades should only be executed when such trades meet this standard. If an investment manager can execute the trade through MercedCERA's commission recapture brokerage firms, while not incurring any incremental commission or market impact costs, then MercedCERA would like the manager to do so. This program should not interfere with or reduce an investment manager's incentive to reduce trading costs.

E. Real Estate and Alternative Investments

The balance of the unfunded capital to MercedCERA's real estate and alternative investments as of June 30, 2020 was $114,161,504 and as of June 30, 2019 was $85,111,282. Capital invested in private equity partnerships is subject to a relatively high degree of risk as compared to other potential investments, with the assumption that the investor will be rewarded with higher returns for that assumption of risk (i.e., the "risk/return trade-off"). Controlling risk in the private equity portfolio is equally as important as seeking higher returns. MercedCERA controls risk by diversifying the portfolio based on geographic and economic region, liquidity, vintage year, firm, and time.

Geographic and economic region, referring to the selection of private equity investments, the portfolio does not favor particular economic or geographic regions. Most likely, the focus is globally oriented.

Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding the maximum exposure limits or lowering asset allocation exposure limits. Exposure through a fund of funds minimizes this risk.

Vintage year risk refers to the variability of private equity commitments over time. A secondary investment that is a vehicle in the special situation subclass allows the portfolio to gain prior year vintage exposure, further minimizing vintage risk.

Firm risk is the amount of exposure to a private equity general partner. The maximum commitment to private equity is 5% to 20% of the total fund. There are no limits on commitments to individual partners or funds.

Time Risk refers to the long duration of the investment, which makes it difficult to predict business, economic and managerial developments that may have a significant impact on the value of the investments.

F. Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. MercedCERA does not have a formal policy for custodial credit risk. At June 30, 2020 and 2019, MercedCERA had no investments that were exposed to custodial credit risk.

G. Credit Risk Concentration

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2020 and 2019, the Association had no single issuer that exceeded 5% of total investments or fiduciary net position. Investments issued or explicitly guaranteed by the U.S government and investments in mutual funds, external investment pools, and other pooled investments are excluded. MercedCERA's investment policy does not allow for an investment in any one issuer that is in excess of 5% of the value of a portfolio and no single industry (based on North American Industry Classification System (NAICS) codes) can represent more than 15% of the fair value of the investment portfolio. These single security and single industry restrictions do not apply to U.S. government issued or guaranteed investments, investments in mutual funds, external investment pools, and other pooled investments.

H. Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligation as described by nationally recognized statistical rating organizations, rating agencies, as of the date of the financial statements. An investment grade security is defined as a security which has been rated investment grade (BBB or higher) by at least one (but preferably two) of the three nationally recognized rating agencies: Fitch Ratings, Moody's, and Standard & Poor's. MercedCERA's core fixed income portfolio requires that no more than 5% of an investment manager's fixed income portfolio be invested in below investment grade rated securities (BB or B rated bonds). No security rated below single B may be purchased at any time. Securities that have at least a single B, but subsequently fall below single B ratings, shall be sold in an orderly manner. This is the case of MercedCERA's workout portfolio that is managed by MercedCERA's core fixed income manager. The fair values of MercedCERA's workout portfolio for the fiscal years ended June 30, 2020 and 2019 were $497,725 and $594,354, respectively. These securities are being liquidated or held for longer time frames by comparing their individual fundamental values against executable market prices.

The table below presents the Moody's credit quality ratings of fixed income securities at June 30, 2020 and 2019:

Quality	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**	**Ca**	**NR***	**NA****
Percent of Fixed Income as of June 30, 2020	2.14%	1.27%	7.45%	7.42%	0.13%	0.01%	0.05%	0.10%	7.08%	74.35%
Percent of Fixed Income as of June 30, 2019	2.06%	1.20%	4.45%	4.89%	0.00%	0.01%	0.09%	0.12%	7.27%	79.91%

*NR represents those securities that are not rated and includes FNMA and FHLMC mortgage backed securities that are not rated by credit rating agencies, but are perceived to have an implicit guarantee by the U.S. Government.

**NA represents those securities that are not applicable to the rating disclosure requirements.

I. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MercedCERA's Investment Policy Statement does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, MercedCERA's bond portfolios are managed duration neutral to their benchmarks, the Barclays U.S. Aggregate Bond Index and the Barclays US Government 1-3 and 1-5 year Indices.

As of June 30, 2020 and 2019, the County's pool has a fair value of $1,051,346,942 and $1,008,741,167, respectively, and a weighted average maturity of 432 and 487 days, respectively.

As of June 30, 2020 and 2019, the weighted average maturity of the short-term investment pooled funds with Northern Trust was 46 and 39 days, respectively.

The following table presents the fair value, weighted percentage of each sector, and the effective duration of MercedCERA's fixed income investments as of June 30, 2020:

		Core Bond Portfolio	
Investment Type	**Fair Value 2020**	**Weight of Fixed Income 2020**	**Modified Duration (years) 2020**
U.S. Government agency obligations	$17,357,560	8.52%	3.24
Commercial mortgage backed securities	728,361	0.36%	0.76
Asset backed securities	3,910,338	1.92%	1.53
U.S. Treasury and TIPS	11,337,463	5.56%	12.73
Corporate and other credit	33,241,894	16.31%	7.65
Collateralized mortgage obligations	229,024	0.11%	0.35
Mutual funds	116,646,551	57.22%	3.35
Limited partnerships	20,388,517	10.00%	4.42
Total Fair Value	$203,839,708	100.00%	
Portfolio Effective Duration			6.12

The following table presents the fair value, weighted percentage of each sector, and the effective duration of MercedCERA's fixed income investments as of June 30, 2019:

		Core Bond Portfolio	
Investment Type	**Fair Value 2019**	**Weight of Fixed Income 2019**	**Modified Duration (years) 2019**
U.S. Government agency obligations	$19,127,379	9.20%	4.32
Commercial mortgage backed securities	865,969	0.42%	1.46
Asset backed securities	4,175,638	2.01%	0.80
U.S. Treasury and TIPS	12,028,780	5.78%	7.82
Corporate and other credit	22,507,340	10.82%	6.77
Collateralized mortgage obligations	313,148	0.15%	0.60
Mutual funds	128,201,373	61.65%	2.79
Limited partnerships	20,734,815	9.97%	4.42
Total Fair Value	$207,954,442	100.00%	
Portfolio Effective Duration			5.43

J. Foreign Currency

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Assets in international equity portfolios will be primarily composed of foreign ordinary shares and American Depository Receipts (ADR) (including ADR's that are 144A securities). Short-term, high-grade fixed income securities may be purchased as previously stated, similar types of securities denominated in foreign currencies may be purchased, or the fund's custodial sweep account may be employed. International equity portfolios will invest in stocks with market capitalizations consistent with their underlying benchmarks. Emerging market equity portfolios can invest in stock with large, mid, and small market capitalizations. Firms will continually monitor the country, currency, sector, and security selection risks associated with their international and emerging market portfolios. All the risks will be included in the manager's quarterly reports and performance attribution based on these factors. Currency hedging, consistent with the stated derivative policy, is an acceptable investment activity. However, prior to initiating such hedging activities, the firms must adequately demonstrate their capability and expertise in this area to the Board.

The following table represents securities and dividends receivable held in a foreign currency as of June 30, 2020 and 2019:

	Fair Value (U.S. Dollars)	
Currency	**2020**	**2019**
Euro	$8,098,514	$7,733,134
Japanese yen	10,802	22,199
Norwegian krone	8,277	13,776
Swiss franc	-	11,994
Total foreign currency	$8,117,593	$7,781,103

K. Derivatives

MercedCERA's investment policy permits the use of derivative instruments to minimize the exposure of certain investments to adverse fluctuations in financial and currency markets and enhance yields. The Association does not use derivatives for speculative use or to create leverage. Exposure to risk by use of derivative instruments must be consistent with MercedCERA's overall investment policy as well as an individual manager's specific investment guidelines. Any other derivative investment purpose may be allowed by the explicit authorization of the Board. MercedCERA does not have any derivative instruments as defined by GASB Statement No. 53 as of June 30, 2020 and 2019.

Note 4 – RESERVES

As required by the 1937 Act and the Board's policy, the following reserves for Net Position Restricted for Pensions have been established to account for the members', employers', and retirees' contributions. MercedCERA maintains the following reserves at June 30, 2020 and 2019.

A. Active Members' Reserves

These reserves represent the cumulative contributions made by active employees. Additions include member contributions and related earnings. Deductions include refunds of member contributions and, upon retirement, the member contributions plus interest credited to their account are transferred from this reserve to the Retired Members' Reserves.

B. Employer Advance Reserves

These reserves represent the cumulative contributions made by the employers for future retirement payments to current active members. Additions include contributions from the employer and related earnings. Deductions include transfers to the Retired Members' Reserve and lump sum death benefits.

C. Retired Members' Reserves

These reserves are established upon the retirement of an employee. Employee contributions plus interest earnings credited to the employee account are transferred from the Active Members' Reserves to the Retired Members' Reserves. In addition, the present value of the actuarially determined pension benefits is also transferred from the Employer Advance Reserves to the Retired Members' Reserves. From these reserves, the Association pays the retiree pension benefits in an amount computed in accordance with the 1937 Act.

D. Interest Fluctuation Reserve

This reserve is used for interest crediting purposes and for holding any funds allocated by the Retirement Board as a reserve for future interest earnings deficiencies. To the extent that net earnings are available, interest is credited to specified reserves. Interest is credited semi-annually according to MercedCERA's interest crediting policy.

E. Market Value Fluctuation Reserve

The Board of Retirement established this "designation" account on June 30, 1997 to track the increase (or decrease) in the fair value of the MercedCERA assets.

The annual change in fair value of MercedCERA's assets is as follows:

Accumulated Through 2014	2015	2016	2017	2018	2019	2020	Total
$89,589,154	$(1,601,763)	$(49,573,098)	$88,157,330	$46,078,111	$2,882,579	$(19,832,629)	$155,699,684

F. <u>Contingency Reserve</u>

This reserve is comprised of surplus/excess earnings that are held as a reserve against deficiencies in investment earnings in other years, losses on investments, and other contingencies. As of June 30, 2012, the Contingency Reserve was not funded and all balances were transferred to the Interest Fluctuation Reserve. The Contingency Reserve will be funded and excluded from the actuarial value of assets only when the Plan's funded ratio is at or above 75%.

A summary of the various reserve accounts, which comprise fiduciary net position restricted for pensions at June 30, 2020 and 2019 is as follows:

Reserve	2020	2019
Active Members'	$110,614,910	$107,794,921
Employer Advance	246,441,171	213,114,049
Retired Members'	290,820,111	288,219,524
Interest Fluctuation	116,239,196	81,842,477
Market Value Fluctuation	155,699,684	175,532,313
Total Reserves	$919,815,072	$866,503,284

Note 5 – NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS

MercedCERA engages on an annual basis, an independent actuarial consulting firm, Cheiron, Inc., to conduct its annual actuarial valuation.

A. <u>Actuarial Assumptions</u>

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2016 through June 30, 2019. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2020 and the Total Pension Liability as of the valuation date June 30, 2019, using update procedures to roll forward to MercedCERA's fiscal year end of June 30, 2020. There were no significant events between the valuation date and the measurement date, so the roll forward procedures only included the addition of service cost and interest cost offset by actual benefit payments.

The components of the employers' Net Pension Liability were as follows:

	FYE June 30, 2020	FYE June 30, 2019
Total Pension Liability	$1,410,873,578	$1,342,438,635
Plan Fiduciary Net Position	(919,815,072)	(866,503,284)
Net Pension Liability	$491,058,506	$475,935,351
Fiduciary Net Position as a Percentage of the Total Pension Liability	65.20%	64.55%

The Total Pension Liabilities as of June 30, 2020 and June 30, 2019 were determined based on the June 30, 2019 and June 30, 2018 actuarial valuations, rolled forward to June 30, 2020 and June 30, 2019, respectively, using the following actuarial assumptions applied to all periods included in the measurement:

ACTUARIAL VALUATION ASSUMPTIONS

Valuation Date	June 30, 2019	June 30, 2018
Investment Rate of Return	7.00%	7.25%
Projected Salary Increases	2.75%, plus service-based rates	2.75%, plus service-based rates
Attributed to Inflation	2.75%	2.75%
Cost-of-Living Adjustments	For Tier I, 100% of CPI up to 2.5% annually with banking, assumed to be 2.40% annually	For Tier I, 100% of CPI up to 3.0% annually with banking, assumed to be 2.40% annually

Post-retirement mortality rates for the June 30, 2019 valuation date were based on the CalPERS RP2009 tables and, for Healthy Safety Annuitants, 1.05 times the 2010 Public Safety Below Median Mortality Table for Healthy Retirees, both projected on a generational basis for mortality improvements from a base year of 2009 using the Society of Actuaries MP-2019 projection scale.

Post-retirement mortality rates for the June 30, 2018 valuation date were based on the CalPERS RP2009 tables, projected with MP-2016 and RP2000 Combined tables projected to the year 2028 with adjustments for mortality improvements based on the Society of Actuaries Scale BB. Pre-retirement mortality, withdrawal, disability, and service retirement rates vary by age, service, gender, and classification.

B. Long-Term Expected Rate of Return

Long-term capital market expectations are derived through a process that relies on both quantitative and qualitative methodologies. The first step in the process is to build out ten-year forecasts for each asset class identified using proprietary, valuation-based fundamental models that consider those critical factors driving asset class returns. The ten-year expectations serve as the primary foundation for longer-term, twenty-year expectations. Twenty-year return expectations are formed by combining our ten-year expectations for each asset class with the observed historical returns for each asset class to then infer a forecast of the following ten-year returns (i.e., years 11-20). The final step is a review by the Investment Committee to determine if any qualitative adjustments are necessary. Return assumption at the total Plan level is derived according to the underlying asset class weightings, using nominal rates of return.

Best estimates of geometric real rates of return for each major asset class included in the target asset allocation as of June 30, 2020 and June 30, 2019 are summarized in the table below.

Long-Term Expected Real Rate of Return

	FYE June 30, 2020	FYE June 30, 2019
US Equity	5.0%	5.5%
International Equity	5.6%	5.9%
Emerging Markets Equity	6.6%	7.8%
Private Equity	6.6%	7.2%
Real Estate	4.8%	4.4%
Domestic Fixed Income	(0.1%)	1.3%
Opportunistic Credit	2.6%	3.8%
Hedge Funds	2.1%	2.8%
Infrastructure	4.2%	3.9%
Natural Resources	5.5%	6.9%
Cash	0.2%	0.3%

C. Discount Rate

The discount rate used to measure the Total Pension Liability was 7.00% for June 30, 2020 and 7.25% for June 30, 2019. The projection of cash flows used to determine the discount rate assumed that contributions from Plan members will be made at the current contribution rate and that contributions from the employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

D. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of MercedCERA calculated using the discount rate of 7.00% for 2020 and 7.25% for 2019, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower and higher.

	1% Decrease (6.00%)	Current Rate (7.00%)	1% Increase (8.00%)
2020 Net Pension Liability	$665,180,217	$491,058,506	$346,218,153

	1% Decrease (6.25%)	Current Rate (7.25%)	1% Increase (8.25%)
2019 Net Pension Liability	$640,507,767	$475,935,351	$339,170,694

Note 6 – LITIGATION

Prior to the passing of the California Public Employees' Pension Reform Act (PEPRA) in 2013, MercedCERA members were allowed to include up to 160 hours of additional vacation payout hours when terminating employment ("terminal pay") in their retirement allowance calculations under a Settlement Agreement that MercedCERA entered into in 2001. PEPRA prohibited the inclusion of that terminal pay in the retirement allowance calculations of people it defined as "new members" ("PEPRA members"). Other amendments to the law that governs MercedCERA enacted at that time, known as Assembly Bill 197 (AB 197), also prohibited the inclusion of that terminal pay in retirement allowance calculations of people who already were members of MercedCERA ("legacy members"). As a result of AB 197, and developments in litigation over the law, on July 12, 2014, MercedCERA ceased including that terminal pay in retirement allowance calculations for all tiers. MercedCERA already had excluded the terminal pay from the retirement allowance calculations of PEPRA members as of January 1, 2013.

In January 2018, a court of appeal ruled that AB 197 could not be applied by MercedCERA to legacy members. That case, *Alameda County Deputy Sheriff's Assn. et al v. Alameda County Employees' Retirement Assn., et al. (2018) 19 Cal.App.5th 61* ("Alameda"), is now before the California Supreme Court on review. However, MercedCERA does not expect the Court to rule on the case for another year or two.

As a result of Alameda, on February 8, 2018, the MercedCERA Board of Retirement adopted Resolution 2018-1 which made vacation payout earnings pensionable for MercedCERA legacy members (Tiers I, II, and III), capped at the lesser of a member's annual vacation accrual amount, the leave hours actually included in the member's vacation pay-off, or 160 hours. The Board subsequently adopted Resolution 2018-3 to further clarify certain aspects of its earlier Resolution. For Tier I, II, and III members who retired on or after July 12, 2014, the adoption of both Resolutions means that a maximum of 160 hours of vacation leave, a maximum of one year's vacation leave accrual, or the number of vacation hours actually included in the member's vacation pay-off, whichever is less will be added to such retiree's final average compensation, unless an exception applies.

On July 1, 2018, MercedCERA began using additional vacation payout earnings for Tier I, II, and III members' retirement calculations as provided in the above-referenced Resolutions. For members who retired after July 12, 2014 and through June 30, 2018, retirement benefits were re-calculated by MercedCERA's actuary to determine any increased values, with consideration of the employee's contributions owed to MercedCERA as a result of the increased retirement benefit and the actual amount of vacation hours cashed out upon retirement, capped as provided above.

As noted above, the California Supreme Court has accepted review of the Alameda case. MercedCERA took this action pursuant to the decision of the First District Court of Appeal, because, notwithstanding review by the Supreme Court, Alameda provides persuasive guidance to MercedCERA. However, MercedCERA is unable to know with certainty the outcome of the Supreme Court review. Nevertheless, the MercedCERA Board determined that it was more important that its retirees receive the full payments that Alameda stated were due, rather than have the Board wait for final word on that legal determination from the Supreme Court that may not be provided for over a year. Oral arguments for the Alameda case took place on May 5, 2020. As of June 30 2020, the Supreme Court's ruling was pending.

Note 7—SUBSEQUENT EVENTS

In compliance with governmental accounting standards generally accepted in the United States of America, management has evaluated events that have occurred after fiscal year-end (June 30, 2020) through the date the financial statements were issued (December 18, 2020) to determine if these events are required to be disclosed in these financial statements.

On July 30, 2020 the Supreme Court made its final ruling on the Alameda case. This ruling became effective September 1, 2020. The final ruling states that the inclusion of terminal pay is excluded from any member of MercedCERA's retirement allowance if the member retired on or after January 1, 2013 (the date when PEPRA was enacted). Because of this ruling, retirement benefits effective on or after September 1, 2020 will have the terminal pay removed prospectively and any new retirements will not include terminal pay in the member's final compensation. At this time, MercedCERA will not be going back retrospectively to change benefits of those that retired on or after January 1, 2013. This case has been remanded back to the trial courts to vacate all previous court rulings from the lower courts. MercedCERA continues to work with its legal counsel to implement this ruling.

Schedules of Changes in Net Pension Liability and Related Ratios
For the Years Ended June 30, 2020, 2019, 2018, 2017, 2016, 2015, and 2014*

Total Pension Liability	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Service cost (MOY)	$26,267,588	$22,794,246	$22,172,594	$19,512,609	$19,384,855	$19,672,490	$19,384,434
Interest (includes interest on service cost)	93,583,425	92,452,056	89,402,353	88,982,290	86,323,551	84,203,356	81,090,569
Changes of benefit terms	-	-	-	-	-	-	-
Differences between expected and actual experience	7,534,677	1,249,075	2,914,187	(8,886,191)	(5,488,413)	(12,380,077)	-
Changes of assumptions	20,714,915	-	15,960,129	36,908,183	-	-	-
Benefit payments, including refunds of member contributions	(79,665,662)	(74,810,675)	(70,720,210)	(66,904,315)	(65,082,403)	(62,951,924)	(58,042,021)
Net changes in total pension liability	68,434,943	41,684,702	59,729,053	69,612,576	35,137,590	28,543,845	42,432,982
Total pension liability—beginning	1,342,438,635	1,300,753,933	1,241,024,880	1,171,412,304	1,136,274,714	1,107,730,869	1,065,298,068
Total pension liability—ending	$1,410,873,578	$1,342,438,635	$1,300,753,933	$1,241,024,880	$1,171,412,304	$1,136,274,714	$1,107,731,050

Fiduciary net position							
Contributions—members	$10,796,855	$10,695,680	$10,441,876	$9,384,621	$9,042,663	$8,945,316	$9,642,819
Contributions—employers	67,413,475	66,586,464	64,757,288	60,349,189	56,617,088	52,005,656	48,032,338
Net investment income (loss)	57,232,016	39,728,950	70,689,084	83,097,416	(388,209)	19,318,849	96,219,056
Benefit payments, including refunds of member contributions	(79,665,662)	(74,810,675)	(70,720,210)	(66,904,315)	(65,082,403)	(62,951,924)	(58,042,021)
Administrative expense	(2,464,896)	(2,351,105)	(2,283,396)	(2,173,407)	(2,492,684)	(2,323,446)	(1,547,347)
Net change in fiduciary net position	53,311,788	39,849,314	72,884,642	$83,753,504	$(2,303,545)	$14,994,451	$94,304,845
Fiduciary net position—beginning	866,503,284	826,653,970	753,769,328	670,015,824	672,319,369	657,324,918	563,020,073
Fiduciary net position—ending	$919,815,072	$866,503,284	$826,653,970	$753,769,328	$670,015,824	$672,319,369	$657,324,918
Net pension liability—ending	$491,058,506	$475,935,351	$474,099,963	$487,255,552	$501,396,480	$463,955,345	$450,406,132
Fiduciary net position as a percentage of the total pension liability	65.19%	64.55%	63.55%	60.74%	57.19%	59.17%	59.34%
Covered payroll	$135,618,404	$131,365,778	$126,705,902	$119,621,964	$114,397,644	$110,111,994	$110,259,316
Net pension liability as a percentage of covered payroll	362.09%	362.30%	374.17%	407.33%	438.29%	421.35%	408.50%

*Schedules are intended to show information for 10 years. Additional years will be displayed as they become available. Information for this table was provided by Cheiron, Inc.

Schedules of Employer Contributions

The schedules of employer contributions show whether the employer has made contributions that are consistent with an actuarial method of funding the benefits to be provided consistent with the parameters established by GASB Statement No. 67.

Schedules of Employer Contributions

Last 10 Fiscal Years Ended June 30

Dollar Amounts in Thousands

	2020	2019	2018	2017	2016
Actuarially Determined Contribution	$67,413	$66,586	$64,757	$60,349	$56,617
Contributions in Relation to the Actuarially Determined Contribution	$67,413	66,586	64,757	60,349	56,617
Contribution Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$135,618	$131,366	$126,706	$119,622	$114,398
Contributions as a Percentage of Covered Payroll	49.71%	50.69%	51.11%	50.45%	49.49%

	2015	2014	2013	2012	2011
Actuarially Determined Contribution	$52,006	$48,032	$43,784	$40,263	$36,662
Contributions in Relation to the Actuarially Determined Contribution	52,006	48,032	43,784	40,263	36,662
Contribution Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll	$110,112	$110,259	$109,401	$111,567	$117,296
Contributions as a Percentage of Covered Payroll	47.23%	43.56%	40.02%	36.09%	31.26%

Schedules of Investment Returns

The money-weighted rate of return is equivalent to the internal rate of return (IRR). Money-weighted rate of return incorporates the size and timing of cash flows.

Schedules of Investment Returns

Fiscal Years ended June 30*

	2020	2019	2018	2017	2016	2015	2014	2013
Annual money-weighted rate of return, net of investment expense	6.6%	5.5%	10.1%	9.5%	-0.3%	1.1%	17.0%	11.8%

**Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.*

Merced County Employees' Retirement Association

Notes to Required Supplementary Information

Note 1 – CHANGES OF BENEFIT TERMS

There were no changes in benefit terms for the fiscal year ended June 30, 2020.

Note 2 – CHANGES OF ASSUMPTIONS AND METHODS

Changes to ssumptions were adopted by the Board at their December 12, 2019 meeting. Rate of return was updated to 7.0% and the mortality to CalPERS 2009 with future improvements applying SOA MP-2019 projection scale using a full generational approach.

Note 3 – METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

A. Actuarial Valuation Methods and Assumptions

	2020	2019	2018	2017	2016
Valuation Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Effective Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Asset Valuation Method	Market Value	Market Value	Market Value	Market Value	Market Value
Amortization Years Remaining*	24	24	24	24	24
Discount Rate	7.25%	7.25%	7.25%	7.75%	7.75%
Price Inflation	2.50%	2.50%	2.50%	3.00%	3.00%
Salary Increases**	2.75%	2.75%	2.75%	3.00%	3.00%
Cost-of-Living Adjustments	2.50%	2.50%	2.50%	2.60%	2.60%
Mortality***	See Notes	See Notes	See Notes	See Notes	See Notes

	2015	2014	2013	2012	2011
Valuation Date	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009
Effective Date	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Asset Valuation Method	Market Value	Actuarial Value	Actuarial Value	Actuarial Value	Actuarial Value
Amortization Years Remaining*	16	17	18	18	18
Discount Rate	7.75%	7.75%	7.75%	8.16%	8.16%
Price Inflation	3.75%	3.75%	3.75%	3.75%	4.50%
Salary Increases**	3.75%	3.75%	3.75%	3.75%	4.50%
Cost-of-Living Adjustments	2.70%	2.70%	2.70%	2.70%	3.00%
Mortality***	See Notes	See Notes	See Notes	See Notes	See Notes

* Closed Period as a level percentage of payroll method used for all years shown .

** Includes merit component based on years of service.

*** As of 2016 valuation, CalPERS 2009 with future improvements applying SOA MP-2016 on a generational basis is used.
Basis Gender distinct RP-2000 Combined Mortality used for all valuation years shown prior to 2016.

B. Changes to the Assumptions

The actuarial valuation performed by MercedCERA's actuary for the June 30, 2018 valuation date included MercedCERA's discount rate of 7.25% and liability loads (approximately 6.92% load for Tier I and approximately 2.31% load for Tiers II and III) to account for the addition of the up to 160 hours of additional vacation earning payout hours to current active members.

Merced County Employees' Retirement Association

Other Supplemental Schedules

Schedules of Administrative Expenses
For the Fiscal Years Ended June 30, 2020 and 2019

Personnel Services:	**2020**	**2019**
Salaries, wages and benefits	$1,032,719	$1,027,558
Office Expenses:		
Communications	4,411	4,091
Requested maintenance / utilities / cost allocation	68,637	197,909
Office supplies	9,744	23,696
Postage	17,010	15,374
Total Office Expenses	99,802	241,070
Professional Services:		
Audit fees	49,300	46,265
Attorney fees	310,181	206,330
Publications / legal notices / other	2,898	2,551
Disability medical reviews / services	22,589	24,551
Software, technology, and information services	344,915	342,775
Total Professional Services	729,883	622,472
Miscellaneous Expenses:		
Memberships	5,570	5,860
Board election expenses	6,922	-
Fiduciary meeting	11,400	11,300
Fiduciary and staff travel / training	29,311	27,046
Insurance	79,688	79,292
Depreciation expense	257,818	257,181
Total Miscellaneous Expenses	390,709	380,679
Total Administrative Expenses	$2,253,113	$2,271,779

Merced County Employees' Retirement Association

Other Supplemental Schedules (continued)

Schedules of Investment Expenses
For the Fiscal Years Ended June 30, 2020 and 2019

Investment managers' fees		
Domestic equities	**2020**	**2019**
Dimensional Fund Advisors	$62,140	$65,473
Mellon Capital Management	335,236	286,200
PanAgora Asset Management	130,769	150,819
Total domestic equities	528,145	502,492
International equities		
Acadian Asset Management	59,386	45,273
Driehaus Asset Management	84,386	31,616
Copper Rock International	-	122,671
Mellon Capital Management	17,232	41,429
Wells Capital Management	303,391	541,581
Total international equities	464,395	782,570
Alternative investments		
Graham Capital	26,314	53,412
GSO	72,191	83,591
KKR	177,070	82,717
SSgA	48,121	80,136
Taconic Capital	15,401	-
Total alternative investments	339,097	299,856
Real estate		
UBS Global –Trumbull Property Management	334,162	361,973
Total real estate	334,162	361,973
Fixed income		
Barrow Hanley	173,526	271,442
Total fixed income	173,526	271,442
Total investment managers' fees	1,839,325	2,218,333
Other investment expenses		
Custodian	122,711	118,768
Investment counsel	300,384	282,837
Investment consultant	615,000	611,000
Miscellaneous investment expense	46,895	23,621
Total other investment expenses	1,084,990	1,036,226
Total fees and other investment expenses	$2,924,315	$3,254,559

Merced County Employees' Retirement Association

Other Supplemental Schedules (continued)

Schedules of Payments to Consultants
For the Fiscal Years Ended June 30, 2020 and 2019

Investment professional service fees	**2020**	**2019**
Custodial services - Northern Trust, BNY Mellon*	$122,711	$118,768
Investment counsel - Nossaman, LLP	300,384	282,837
Actuarial services - Cheiron, Inc. and Segal Consulting	211,784	79,326
Total investment professional service fees	$634,879	$480,931
Administrative professional service fees		
Audit services - Brown Armstrong Accountancy Corporation	$49,300	$46,265
Legal services	310,181	206,330
Other specialized services	2,898	2,551
Disability medical reviews/services	22,589	24,551
Software and information systems	344,915	342,775
Total administrative professional service fees	$729,883	$622,472

*MercedCERA continues to receive investment class action services from BNY Mellon.

Merced County Employees' Retirement Association

Other Information

Schedule of Cost Sharing Employer Allocations

For the Fiscal Year Ended June 30, 2020

Employer	2019-2020 Amortization Share of Pensionable Payroll	Employer Proportionate Share Percentage
County of Merced	$44,025,153	94.6992%
Merced Superior Court	2,449,405	5.2687%
Merced Cemetery District	14,933	0.0321%
Total	$46,489,491	100.0000%

The accompanying notes are an integral part of this schedule.

Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan
As of and for the Fiscal Year Ended June 30, 2020

		Deferred Outflows of Resources					Deferred Inflows of Resources					Pension Expense Excluding that Attributable to Employer-Paid Member Contributions		
Employer	Net Pension Liability	Differences Between Expected and Actual Experience	Net Differences Between Projected and Actual Investment Earnings	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Net Differences Between Projected and Actual Investment Earnings	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Allocable Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Pension Expense Excluding That Attributable to Employer – Paid Member Contributions
County of Merced	$465,028,476	$6,632,818	$2,027,527	$18,491,173	$335,383	$27,486,901	$ -	$ -	$ -	$1,315,283	$1,315,283	$71,837,796	$46,845	$71,884,641
Merced Superior Court	25,872,400	369,025	112,804	1,028,778	1,365,029	2,875,636	-		-	330,012	330,012	3,996,779	291,237	4,288,016
Regional Waste Management Authority	-	-	-	-	-	-	-	-	-	-	-	-	(310,074)	(310,074)
Merced Cemetery District	157,630	2,248	687	6,268	-	9,203	-	-	-	55,117	55,117	24,351	(28,008)	(3,657)
Total	**$491,058,506**	**$7,004,091**	**$2,141,018**	**$19,526,219**	**$1,700,412**	**$30,371,740**	**$ -**	**$ -**	**$ -**	**$1,700,412**	**$1,700,412**	**$75,858,926**	**-**	**$75,858,926**

Note: Information compiled form GASB 67/68 Report Prepared by Cheiron, Inc. dated June 30, 2020.

The accompanying notes are an integral part of this schedule.

Merced County Employees' Retirement Association

Notes to Other Information

A. Basis of Presentation and Basis of Accounting

Employers participating in MercedCERA are required to report pension information in their financial statements for fiscal periods beginning on or after June 15, 2014, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27.*

MercedCERA's actuary prepares the GASB Statement No. 67 and No. 68 Actuarial Valuation based on the June 30, 2020 measurement date for Employer Reporting as of June 30, 2021, in accordance with accounting principles generally accepted in the United States of America as applicable to governmental organizations based on information provided by MercedCERA. This document provides the required information for financial reporting related to MercedCERA that employers may use in their financial statements.

B. Use of Estimates in the Preparation of These Schedules

The preparation of these schedules in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. However, actual results could differ from those estimates.

C. Amortization of Deferred Outflows and Deferred Inflows of Resources

The net difference between projected and actual investment earnings on pension plan investments is amortized over 5 years on a straight-line basis. One-fifth was recognized in pension expense/(credit) during the measurement period and the remaining net difference between projected and actual investment earnings on pension plan investments at June 30, 2020 is to be amortized over the remaining amortization periods.

The difference between expected and actual experience, changes in proportion, and the difference between employer contributions and proportionate share of contributions are amortized over the average of the expected remaining service lives of all employees that are provided with pensions through the plan determined as of the beginning of the related measurement period. Employers are required to recognize pension expense based on the balance of the closed period "layers" attributable to each measurement period. The average expected remaining service lives determined as of the beginning of each measurement period are described below:

Average Expected Remaining Service Lives, Year Ended June 30 (In years)						
2020	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
4	4	4	4	4	4	4

The Schedule of Cost Sharing Employer Allocations and the Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan do not include contributions to the plan subsequent to the measurement date as defined in GASB Statement No. 68 Paragraphs 54, 55, and 57. Appropriate treatment of such amounts is the responsibility of the employers.

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Investment Section

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MEMORANDUM

TO: Board Members,
Merced County Employees' Retirement Association

FROM: Paola Nealon, Mika Malone
Meketa Investment Group

DATE: November 16, 2020

RE: Investment Consultant's Statement for CAFR

This letter reviews the investment performance of the Merced County Employees' Retirement Association (MercedCERA) for the fiscal year ended June 30, 2020.

MercedCERA's stated mission is to provide benefits to its members, to manage assets prudently in accordance with plan provisions and to provide competent and efficient services to our members. Meketa Investment Group, MercedCERA's general consultant, works in concert with Cliffwater, MercedCERA's alternative investments consultant, to provide guidance to the Board (the Association's fiduciary), and assist the Board with performance evaluation, asset allocation, manager selection, and other industry best practices.

Rates of return are represented using a time weighted rate of return methodology based upon market values.

Fiscal Year 2020 - Year in Review

The past year has seen remarkable shifts in economic and financial market performance. We entered fiscal year 2020 facing considerable uncertainty regarding the path of fiscal and monetary policies, elevated valuations, declining growth in China, a general slowdown in global growth, the potential for additional trade issues, and political uncertainty in Europe (Italy, Greece, Brexit). All of these concerns weighed heavily on most investors' minds. Fast forward to where we sit today at the close of the 2020 fiscal year and much has changed in the world.

The start of the fiscal year was characterized by widespread concerns regarding slowing global growth. This backdrop of uncertainty prompted major central banks to continue their pivot towards more accommodative policies. Here in the US, ongoing concerns regarding a decline in growth and the trade standoff between the US and China played a key role in the Federal Reserve's decision to cut rates several times, and eventually settle at a range of 1.50-1.75% by December 2019. Considering that the Fed had previously embarked on what was characterized as a fairly aggressive rate-hiking cycle until late 2018 given improvements in the economy, this represented a stark reversal of course. Fed Chairman Jerome Powell indicated that these so called "insurance cuts" were to combat recent weakness in the economy and were not necessarily a part of a longer cycle of interest rate cuts.

Outside of the US, major central banks, notably the European Central Bank (ECB) and the Bank of Japan, affirmed similar accommodative policy stances. ECB President Mario Draghi, in one of his last formal acts as President, re-initiated the ECB's quantitative easing program, prior to being succeeded by Christine Lagarde in November 2019. Continued monetary accommodation, and increasing whispers of more formal fiscal support, set the stage for strong performance in global equities and other risk assets at the end of 2019.

In the third calendar quarter of 2019 markets experienced mixed results with US stocks and bonds posting gains, while international assets, smaller company stocks, and commodities declined. The calendar year finished strong though as a result of broadly accommodative policy stances, coupled with optimism about the pass-through of easier monetary policy to better economic prospects. US equities led the way in the second half of calendar 2019, with the Russell 3000 posting a return of 10.4%, followed by emerging market equities (MSCI Emerging Markets Index) producing a return of 7.1%, and developed international markets (MSCI EAFE) generating a return of 7.0%. With interest rates declining towards multi-decade lows, spread sectors within bond markets enjoyed strong performance as well. Local currency emerging markets debt, US investment grade corporate debt, and US high yield debt led the way; the JP Morgan GBI-EM Global Diversified, Bloomberg Barclays US Corporate Investment Grade, and Bloomberg Barclays US Corporate High Yield indices generated total returns of 4.4%, 4.3%, and 4.0%, respectively in the second half of 2019.

By most accounts, global financial markets entered calendar 2020 on relatively strong footing. Equity markets continued their march higher early in the year, despite elevated valuations, as investors increasingly began to price in a reflationary growth impulse, as suggested by leading economic indicators in global developed and emerging markets. However, a relatively optimistic backdrop underwent a remarkably rapid shift over the course of just a few weeks.

In January, the first COVID-19 case was acknowledged by Chinese authorities, reportedly originating in Wuhan, China. The actual timeline of the spread of the virus and its origination continue to be the subject of much speculation. With limited historical precedent, market participants leaned on China's relative success in containing SARS as indicative of the path of COVID-19. By March, the virus began to spread globally, particularly in Europe, with Italy and Spain reporting massive spikes in infections and, sadly, mortality rates, markets changed course. Clearly, where SARS was quickly contained, COVID-19's infection rate had exploded globally. By virtue of greater freedom of travel and 21st century globalization, the virus spread far more quickly than was initially expected based on previous viral outbreaks. In March, in an effort to contain the spread, countries responded by enacting stringent lockdowns, or "stay at home orders" leading to an abrupt halt in production and consumption. Layoffs expanded dramatically and swiftly, as businesses were forced to close down in an effort to stop the disease from spreading.

The impact on financial markets was extreme. Global equity markets rapidly entered bear market territory, and continued their path downward throughout the month of March, as market participants attempted to price in the impact of a cessation of a large portion of global economic activity. With limited data on COVID-19, the pendulum clearly swung towards pessimism regarding the virus' impact and the likely path of activity going forward. After ending the year 2019 below 14, the VIX spiked above its prior peak during the Global Financial Crisis, briefly breaching 80 in early March. In the US, circuit breakers were triggered at the New York Stock Exchange, with markets opening limit down, on March 9th and March 16th. At the depth of the drawdown from January 1, 2020 to March 23, 2020, the Russell 3000 was down -31.6%, the MSCI EAFE Index (developed market equities) was down -33.2%, and the MSCI Emerging Markets Index (emerging market equities) was down -31.8%. The perception of acute stress in credit markets, both in the US and abroad, led to solvency fears; the Barclays High Yield index fell -19.8%. Investors universally fled risk assets, in all forms, during the selloff in favor of perceived safer assets like US Treasuries.

Over this same time period, the spread between large cap stocks, which went into the shock with stronger financial positions and have tended to experience less volatility in drawdowns, and small cap stocks, which are more pro-cyclical and volatile, widened during the selloff. Whereas the Russell 1000 fell by -31.1%, the Russell 2000 fell by -39.7%, a spread of nearly 10%. Going further, the ever-widening performance gap between growth and value, which we have highlighted in past CAFR reviews, persisted. The spread between large cap growth and small cap value expanded during the selloff, with the Russell 1000 Growth declining 25.1% and the Russell 2000 Value falling 44.3%, for a spread of nearly 20%.

The rapid unwind of risk in early 2020, one of the fastest market selloffs in modern financial history, reinforced the importance of diversification. While equity and credit markets fell precipitously, bonds provided an offset for investors. The Bloomberg Barclays US Aggregate generated a return of 1.0% over the course of the drawdown noted above, and long-term treasuries, measured by the Bloomberg Barclays Long US Government index, generated a return of 20.2%.

The volatility of the pandemic was exacerbated by volatility in oil prices, which experienced a rapid collapse early in 2020. The COVID-19 related restrictions weighed heavily on demand, with Saudi Arabia's untimely decision to flood the market with oil to gain market share creating further stress on prices. Oil futures briefly traded at negative price levels during the depths of the crisis, as demand collapsed and storage capacity dwindled. The May WTI futures contract briefly exchanged hands at nearly -$40 per barrel. Commodity and natural resource asset classes both participated in the broader market selloff; the Bloomberg Commodity Index and the S&P Global Natural Resources Index were down -23.4% and -44.6% at the trough, respectively. While the futures curve has since normalized, the oil supply/demand dynamic remains in flux. OPEC+ (inclusive of additional key producers such as Russia) reached a supply cut agreement in April that supported prices and stabilized the market.

To combat the expected, significant decline in economic activity, fiscal and monetary authorities globally responded with immediate and historic stimulus measures. The Federal Reserve, in the midst of the March drawdown, immediately cut the Fed Funds Target Rate effectively to zero, and subsequently introduced aggressive stimulus measures, including backstop liquidity, funding programs, and trillions of dollars in promised asset purchases.

Meanwhile, fiscal authorities released over $2.4 trillion in targeted stimulus, with the promise of additional measures in the future. Importantly, both the speed of the response, and the breadth of the response, made the joint monetary/fiscal stimulus unprecedented. In Japan and Europe, similarly aggressive monetary and fiscal measures were implemented, although it should be noted that they entered the crisis with no room to cut policy rates, so their focus was on quantitative easing and fiscal measures.

Robust stimulus across global developed and emerging economies, coupled with incremental positive news regarding the spread of COVID-19, and economies slowly reopening, set the stage for a relatively rapid rebound in risk assets in the second calendar quarter. While the pace of the deceleration in economic activity was rapid, and data for the second quarter has been relatively dire in absolute terms, market participants are largely taking a longer-term view with expectations for a recovery in economic activity later this year and into 2021. In the second calendar quarter of 2020, the Russell 3000 (US equities), the MSCI EAFE, (developed market equities), and the MSCI Emerging Markets (emerging market equities) generated total returns of 22.0%, 14.9%, and 18.1%, respectively. Give support from the Federal Reserve and increased risk appetite, credit recovered rapidly as well, with the Bloomberg Barclays US High Yield index generating a return of 10.2%. The broader fixed income market, as measured by the Bloomberg Barclays US Aggregate, benefitted from monetary stimulus, producing a 2.9% total return. While the VIX remained elevated relative to its pre-crisis levels at 30.4 as of June 2020, it had fallen significantly since the peak of the crisis in the first calendar quarter. Equally, bond market volatility as measured by the MOVE Index fell to nearly a record low.

An investor who had not been following current events over the past year and only chose to look at US equity market performance, could be forgiven for thinking that little had changed regarding the prevailing market regime. Despite a massive risk-off event in the first quarter of 2020 associated with a global pandemic, risk assets have, in some cases, posted moderately positive returns over the past fiscal year. US equities, as represented by the Russell 3000 Index, finished the fiscal year with a 6.5% return. Emerging markets (MSCI Emerging Markets) delivered -3.4% for the year. The MSCI EAFE Index was the worst performer among the headline global regions, posting a total return of -5.1%.

Several important trends underneath the headline results merit emphasis. In the US, the spread between large cap stocks and small cap stocks remains extremely wide. The Russell 1000 produced a total return of 7.5% over the fiscal year, whereas the Russell 2000 generated a total return of -6.6%. The spread between growth and value also remains stubbornly wide; the Russell 1000 Growth's return of 23.3% during the fiscal year far outpaced the Russell 1000 Value's total return of -8.8%. Key to the persistent spread between value and growth has been the sector composition of the Value and Growth indices. The Russell 1000 Value's large financials and utilities overweights, coupled with large information technology and consumer discretionary underweights, relative to the Russell 1000 Growth, were key contributors. The two benchmarks' relative allocations to financials and information technology alone generated a performance spread of 14.1% in favor of the growth index. An even starker contrast can be observed between large cap growth (Russell 1000 Growth at 23.3%) and small cap value (Russell 2000 Value at -17.5%) where the total return spread was a massive 40.8%!

Within international developed markets, the MSCI EAFE opportunity set, of which Japan, the UK, and the Eurozone are featured most heavily, underperformed relative to the US and emerging markets. This can largely be attributed to the weak footing on which they entered the crisis to begin with, the robust spread of COVID-19, and the stringency of lockdowns in many of these economies. Within emerging markets, an extremely wide spread between countries that were able to manage the virus' spread and deployed aggressive countermeasures (e.g., China: 9.9% return) relative to countries facing already-dire economic circumstances (e.g., Brazil: -33.4%, Mexico: -25.2%, and South Africa: -24.9%) was relatively extreme. The same style regime observed in the US, with growth outperforming value, persisted in both developed and emerging international markets. Again, the relative performance of financials and information technology and consumer stocks were key drivers of the spread between value and growth indices.

Fixed income markets generated relatively strong results, due to a collapse in global yield curves coupled with a robust liquidity backstop from central banks. The Bloomberg Barclays US Aggregate produced a total return of 8.7% over the past year. High yield bonds retraced their earlier losses, with the Bloomberg Barclays US High Yield index finishing flat over the fiscal year. However, the standout performer within fixed income has been long maturity Treasuries, with the Bloomberg Barclays Long US Government index gaining an impressive 25.1% over the past year.

While equities, and especially large cap growth equities, as well as fixed income, produced relatively strong results despite the COVID-19 shock, we have seen mixed results from other asset classes. While energy prices recovered to some extent, with WTI Crude Oil trading at $39.28 at the end of the fiscal year, the current level still represents a significant drawdown relative to even a year ago, when it traded at $58.20. Natural resource stocks and commodities, on account of uncertainty regarding supply gluts, especially in the oil market, and the uncertainty regarding the recovery of demand, produced weak total returns. The S&P Global Natural Resources Index returned -16.8% while the Bloomberg Commodity Index returned -17.4%. One of the hardest hit asset classes in markets in 2020 has been real estate, where fears regarding utilization rates in commercial real estate have prevented the asset class from participating in the recovery to the same extent as other asset classes. The MSCI U.S. REIT Index returned -12.9%.

Elsewhere, an increasingly robust acceleration in money supply growth, widening fiscal deficits on account of unprecedented stimulus measures, and an environment of stagnating growth expectations manifesting in a collapse in real yields, resulted in a significant increase in demand for physical gold. Over the course of the fiscal year, the price of gold increased from $1,409.40 per ounce to $1,793.00, an increase of 27.2%. With investors increasingly fearing the potential ramifications of fiat currency devaluation as a result of monetary de-basement by the Federal Reserve and other global central banks, they have turned to gold as a potential hedge.

2020 Outlook

Looking ahead, we acknowledge the wide breadth of new issues being presented by the pandemic, including: 1) economies opening up too soon from virus-related restrictions, and ultimately having to retract and “close down” again, 2) consumers permanently, or for an extended time, changing economic behaviors; 3) persistently high unemployment due to a significant number of companies not surviving the economic downturn; 4) virus-related fears negatively impacting the future of globalization, 5) an increase in sovereign debt risk due to the record issuance by governments; and 6) knock-on effects of unprecedented central bank intervention, including over-extended equity markets and the risk of unexpected inflation.

Globally, countries continue to tentatively ease their lockdown measures, as politicians face increasing pressure to get economic growth and employment back on track after a rapid and severe disruption. As a result, local outbreaks of the virus have arisen in the US and abroad, forcing local restrictive measures in harder-hit areas. The continued need for careful management of the spread of the virus is likely to prompt additional volatility in financial markets. This will only accelerate as we approach the end of the warm summer months in parts of the world and enter the traditional “flu season” of fall and winter. This brings many potential risks, including a spike in infections and hospitalizations, the mutation of the virus in an unfavorable manner, or even a concurrent outbreak and a severe flu season alongside COVID-19. Since market participants remain focused on developments regarding COVID-19, its trajectory will be a key driver of market volatility in the near-term.

We have already observed a rapid change in consumption preferences in the US in the wake of the initial COVID-19 shock. The US savings rate spiked to an unprecedented level, and remains elevated when compared to historical trends. This represents a potential opportunity, as it could represent pent-up demand and, eventually dissaving to increase consumption. However consumer confidence has not fully recovered, and without certainty regarding the path of the virus, survey data suggest that most in the US have chosen to build cash as a defense against further issues with COVID-19, rather than spend aggressively. Importantly, survey data also suggest that stimulus checks were not used for durable goods purchases, and instead were either saved or spent on necessary staples. Until consumers build more confidence in the path of COVID-19, the testing regime improves, and the outlook for a vaccine becomes less opaque, it is likely that consumer confidence, and thus consumption itself, will remain muted relative to pre-crisis levels, placing a damper on the prospective economic recovery.

Unemployment, despite a gradual re-opening of the US economy over the past quarter, remains stubbornly high after spiking to a post-World War II record. Unemployment as of the end of the fiscal year remained at 11.1%. The Bureau of Labor Statistics has also cautioned that considerable uncertainty exists around data quality; the actual numbers could be far better than reported, or far worse. A continued decline in unemployment from its current level will follow an easing of COVID-19 related restrictions, especially in the hard-hit service sector, as well as additional fiscal support.

Conversely, companies continue to right-size their workforces to cope with a collapse in their top-lines and increasing solvency risk. The longer that uncertainty regarding the virus persists and leads to measures that are likely to stifle economic activity, the weaker business confidence will continue to be. This increases the risk that many layoffs, which might have been perceived as temporary, could become permanent, resulting in a higher equilibrium rate of unemployment.

COVID-19 has had a meaningful impact on the already-tapering long-term trend towards globalization in the 21st century. In some cases, local trade conflicts have arisen and have been resolved, but the trend towards the re-localization of supply chains is likely to accelerate in the wake of the crisis. The most obvious example of this trend is the continued, protracted conflict between the US and China. While the conflict was set aside in the early stages of COVID-19, it has been rekindled in recent months. The current US presidential administration's foreign policy approach has increasingly shifted towards a more aggressive anti-China stance. COVID-19 also exposed the reliance of some countries on choke-points in global supply chains that they will undoubtedly seek to address going forward. Global policymakers, such as ECB President Christine Lagarde, have acknowledged that de-globalization is likely to persist in the wake of the virus, beyond the US/China conflict. The risk is most severe for countries that have become reliant on foreign investment and export-driven growth. If global economies increasingly focus on domestic products, export-oriented economies are likely to suffer inordinately in this type of environment.

Historically, crisis periods have often witnessed concurrent periods of either voluntary or involuntary deleveraging, at the sovereign, corporate, and consumer levels. In 2008, for example, the US experienced a rapid de-leveraging in the mortgage market that quickly spread to corporates and consumers. In 2020, while consumers entered the crisis in a reasonable financial position, corporates and sovereigns did not. In the US, for example, corporate solvency was a meaningful source of uncertainty even prior to the crisis, as debt built up in the US corporate debt market. With the COVID-19 shock, fears that an economic crisis would become a financial crisis, where in the GFC the opposite had been the case, gripped the markets in March. The Federal Reserve, seeking to prevent this outcome, chose to intervene by essentially backstopping corporate credit. As a result, corporate leverage has rapidly increased, where the opposite was true in previous cycles. Alongside this trend, the US government has massively increased the size of the fiscal deficit in order to support those facing temporary income loss due to unemployment. Suddenly, the US faces the need to finance a widening budget deficit; a large slate of debt issuance will test global investors' willingness to finance a weakening US fiscal position, which could have considerable knock-on effects for interest rates and thus global risk assets. The US, within both the corporate and sovereign sector, continues to push the boundary of investors' appetite for debt.

The evolution of economic growth, and inflation, bear close monitoring going forward. In addition to widening deficits, unprecedented asset purchases by central banks run the risk of creating longer-term distortions in markets. There can be little doubt that the Federal Reserve's actions have boosted market confidence, and thus asset prices, in recent months. While they execute these policies in the hope of creating a virtuous feedback loop in order to stimulate growth, the pass through is indirect, at best.

The Fed is increasingly facing a tightrope walk, backstopping market risk while trying not to lose the market's confidence in its ability to do so with an increasingly narrow set of policy tools. Given that interest rates are probably near a lower bound, at least for now, that leaves them with quantitative easing, which might increasingly become permanent rather than temporary. As evidenced by the path of nominal interest rates across the yield curve, growth expectations remain incredibly weak, while inflation expectations have begun to tick higher, resulting in a collapse in real interest rates. In addition, the Fed has increasingly signaled that it is likely to revise its inflation target, in the interest of allowing inflation to "run hot" in order to focus on achieving growth and full employment, with the added benefit of reducing the US sovereign debt burden. The potential for unexpected inflation within this regime means that asset allocation care is warranted; assets with low yields, like US Treasuries, could experience diminished long-term return prospects, requiring shifts in allocation decisions.

We will continue to monitor these issues and others, as they arise. Even since the end of the fiscal year, global markets have evolved significantly. The impact of COVID-19 and the extraordinary policy response have engendered profound significant changes in financial markets that have continued to play out since the end of the fiscal year. The evolution of COVID-19, with respect to its spread and the prospect for an eventual definitive healthcare solution, will continue to impact markets going forward.

Performance

The MercedCERA portfolio posted a 6.4% return on a net of fees basis for the fiscal year ended June 30, 2020, which exceeded the policy index by 40 basis points. From an absolute contribution standpoint, the international equity segment of the portfolio was the key positive driver through a combination of strong performance over the period (+14.6%) along with the large exposure. Emerging markets in particular posted strong absolute results within this space, recording a 30.6% net of fee return and far outpacing the benchmark's return of -3.2% for the trailing fiscal year.

When evaluating the trailing year, the fixed income sleeve posted strong absolute results at 8.4%, though in line with its benchmark. Results in the private equity composite were lukewarm at 0.3%, trailing its benchmark's return of 6.1%. Real estate posted a -1.6% return underperforming its benchmark's return of 4.9%. The hedge fund sleeve posted a -2.1%return and underperformed the index's return of 0.5%. At a 10% allocation to the total portfolio, this was a significant detractor. The portfolio's investments in real assets returned 0.5%, far outpacing its policy index's return of -10.7%.

From a longer-term perspective, the portfolio posted a return of 6.9% for the trailing three years and 6.6% over the five-year period. Over both periods, the portfolio exceeded the policy benchmark, by 0.9% for three years and 0.2% for five years. In terms of rank versus a comparable peer group, the MercedCERA portfolio was top quintile across one, three, and five year trailing periods.

Investment Results

Periods Ended June 30, 2020	Annualized Returns (%) One Year	Three Years	Five Years
US Equity (net)	6.3	10.2	10.7
Russell 3000	6.1	9.5	9.6
Rank	20	14	5
International Equity (net)	14.6	7.5	5.8
International Equity Custom	-3.9	1.6	2.9
Rank	1	1	6
US Fixed Income (net)	8.3	5.0	4.3
BBgBarc US Aggregate TR	8.4	5.4	4.6
Rank	35	40	39
Opportunistic Credit (net)	-0.4	N/A	N/A
50% Barclays US Aggregate / 25% Barclays US High Yield / 25% Credit Suisse Leveraged Loans	3.9	N/A	N/A
Rank	46	N/A	N/A
Private Real Estate (net & 1-quarter lagged)	-1.6	4.3	5.5
Custom Blended Real Estate Benchmark	4.9	6.0	7.1
Rank	89	69	82
Private Equity (net & 1-quarter lagged)	0.3	9.9	7.9
Custom Blended Private Equity Benchmark	6.1	12.9	12.3
Rank	60	44	63
Hedge Funds (net)	-2.1	2.6	2.2
Custom Blended Hedge Fund Benchmark	0.4	2.4	2.1
Rank	57	43	43
Real Assets (net & certain managers 1-quarter lagged)	0.4	5.8	6.3
Custom Blended Real Assets Benchmark	-10.7	3.7	5.3
Rank	47	35	25
Total Fund (net)	6.4	6.9	6.6
Policy Index	3.7	6.0	64
Rank	5	14	17

PN/MM/pq

Merced County Employees' Retirement Association

Total Fund Returns (Gross of Fees) vs. Universe
Period Ended June 30, 2020

	3 mo	*Fiscal YTD*	*3 yrs*	*5 yrs*	*7 yrs*	*10 yrs*	*Inception Return*	*Since*
Total Fund	11.58%	6.70%	7.16%	6.87%	7.86%	8.86%	8.05%	12/31/1994
Fund Benchmark	7.52%	3.70%	5.95%	6.35%	7.36%	8.81%	5.90%	12/31/1994
IF Public Defined Benefit Gross Rank	71	3	10	13	18	27	38	12/31/1994
IF Public Defined Benefit Gross Median	12.5%	3.1%	5.8%	5.8%	6.8%	8.1%	7.83%	12/31/1994

Outline of Investment Policies

The Board of Retirement (Board) has exclusive control of all investments of the Merced County Employees' Retirement Association (MercedCERA or the Association) and is responsible for establishing investment objectives, strategies, and policies.

Pursuant to the California Constitution and the County Employees' Retirement Law of 1937 (the 1937 Act), the Board is authorized to invest in any form or type of investment deemed prudent in the informed judgment of the Board. In making decisions regarding the MercedCERA investment portfolio, the Board acts in a fiduciary capacity and must discharge its duties in accordance with fiduciary principles. In this regard, investment decisions are to be made in the sole interest and for the exclusive purpose of providing benefits, minimizing employer contributions, and defraying the reasonable expenses of the Association.

The Board of Retirement has adopted an Investment Policy, adopted February 23, 2017 and amended November 8, 2018, which provides the framework for the management of MercedCERA's investments. The Investment Policy establishes the investment program goals, asset allocation policies, performance objectives, investment management policies and risk controls. The Investment Policy also defines the principal duties of the Board, MercedCERA's custodian bank, consultant, and MercedCERA's investment managers. The Board makes revisions to the Investment Policy as necessary.

Pursuant to the Investment Policy, the basic goal of MercedCERA's investment program is to obtain a fully funded plan status, while assuming a risk posture consistent with the Board's risk tolerance. In pursuing this goal, the Board has adopted a long-term investment horizon in which the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The primary investment objective is to exceed the actuarial assumption for return on assets. The risk assumed in the pursuit of this investment objective must be appropriate for the return anticipated and consistent with the total diversification of the fund. The asset allocation plan, adopted by the Board, is an integral part of MercedCERA's investment program. It is designed to provide an optimum, diversified mix of asset classes with return expectations to satisfy expected liabilities, while minimizing risk exposure.

Summary of Proxy Voting Guidelines and Procedures

Voting of MercedCERA's proxy voting ballots shall be in accordance with MercedCERA's proxy voting guidelines as set forth in the Investment Policy. The basic directive of the proxy voting guidelines is that, when voting proxy ballots on behalf of MercedCERA, investment managers shall vote according to the best interests of the MercedCERA membership. On a quarterly basis, the investment managers are required to provide a report to MercedCERA detailing their proxy votes.

Merced County Employees' Retirement Association

Asset Allocation Information
For the Fiscal Year Ended June 30, 2020

Allocation Ranges	Allocation June 30, 2020	Target	Allocation Minimum	Allocation Maximum
Domestic Equity	27.6%	21.0%	15.0%	26.0%
Developed Markets Equity	11.9%	10.0%	5.0%	15.0%
Emerging Markets Equity	9.9%	8.0%	4.0%	12.0%
Private Equity	6.5%	15.0%	5.0%	20.0%
Real Estate	5.1%	8.0%	6.0%	10.0%
Domestic Fixed Income	17.7%	18.0%	13.0%	23.0%
Opportunistic Credit	4.9%	5.0%	3.0%	7.0%
Hedge Fund	10.0%	10.0%	5.0%	15.0%
Real Assets	5.1%	5.0%	3.0%	7.0%
Cash	1.3%	0.0%	0.0%	5.0%
	100.0%	100.0%		

Asset Allocation Information
For the Fiscal Year Ended June 30, 2019

Allocation Ranges	Allocation June 30, 2019	Target	Allocation Minimum	Allocation Maximum
Domestic Equity	27.0%	21.0%	15.0%	26.0%
Developed Markets Equity	12.4%	10.0%	5.0%	15.0%
Emerging Markets Equity	7.9%	8.0%	4.0%	12.0%
Private Equity	7.0%	15.0%	5.0%	20.0%
Real Estate	4.7%	8.0%	6.0%	10.0%
Domestic Fixed Income	19.5%	18.0%	13.0%	23.0%
Opportunistic Credit	4.8%	5.0%	3.0%	7.0%
Hedge Fund	8.9%	10.0%	5.0%	15.0%
Real Assets	5.7%	5.0%	3.0%	7.0%
Cash	2.1%	0.0%	0.0%	5.0%
	100.0%	100.0%		

Merced County Employees' Retirement Association

Investment Summary

For the Fiscal Year Ended June 30, 2020

	Value	Percent of Total
Domestic Equity		
Large Cap	$97,505,271	10.7%
Large Cap Active	113,026,666	12.3%
Small Cap	40,961,881	4.5%
Total	251,493,818	27.5%
International Equity		
Large Cap	87,413,319	9.5%
Small Cap	21,291,358	2.3%
Emerging Market	90,032,690	9.8%
Total	198,737,367	21.6%
Fixed Income		
Domestic Core	66,804,641	7.3%
Mutual Fund	92,309,989	10.1%
Opportunistic Credit	44,725,078	4.9%
Total	203,839,708	22.3%
Alternative Investments		
Private Equity	81,687,433	8.9%
Hedge Funds	91,200,267	10.0%
Real Asset Proxy	15,393,878	1.7%
Total	188,281,578	20.6%
Real Estate		
Domestic Property Fund	36,480,015	4.0%
Domestic Private Real Estate	6,254,099	0.7%
International Private Real Estate	16,074,932	1.7%
Total	58,809,046	6.4%
Cash and Short-Term Investments	14,447,310	1.6%
Total Investments, Cash and Short-Term Investments	$915,608,827	100.0%

Merced County Employees' Retirement Association

Schedule of Investment Results (Gross of Fees)

For the Fiscal Year Ended June 30, 2020

	Current	Annualized				
Domestic Equity	**Year**	**3Yrs**	**5Yrs**	**7Yrs**	**10Yrs**	**Inception**
Large Cap:						
Mellon Dynamic	11.4	13.9	14.1	15.4	--	16.7
Mellon Large Cap Index	7.5	10.7	--	--	--	12.4
Small Cap:						
DFA	-11.2	-0.5	3.3	--	--	3.9
PanAgora	-6.3	3.3	4.9	--	--	7.3
Total Domestic Equity	**6.6**	**10.4**	**10.9**	**12.6**	**14.1**	**10**
Index*: *Ruseell 3000	***6.1***	***9.5***	***9.6***	***11.3***	***13.5***	***9.8***
International Equity						
Developed Markets:						
Acadian ACWI ex U.S. Small Cap Equity	0.9	--	--	--	--	0.8
Driehaus International Small Cap Growth	7.2	--	--	--	--	8.3
GQG International Equity	--	--	--	--	--	1.3
First Eagle International Value Fund	--	--	--	--	--	-6.6
Emerging Markets:						
Artisan Developing World Trust	--	--	--	--	--	27.6
RWC Global Emerging Equity Fund	--	--	--	--	--	-8.8
Total International Equity	**15.1**	**8.0**	**6.3**	**7.0**	**8.2**	**5.9**
Index*: *International Equity Custom	***-3.9***	***1.6***	***2.9***	***4.3***	***5.9***	***3.9***
US Fixed Income						
Barrow Hanley	10.2	6.0	4.8	4.4	4.5	5.0
Vanguard Short-Term Treasury Index Fund	4.1	--	--	--	--	3.6
Vanguard Total Bond Market Index Fund	9.0	--	--	--	--	10.4
Total Fixed Income	**8.4**	**5.1**	**4.5**	**4.3**	**4.7**	**5.6**
Index*: *BBgBarc US Aggregate TR	***8.4***	***5.3***	***4.6***	***4.3***	***4.0***	***5.8***
Opportunistic Credit						
PIMCO Income Fund	0.7	--	--	--	--	1.9
GoldenTree Multi-Sector Credit	-1.4	--	--	--	--	-0.1
Total Opportunistic Credit	**-0.2**	**--**	**--**	**--**	**--**	**1.2**
Index*: *50% Barclays US Aggregate / 25% Barclays US High	***3.9***	***--***	***--***	***--***	***--***	***5.0***

Merced County Employees' Retirement Association

Schedule of Investment Results (Gross of Fees) (Continued)

	Current	Annualized				
Real Estate	**Year**	**3Yrs**	**5Yrs**	**7Yrs**	**10Yrs**	**Inception**
UBS Trumbull	-3.0	2.1	4.4	6.4	8.2	7.8
Greenfield GAP VII	13.2	13.0	14.4	--	--	13.7
Patron V	-18.3	8.1	--	--	--	5.6
Carlyle Realty VIII	30.6	--	--	--	--	-14.8
Taconic CRE Dislocation Fund II	15.3	--	--	--	--	8.9
Carmel Partners Investment Fund VII	-45.0	--	--	--	--	-48.4
AG Realty Value Fund X, L.P.	-17.7	--	--	--	--	-16.5
Rockpoint Real Estate Fund VI, L.P.	--	--	--	--	--	2.0
Total Real Estate**	**-1.6**	**4.3**	**5.9**	**7.0**	**8.8**	**8.1**
Index: Custom Blended Real Estate Benchmark	*4.9*	*5.9*	*7.1*	*8.6*	*10.2*	*7.3*
Real Assets						
Proxy Fund						
SSgA	-8.3	0.5	--	--	--	0.3
Private Infrastructure:						
KKR Global Infrastructure Investors II	31.1	17.0	13.8	--	--	14.0
North Haven Infrastructure II	9.3	15.9	8.1	--	--	7.9
ISQ Global Infrastructure Fund II	10.1	--	--	--	--	-8.8
KKR Global Infrastructure Investors III	-4.1	--	--	--	--	-13.0
Ardian Infrastructure Fund V	--	--	--	--	--	-8.9
Private Natural Resources:						
GSO Energy Opportunities	-34.6	-7.2	--	--	--	3.0
Taurus Mining	-5.4	5.2	--	--	--	12.7
Taurus Mining Annex	22.9	22.4	--	--	--	27.7
EnCap XI	-36.2	--	--	--	--	-33.1
EnCap IV	-0.7	--	--	--	--	-2.3
BlackRock GEPIF III	--	--	--	--	--	2.6
Tailwater Energy Fund IV	--	--	--	--	--	-37.8
Total Real Assets	**0.5**	**5.9**	**6.8**	**7.6**	**--**	**--**
Index: Custom Blended Real Assets Benchmark	***-10.7***	***3.7***	***5.3***	***6.5***	**--**	**--**

Merced County Employees' Retirement Association

Schedule of Investment Results (Gross of Fees) (Continued)

	Current	Annualized				
Private Equity	**Year**	**3Yrs**	**5Yrs**	**7Yrs**	**10Yrs**	**Inception**
Adams St	-7.7	7.1	8.1	10.2	11.4	9.5
Invesco IV	86.5	24.2	17.1	18.7	15.3	12.1
Invesco VI	2.3	10.6	9.4	10.4	--	10.4
Ocean Ave II	10.6	22.1	15.9	--	--	12.1
Pantheon I	-35.5	-9.5	-4.7	-0.5	2.0	1.3
Pantheon II	-1.9	10.0	11.0	11.8	--	10.7
Pantheon Secondary	-21.1	-1.1	-1.0	0.5	1.6	3.0
Raven Asset Fund II	-4.8	5.0	-0.5	--	--	-1.6
Davidson Kempner Long-Term Distressed Opportunities Fund IV	-6.5	--	--	--	--	4.1
GTCR Fund XII	30.6	--	--	--	--	-2.8
Carrick Capital Partners III	16.3	--	--	--	--	-0.2
Cressey & Company Fund VI	14.2	--	--	--	--	-2.4
TCV X	-10.7	--	--	--	--	-8.6
Accel-KKR Growth Capital Partners III	-16.5	--	--	--	--	-16.5
Genstar Capital Partners IX	--	--	--	--	--	-0.7
Cortec Group Fund VII	--	--	--	--	--	-4.2
Spark Capital Growth Fund III	--	--	--	--	--	0
Spark Capital VI	--	--	--	--	--	0
Summit Partners Growth Equity Fund X-A	--	--	--	--	--	-1.4
Total Private Equity**	**0.3**	**9.9**	**7.9**	**9.5**	**9.3**	**7.7**
Index: Custom Blended Private Equity Benchmark	***6.1***	***12.9***	***12.3***	***14.6***	--	--

Merced County Employees' Retirement Association

Schedule of Investment Results (Gross of Fees) (Continued)

	Current	Annualized				
Hedge Funds	**Year**	**3Yrs**	**5Yrs**	**7Yrs**	**10Yrs**	**Inception**
Sculptor (OZ) Domestic II	9.5	8.2	6.6	--	--	6.9
Graham Absolute Return	-8.7	--	--	--	--	-0.5
Wellington-Archipelago	2.7	--	--	--	--	4.4
KLS Diversified	-15.1	--	--	--	--	-4.5
Winton	-14.5	--	--	--	--	-4.9
Marshall Wace Eureka	4.4	--	--	--	--	4.7
Silver Point Capital	-1.3	--	--	--	--	1.0
Laurion Capital	22.1	--	--	--	--	16.2
Taconic Opportunity Fund	-3.9	--	--	--	--	-0.2
Marshall Wace Global Opportunities	--	--	--	--	--	1.2
Total Hedge Funds	**-1.4**	**3.0**	**2.4**	**--**	**--**	**3.2**
Index*: *Hedge Fund Custom	*0.4*	*2.4*	*2.1*	--	--	*2.4*
Total Fund* **	**6.7**	**7.2**	**6.9**	**7.9**	**8.9**	**8.0**
Total Fund Custom Index*	*3.7*	*6.0*	*6.4*	*7.4*	*8.8*	*5.9*

*There is no fiscal year data available; the fund doesn't have a year.

**Performance results lag by a up to a quarter due to financial reporting constraints.

***Using time-weighted rate of return based on market rate return and are presented gross of fees.

Merced County Employees' Retirement Association

Top 10 Largest Holdings by Fair Value

June 30, 2020

PAR	Bonds		Fair Value
3,145,000	US TREASURY NOTE	2.375% 08/15/2024 DD 08/15/2014	$3,421,662
1,800,000	US TREASURY BOND	3.000% 02/15/2049 DD 02/15/2019	2,485,125
1,965,000	US TREASURY BOND	1.500% 02/15/2030 DD 02/15/2020	2,124,196
1,605,000	US TREASURY NOTE	1.125% 02/28/2025 DD 02/29/2020	1,669,325
773,964	FNMA POOL #QA4404	3.000% 11/01/2049 DD 11/01/2019	819,627
724,300	FNMA POOL #CA4569	4.000% 11/01/2049 DD 10/01/2019	779,382
715,433	FNMA POOL #MA3831	3.000% 11/01/2039 DD 10/01/2019	754,012
692,379	FNMA POOL #CA4372	4.500% 10/01/2049 DD 09/01/2019	744,341
680,212	GNMAII POOL #MA6411	4.000% 01/20/2050 DD 01/01/2020	721,751
580,000	US TREASURY BOND	2.375% 11/15/2049 DD 11/15/2019	716,391
			$14,235,812

A complete list of portfolio holdings is available upon request.

Schedules of Investment Management Fees

June 30, 2020 and 2019

Investment Managers' Fees	**2020**	**2019**
Equity Managers		
Domestic	$528,145	$502,492
International	464,395	782,570
Fixed Income Managers	173,526	271,442
Alternative Investment Managers	339,097	299,856
Real Estate Managers	334,162	361,973
Total Investment Manager Fees	$1,839,325	$2,218,333
Other Investment Service Fees		
Investment Consultant Fees	$615,000	$611,000
Investment Custodial Fees	122,711	118,768
Investment Counsel Fees	300,384	282,837
Other Investment Service Fees	46,895	23,621
Total Other Investment Service Fees	1,084,990	1,036,226
Total Investment Managers' Fees and Other Investment Service Fees	$2,924,315	$3,254,559

Merced County Employees' Retirement Association

List of Investment Service Providers

June 30, 2020

Fixed Income

Barrow, Hanley, Mewhinney & Strauss, Inc.

Vanguard

PIMCO Investment Management

GoldenTree Asset Management LP

Domestic Equity

Mellon Capital Management

Dimensional Fund Advisors

PanAgora Asset Management, Inc.

International Equity

Acadian Asset Management

Driehaus Capital Management

GQG

First Eagle

Artisan

RWC

Real Estate

UBS Global Asset Management

Greenfield Partners

Patron Capital

The Carlyle Group

Taconic Capital Advisors LP

Carmel Partners, Inc

Angelo Gordon

Rockpoint Group

Real Asset Proxy

SSgA

Private Equity

Adams Street Partners, LLC

Pantheon Ventures, Inc.

Invesco Private Capital

Ocean Avenue Capital Partners

Raven Capital Management

Davidson Kempner Capital Management LP

GTCR LLC

Carrick Capital Management Company

Cressey & Company LP

Technology Crossover Ventures (TCV)

Accel-KKR

Genstar Capital

Cortec Group

Spark Capital

Summit Partners

Hedge Fund

Och-Ziff Capital Management

Wellington Alternative Investments

Graham Capital Management

KLS Diversified Asset Management

Winton Group, Ltd

Marshall Wace, LLP

Silver Point Capital, L.P.

Taconic Capital Advisors LP

Laurion Capital Management, LLP

Continued on next page.

Merced County Employees' Retirement Association

List of Investment Service Providers (Continued)

June 30, 2020

Natural Resources

GSO Energy Select Opportunities Assc, LLC

Taurus Funds Management

EnCap Investments L.P.

BlackRock , Inc

Tailwater

Infrastructure

KKR & Co. L.P.

Morgan Stanley

ISquared Capital

Ardian

Commission Recapture Brokers

ConvergEx Group

Capital Institutional Services, Inc.

Actuarial Section

Via Electronic Mail

November 16, 2020

Actuarial Certification

This is the Actuary's Certification Letter for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the Merced County Employees' Retirement Association (the Plan) as of June 30, 2020. This letter includes references to two documents produced by Cheiron for the Plan: the Actuarial Valuation Report as of June 30, 2019 (transmitted February 20, 2020) and the GASB 67/68 Report as of June 30, 2020 (transmitted November 2, 2020).

Actuarial Valuation Report as of June 30, 2019

The purpose of the annual Actuarial Valuation Report as of June 30, 2019 is to determine the actuarial funding status of the Plan on that date and to calculate recommended contribution rates for the participating employers and Plan members for the Fiscal Year 2020-2021. The employer rates for Fiscal Year 2020-2021 were updated effective September 10, 2020 to reflect a revised amortization schedule. The Plan member rates for Fiscal Year 2020-2021 were updated effective August 13, 2020 to reflect the removal of the final average compensation load. The prior review was conducted as of June 30, 2018, and included recommended contribution rates for the Fiscal Year 2019-2020.

The funding objective of the Plan is to accumulate sufficient assets over each Member's working life to provide for Plan benefits after termination of employment or retirement. The Board of Retirement is responsible for establishing and maintaining the funding policy of the Plan.

Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost and expected administrative expenses) plus a level percentage of payroll to amortize the Unfunded Actuarial Liability (UAL). As of the valuation date (June 30, 2019), the amortization period for the June 30, 2013 UAL is 10 years. Based on an action taken by the Board at their September 10, 2020 meeting, effective with the June 30, 2019 valuation, 15% of the outstanding balance as of June 30, 2019 of the June 30, 2013 UAL amortization base is carved out as a separate base and amortized over a closed 14-year period as a level percentage of payroll. The remaining 85% is amortized over a closed 14-year period, with 10 years of level payments as a percentage of payroll, and a four-year ramp down at the end of the period.

For the June 30, 2014 valuation, the Board of Retirement adopted a new funding policy for any subsequent unexpected change in the UAL after June 30, 2013. Any new sources of UAL due to actuarial gains and losses or method changes are amortized over a closed 24-year period, with a five-year ramp up period at the beginning of the period, a four-year ramp down at the end of the period, and 15 years of level payments as a percentage of payroll between the ramping periods. Assumption changes will be amortized over a closed 22-year period, with a three-year ramp up period, two-year ramp down period, and 17 years of level payments as a percentage of payroll.

The Board also adopted a policy to replace the smoothed Actuarial Value of Assets with the Market Value of Assets for valuation purposes. These new amortization and funding policies in conjunction are a type of policy known as direct rate smoothing.

We prepared the following schedules, which we understand will be included in the Actuarial Section of the CAFR, based on the June 30, 2019 actuarial valuation. All historical information prior to the June 30, 2013 actuarial valuation shown in these schedules is based on information reported by EFI Actuaries, which was acquired by Cheiron in January 2013.

- Statement of Current Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Development of 2019 Experience Gain/(Loss) (Analysis of Financial Experience)
- Schedule of Funded Liabilities by Type
- Summary of Plan Provisions

The assumptions used in this report reflect the results of an Experience Study performed by Cheiron covering the period from July 1, 2016 through June 30, 2019, and approved by the Board at their February 27, 2020. The assumptions used in the most recent valuation are intended to produce results that, in the aggregate, reasonably approximate the anticipated future experience of the Plan. The next experience analysis will cover the years through 2022.

We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the requirements of the Actuarial Standards of Practice, in particular Standards No. 4, 27, 35, and 44.

GASB 67/68 Report as of June 30, 2020

The purpose of the GASB 67/68 Report as of June 30, 2020, is to provide accounting and financial reporting information under GASB 67 for the Plan and under GASB 68 for the County of Merced and the other participating employers. This report is not appropriate for other purposes, including the measurement of funding requirements for the Plan.

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2019, actuarial valuation updated to the measurement date of June 30, 2020. The beginning of year Total Pension Liability was based on the actuarial valuation as of June 30, 2018, updated to June 30, 2019. The Total Pension Liability measurements as of June 30, 2020 and June 30, 2019 presented in the GASB 67/68 Report were based upon the same data, plan provisions, actuarial methods, and assumptions as were used in the actuarial valuation reports as of June 30, 2019 and June 30, 2018, respectively.

Please refer to our GASB 67 report as of June 30, 2020, for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2020, GASB 67/68 report:

- Change in Net Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate

- Schedule of Changes in Net Pension Liability and Related Ratios
- Schedule of Employer Contributions
- Notes to the Schedule of Employer Contributions

We certify that the report was performed in accordance with generally accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. In particular, the assumptions and methods used for disclosure purposes have been prepared in accordance with our understanding of generally accepted accounting principles as promulgated by the GASB.

Disclaimers

In preparing our reports, we relied on information (some oral and some written) supplied by the Merced County Employees' Retirement Association. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and, changes in plan provisions or applicable law.

These reports are for the use of the Plan and their auditor in preparing financial reports in accordance with applicable law and accounting requirements. Any other user of these reports is not an intended user and is considered a third party.

Cheiron's reports were prepared solely for the Plan for the purposes described herein, except that the Plan auditor may rely on these reports solely for the purpose of completing an audit related to the matters herein. They are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein. These reports do not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

Respectfully Submitted,
Cheiron

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Statement of Current Actuarial Assumptions and Methods

A. Economic Assumptions

The following economic assumptions and non-economic assumptions were recommended by the actuary and adopted by the Board of Retirement as of the most recent actuarial valuation (dated June 30, 2019):

Investment Rate of Return	7.00%, net investment and administrative expenses
Inflation	2.50% per annum
Cost-of-Living Adjustments	For Tier 1, 100% of Consumer Price Index (CPI) up to 3% annually with banking, assumed to be 2.40% annually
Asset Valuation Method	Market value of assets
Interest Credited to Active Members' Reserves	Pursuant to MercedCERA Interest Crediting Policy, adopted September 14, 2017, interest will fall within a range from 0% to the actuarial interest rate
Projected Annual Salary Increases	2.75%, plus service-based rates

B. Non-Economic Assumptions

The date of the last study of the Plan's actual experience was June 30, 2019. The actuary compared the expected number of terminations from active service to the number actually experienced during a 3-year period and based on this comparison and the trends observed; the probabilities of separation were adjusted.

Mortality Tables Used:

1. Active Members

General Members	CalPERS 2009 Non-Industrial Employees Mortality Table; projected generationally using MP-2019 mortality improvement scale.
Safety Members	2010 Public Safety Below Median Employee Mortality Table; projected generationally using MP-2019 mortality improvement scale.
Safety Members (Line of Duty)	CalPERS 2009 Industrial Employee Mortality; projected generationally using MP-2019 mortality improvement scale.

2. Service Retirements

General Members	CalPERS 2009 Healthy Annuitant Mortality Table; projected using MP-2019
Safety Members	105% times the 2010 Public Safety Below Median Healthy Retiree Mortality Table; projected generationally using MP-2019 mortality improvement scale.

3. Disability

Service Connected	CalPERS 2009 Industrial Disability Mortality Table; projected generationally using MP-2019 mortality improvement scale.
Non-Service Connected	CalPERS 2009 Non-Industrial Disability Mortality Table; projected generationally using MP-2019 mortality improvement scale.

4. For employee contribution rate purposes

Same as for active members, except projected using Scale MP-2019 to 2041.

Statement of Current Actuarial Assumptions and Methods (Continued)

Withdrawal Rates	Based upon the Experience Analysis as of 6/30/2019 (See Appendix B of 6/30/2019 Actuarial Valuation Report — Statement of Current Actuarial Assumptions.)
Disability Rates	Based upon the Experience Analysis as of 6/30/2019 (See Appendix B of 6/30/2019 Actuarial Valuation Report — Statement of Current Actuarial Assumptions.)
Service Retirement Rates	Based upon the Experience Analysis as of 6/30/2019 (See Appendix B of 6/30/2019 Actuarial Valuation Report — Statement of Current Actuarial Assumptions.)
Vested Termination	Rates of vested termination apply to active members who terminate their employment after five years of service and leave their contribution with the plan. Vested terminated General Members are assumed to begin receiving benefits at 60; terminated Safety Members are assumed to begin receiving benefits at age 51. Future reciprocal transfer General members are assumed to begin receiving benefits at age 61; future reciprocal transfer Safety members are assumed to begin receiving benefits at age 57. Current reciprocal transfer members are assumed to begin receiving benefits based on the probabilities of retirement applied to the active members. Future reciprocal transfers' pay growth is assumed to be 3.75% while employed by a reciprocal employer. Current reciprocal transfers' pay growth is assumed to increase according to the assumptions applied to the active members until the assumed retirement age.
Family Composition	55% of female General members, 75% of male General members and 85% of Safety members are assumed to be married at retirement. Male members are assumed to be three years older than their spouses are and female members are assumed to be two years younger than their spouses are.
Final Average Compensation Load	The final average compensation (FAC) for members projected to receive a service retirement benefit has increased based on the assumption that members will have elements of pay included in their FAC which are not included in the annual pay provided to the actuary (Ventura decision pays). The FAC for General Tier 1 members has been increased by 5.50%, the FAC for Safety Tier 1 members has been increased by 8.00%, and the FAC for all Tier 2 and Tier 3 members by 1.50%.

C. Funding Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each Member's date of hire and assumed retirement. The Actuarial Liability is the difference between the Present Value of Future Benefits and the Present Value of Future Normal Cost. The Unfunded Actuarial Liability (UAL) is the difference between the Actuarial Liability and the Actuarial Value of Assets.

The UAL (or Surplus Funding) is amortized as a percentage of the projected salaries of present and future members of MCERA. Effective with the June 30, 2013 valuation, the UAL as of June 30, 2013 is amortized over a closed 16-year period. Effective with the June 30, 2014 valuation, any new sources of UAL due to actuarial gains and losses or method changes are amortized over a closed 24 -year period, with five-year ramp up period at the beginning of the period, a four-year ramp down at the end of the period, and 15 years of level payments as a percentage of payroll. Assumption changes will be amortized over a closed 22-year period, with a three-year ramp up period, two-year ramp down period, and 17 years of level payments as a percentage of payroll. This method is a type of direct rate smoothing method.

D. Plan Description

A summary of plan provisions is located in Note 1 of the **NOTES TO BASIC FINANCIAL STATEMENTS.**

Merced County Employees' Retirement Association

Probabilities of Separation from Active Service

GENERAL MEMBERS

Age	Service-Connected Disability	Non-Service-Connected Disability
20	0.0165%	0.0165%
30	0.0190%	0.0190%
40	0.0806%	0.0806%
50	0.1829%	0.1829%
60	0.1196%	0.1196%
65	0.1196%	0.1196%

Service (Yrs)	Withdrawals	Transfers	Vested Terminations
0-4	92.5%	7.5%	0.0%
5-9	30.0%	35.0%	35.0%
10-14	20.0%	40.0%	40.0%
15+	5.0%	47.5%	47.5%

Service Retirement		
Age	10-29 Yrs	30+
50	10.00%	20.00%
55	10.00%	25.00%
60	20.00%	35.00%
65	35.00%	35.00%
70+	100.00%	100.00%

SAFETY MEMBERS

Age	Service-Connected Disability	Non-Service-Connected Disability
20	0.0000%	0.0050%
30	0.2380%	0.0100%
40	0.5500%	0.0200%
50	0.9230%	0.0400%
60	3.0120%	0.1000%
65	3.6385%	0.1000%

Service (Yrs)	Withdrawals	Transfers	Vested Terminations
0-4	92.5%	7.5%	0.0
5-9	25.0%	50.0%	25.0%
10+	15.0%	56.7%	28.3%

Service Retirement		
Age	10-19 Yrs	20+
40	0.00%	1.50%
45	0.00%	1.50%
50	15.00%	20.00%
55	30.00%	30.00%
60	100%	100%

Active Member Mortality		
Age	Female	Male
20	0.0227%	0.0497%
30	0.0605%	0.0874%
40	0.0895%	0.1097%
50	0.1331%	0.1626%
60	0.2590%	0.3841%

RATES OF TERMINATION

Years of Service	General Male	General Female	Safety
0	20.0%	20.0%	21.0%
5	8.2%	8.2%	6.5%
10	4.5%	4.5%	4.75%
15	4.5%	3.0%	3.5%

Years of Service	General Male	General Female	Safety
20	4.5%	3.0%	0.0%
25	4.5%	3.0%	0.0%
30	4.5%	3.0%	0.0%

Note: Information compiled from Actuarial Report Prepared by Cheiron, Inc. dated June 30, 2019.

Merced County Employees' Retirement Association

Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Salary	Average Annual Salary	% Increase in Average Annual Salary
6/30/2010	General	1,708	$94,915,436	$55,571	3.45%
	Safety	330	$19,692,515	$59,674	5.40%
	Total	2,038	$114,607,951	$56,236	3.81%
6/30/2011	General	1,659	$94,976,978	$57,250	3.02%
	Safety	321	$19,768,859	$61,585	3.20%
	Total	1,980	$114,745,837	$57,952	3.05%
6/30/2012	General	1,596	$90,706,280	$56,834	-0.73%
	Safety	305	$19,145,091	$62,771	1.93%
	Total	1,901	$109,851,371	$57,786	-0.29%
6/30/2013	General	1,604	$91,737,348	$57,193	0.63%
	Safety	295	$18,699,145	$63,387	0.98%
	Total	1,899	$110,436,493	$58,155	0.64%
6/30/2014	General	1,624	$91,704,083	$56,468	-1.27%
	Safety	300	$18,620,870	$62,070	-2.08%
	Total	1,924	$110,324,953	$57,341	-1.40%
6/30/2015	General	1,664	$93,938,857	$56,454	-0.03%
	Safety	298	$18,397,233	$61,736	-0.54%
	Total	1,962	$112,336,090	$57,256	-0.15%
6/30/2016	General	1,729	$97,337,917	$56,297	-0.28%
	Safety	311	$19,394,922	$62,363	1.02%
	Total	2,040	$116,732,839	$57,222	-0.06%
6/30/2017	General	1,783	$102,498,328	$57,486	2.11%
	Safety	313	$20,136,323	$64,333	3.16%
	Total	2,096	$122,634,651	$58,509	2.25%
6/30/2018	General	1,827	$108,067,248	$59,150	2.89%
	Safety	322	$22,018,174	$68,379	6.29%
	Total	2,149	$130,085,422	$60,533	3.46%
6/30/2019	General	1,861	$111,267,187	$59,789	1.08%
	Safety	316	$22,498,224	$71,197	4.12%
	Total	2,177	$133,765,412	$61,445	1.51%

Note: Information compiled from Actuarial Report prepared by Cheiron, Inc. dated June 30, 2019. The data differs from the membership data in the notes to the financial statements due to timing differences and actuary changes in rounding of data.

Merced County Employees' Retirement Association

Schedule of Retirements and Beneficiaries Added to and Removed from Retiree Payroll
For Fiscal Years Ended June 30

Year	Beginning of Year	Added During Year	Allowances Added ($000)	Removed During Year	Allowances Removed ($000)	End of Year	Retiree Payroll ($000)	% Increase in Retiree Payroll	Average Annual Allowances
2010	1,711	171	$6,098	56	$981	1,826	$43,653	15.65%	$23,907
2011	1,826	103	$2,627	44	$781	1,885	$46,177	5.78%	$24,465
2012	1,885	175	$6,485	64	$960	1,996	$52,888	14.53%	$26,497
2013	1,996	103	$3,029	49	$856	2,050	$56,048	5.98%	$27,340
2014	2,050	116	$3,950	31	$591	2,135	$60,297	7.58%	$28,242
2015	2,135	100	$2,509	35	$720	2,200	$63,254	4.90%	$28,752
2016	2,200	68	$1,716	34	$946	2,234	$65,506	3.56%	$29,322
2017	2,234	85	$2,283	56	$1,023	2,263	$68,476	4.53%	$30,259
2018	2,263	120	$3,617	73	$1,672	2,310	$72,003	5.15%	$31,170
2019	2,310	141	$4,908	78	$1,805	2,373	$76,949	6.87%	$32,427

Note: The data differs from the membership data in the notes to the basic financial statements due to timing differences and rounding of data.

Schedule of Funded Liabilities by Type
For Fiscal Years Ended June 30
(Dollar Amounts in Thousands)

	Actuarial Accrued Liabilities (AAL) For							
	1	2	3			Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Active Member Contributions	Retirees and Beneficiaries	Active Members Employer Portion	Total Actuarial Accrued Liabilities	Valuation Assets	1	2	3
2010	$64,917	$532,695	$333,220	$930,832	$509,561	100%	83%	0%
2011	$65,723	$558,483	$309,711	$933,917	$523,980	100%	82%	0%
2012	$66,407	$632,319	$276,882	$975,608	$528,728	100%	73%	0%
2013	$73,311	$694,137	$297,850	$1,065,298	$547,264	100%	68%	0%
2014	$75,582	$739,428	$281,231	$1,096,241	$657,325	100%	79%	0%
2015	$78,078	$765,738	$287,365	$1,131,181	$672,319	100%	78%	0%
2016	$81,880	$804,658	$314,657	$1,201,195	$670,016	100%	73%	0%
2017	$85,150	$834,643	$339,909	$1,259,702	$753,769	100%	80%	0%
2018	$86,585	$871,095	$344,239	$1,301,919	$826,654	100%	85%	0%
2019	$86,356	$932,909	$350,930	$1,370,195	$866,503	100%	84%	0%

Note: Information compiled from Actuarial Report prepared by Cheiron, Inc. dated June 30, 2019.

Merced County Employees' Retirement Association

Actuarial Analysis of Financial Experience
For Fiscal Years Ended June 30
(Dollar Amounts in Thousands)

Actuarial (Gains)/Losses						
Plan Year Ended	Asset Sources	Liability Sources	Total	Changes in Plan Provisions	Changes in Assumptions/ Methods	Total (Gains)/Loss
2010	$16,151	$8,100	$24,251	N/A	$63,410	$87,661
2011	$30,955	$(13,824)	$17,131	N/A	$(12,918)	$4,213
2012	$40,054	$11,401	$51,455	N/A	$(16,069)	$35,386
2013	$20,749	$4,199	$24,948	N/A	$49,294	$74,242
2014	$(22,058)	$(12,533)	$(34,591)	N/A	$(36,803)	$(71,394)
2015	$31,459	$(5,096)	$26,363	N/A	$7,636	$33,999
2016	$52,420	$(8,327)	$44,093	N/A	$41,488	$85,581
2017	$(34,498)	$2,720	$(31,778)	N/A	$18,639	$(13,139)
2018	$(15,963)	$1,158	$(14,805)	N/A	$576	$(14,229)
2019	$20,208	$7,038	$27,246	N/A	$22,230	$49,476

Schedule of Funding Progress
For Fiscal Years Ended June 30
(Dollar Amounts in Thousands)

Actuarial Valuation Date	Valuation Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Active Member Projected Payroll	Unfunded AAL as a % of Covered Payroll
2010	$509,561	$930,832	$421,271	54.7%	$115,384	365.1%
2011	$523,980	$933,917	$409,937	56.1%	$111,342	368.2%
2012	$528,728	$975,608	$446,880	54.2%	$106,581	419.3%
2013	$547,264	$1,065,298	$518,034	51.4%	$115,983	446.6%
2014	$657,325*	$1,096,241	$438,916	60.0%	$115,939	378.6%
2015	$672,319*	$1,131,181	$458,862	59.4%	$117,822	389.5%
2016	$670,016*	$1,201,195	$531,179	55.8%	$123,018	431.8%
2017	$753,769*	$1,259,702	$505,933	59.8%	$129,624	390.3%
2018	$826,654*	$1,301,919	$475,265	63.5%	$137,668	345.2%
2019	$866,503*	$1,370,195	$503,692	63.2%	$142,328	353.9%

*Reflects change in asset valuation methodology from valuation value of assets to market value of assets effective for the 2014 actuarial valuation.

Note: Information compiled from Actuarial Report prepared by Cheiron, Inc. dated June 30, 2019.

Statistical Section

Merced County Employees’ Retirement Association

The Statistical Section presents information pertaining to MercedCERA’s operations on a multi-year basis. The financial and operating information provides contextual data for MercedCERA’s fiduciary net position, benefits, refunds, and different types of retirement benefits. The data presented in this section was produced and compiled by the Association.

Additions by Source

Fiscal Year Ended	Plan Member Contributions	Employer Contributions	Employer % of Covered Payroll	Net Investment Income and Other Income (Loss)	Total
6/30/2011	$ 9,754,849	$36,662,121	31.26%	$ 96,031,519	$142,448,489
6/30/2012	$10,416,301	$40,262,881	36.09%	$ (7,039,276)	$ 43,639,906
6/30/2013	$ 9,927,749	$43,783,663	40.03%	$ 61,083,399	$114,794,811
6/30/2014	$ 9,642,819	$48,032,338	43.40%	$ 96,219,056	$153,894,213
6/30/2015	$ 8,945,316	$52,005,656	47.22%	$ 19,318,849	$ 80,269,821
6/30/2016	$ 9,042,663	$56,617,088	49.50%	$ (388,209)	$ 65,271,542
6/30/2017	$ 9,384,621	$60,349,189	50.45%	$ 83,097,416	$152,831,226
6/30/2018	$10,441,876	$64,757,288	51.11%	$ 70,689,084	$145,888,248
6/30/2019	$10,695,680	$66,586,464	50.69%	$ 39,728,950	$117,011,094
6/30/2020	$10,796,855	$67,413,475	49.71%	$ 57,232,017	$135,442,347

Deductions by Type

Fiscal Year Ended	Benefits	Administrative Expenses	Actuarial Expense	Separation Refunds	401(h) Distribution to County	Total
6/30/2011	$45,022,104	$1,189,030	$ 138,200	$ 766,692	$ 650,000	$47,766,026
6/30/2012	$49,839,653	$1,180,083	$ 63,312	$ 1,051,526	$ 733,590	$52,868,164
6/30/2013	$54,257,547	$1,496,338	$ 71,402	$ 1,082,050	$ -	$56,907,337
6/30/2014	$57,338,930	$1,434,671	$ 112,676	$ 703,091	$ -	$59,589,368
6/30/2015	$61,780,089	$2,197,281	$ 126,165	$ 1,171,835	$ -	$65,275,370
6/30/2016	$63,928,672	$2,416,563	$ 76,121	$ 1,153,731	$ -	$67,575,087
6/30/2017	$66,116,108	$1,966,898	$ 206,509	$ 788,207	$ -	$69,077,722
6/30/2018	$69,836,223	$2,177,186	$ 106,210	$ 883,987	$ -	$73,003,606
6/30/2019	$74,238,692	$2,271,779	$ 79,326	$ 571,983	$ -	$77,161,780
6/30/2020	$78,755,515	$2,253,113	$ 211,784	$ 910,147	$ -	$82,130,559

Merced County Employees' Retirement Association

Schedules of Changes in Fiduciary Net Position

(Dollar Amount in Thousands)

Additions	**6/30/2020**	**6/30/2019**	**6/30/2018**	**6/30/2017**	**6/30/2016**
Plan members contributions	$10,797	$10,696	$10,442	$9,385	$9,043
Employer contributions	67,413	66,586	64,757	60,349	56,617
Net investment income/(loss)	57,232	39,729	70,689	83,097	(388)
Total additions	135,442	117,011	145,888	152,831	65,272
Deductions					
Benefits paid	78,755	74,239	69,836	66,116	63,929
Administrative expenses	2,253	2,272	2,177	1,966	2,417
Actuarial expenses	212	79	106	207	76
Refunds	910	572	884	788	1,154
401(h) distribution	-	-	-	-	-
Total deductions	82,130	77,162	73,003	69,077	67,576
Change in fiduciary net position	53,312	39,849	72,885	83,754	(2,304)
Net position restricted for pensions at beginning of the year	866,503	826,654	753,769	670,015	672,319
Net position restricted for pensions at end of the year	$919,815	$866,503	$826,654	$753,769	$670,015

Additions	**6/30/2015**	**6/30/2014**	**6/30/2013**	**6/30/2012**	**6/30/2011**
Plan members contributions	$8,945	$9,643	$9,928	$10,416	$9,754
Employer contributions	52,005	48,032	43,784	40,263	36,662
Net investment income/(loss)	19,319	96,219	61,083	(7,039)	96,032
Total additions	80,269	153,894	114,795	43,640	142,448
Deductions					
Benefits paid	61,780	57,339	54,258	49,839	45,022
Administrative expenses	2,197	1,435	1,496	1,180	767
Actuarial expenses	126	112	71	63	138
Refunds	1,172	703	1,082	1,052	1,189
401(h) distribution	-	-	-	734	650
Total deductions	65,275	59,589	56,907	52,868	47,766
Change in fiduciary net position	14,994	94,305	57,888	(9,228)	94,682
Net position restricted for pensions at beginning of the year	657,325	563,020	505,132	514,360	419,678
Net position restricted for pensions at end of the year	$672,319	$657,325	$563,020	$505,132	$514,360

Merced County Employees' Retirement Association

Schedules of Benefit Expenses by Type

(Total amount in Thousands)

	2020*	2019*	2018*	2017*	2016*	2015*	2014	2013	2012	2011
Service Retirement										
General	$57,652	$54,136	$50,551	$47,522	$46,126	$44,722	$41,442	$39,447	$35,897	$31,770
Safety	10,006	9,336	8,652	8,059	7,761	7,854	7,196	6,679	6,209	5,845
Total	$67,658	$63,472	$59,203	$55,581	$53,887	$52,576	$48,638	$46,126	$42,106	$37,615
Disability Retirement										
General	$2,141	$2,139	$2,032	$2,117	$1,953	$1,842	$2,600	$2,489	$2,230	$2,159
Safety	3,182	3,100	2,976	2,759	2,604	2,623	3,005	2,898	2,738	2,522
Total	$5,323	$5,239	$5,008	$4,876	$4,557	$4,465	$5,605	$5,387	$4,968	$4,681
Beneficiary/Survivor										
General	$3,915	$3,786	$3,808	$3,767	$3,667	$3,327	$2,346	$2,030	$2,035	$2,049
Safety	1,575	1,608	1,627	1,729	1,650	1,258	610	562	579	521
Total	$5,490	$5,394	$5,435	$5,496	$5,317	$4,585	$2,956	$2,592	$2,614	$2,570
Total Payroll Expense										
General	$63,708	$60,061	$56,391	$53,406	$51,746	$49,891	$46,387	$43,966	$40,162	$35,978
Safety	14,763	14,044	13,255	12,547	12,015	11,735	10,811	10,139	9,526	8,887
Total	$78,471	$74,105	$69,646	$65,953	$63,761	$61,626	$57,198	$54,105	$49,688	$44,865
Death Benefits										
General	$128	$99	$102	$111	$129	$84	$96	$96	$117	$81
Safety	3	24	18	12	15	18	18	12	9	-
Total	$131	$123	$120	$123	$144	$102	$114	$108	$126	$81
Separation Refund Expense										
General	$680	$446	$643	$674	$978	$1,033	$582	$985	$861	$729
Safety	230	126	241	114	176	139	121	97	190	37
Total	$910	$572	$884	$788	$1,154	$1,172	$703	$1,082	$1,051	$766
Active Death Expense										
General	$154	$11	$70	$40	$24	$51	$29	$44	$26	$82
Safety	-	-	-	-	-	-	-	-	-	-
Total	$154	$11	$70	$40	$24	$51	$29	$44	$26	$82

*During the 2015 fiscal year, MercedCERA converted to the CPAS System. Because of differences in handling data, beneficiaries of disability retiree decedents are now grouped with Beneficiary/Survivors.

Merced County Employees' Retirement Association

Schedule of Retired Members by Type of Benefit

(Summary of Monthly Allowances Being Paid - As of June 30, 2020)

	General Members		Safety Members		Total	
Type of Benefit	Number	Average Monthly Allowance	Number	Average Monthly Allowance	Number	Average Monthly Allowance
Service Retirement	1,697	$2,914	214	$4,125	1,911	$3,050
Disability	96	$2,028	95	$2,859	191	$2,441
Beneficiary/Survivor	226	$1,495	55	$2,521	281	$1,696
Total Retired Members	2,019	$2,713	364	$3,552	2,383	$2,842

This schedule excludes separation refunds and death refunds.

Ten Year Structure of Retiree Membership History

	2020*	2019*	2018*	2017*	2016*	2015*	2014	2013	2012	2011
Service Retirements	1,911	1,859	1,806	1,757	1,713	1,706	1,685	1,613	1,570	1,463
Disability Retirements	191	188	185	183	184	180	260	257	236	233
Beneficiaries and Survivors	281	284	283	285	286	276	187	176	192	187
Total	2,383	2,331	2,274	2,225	2,183	2,162	2,132	2,046	1,998	1,883

*During the 2014-2015 fiscal year, MercedCERA migrated to a new pension administration system. Beneficiaries of disability retirees are no longer classified as disability retirements. This has resulted in a re-proportioning of these numbers.

Merced County Employees' Retirement Association

Summary of Retired Membership

For Fiscal Years Ended June 30
(Basic Annual and Total Annual Allowance Dollars in Thousands)

	2020*	2019*	2018*	2017*	2016*	2015*	2014	2013	2012	2011
General										
Number	2,029	1,987	1,937	1,895	1,860	1,848	1,810	1,730	1,693	1,590
Basic annual allowance	$49,178	$46,562	$43,874	$41,930	$41,265	$40,316	$37,646	$35,885	$32,933	$29,232
Average basic monthly allowance	$2,020	$1,953	$1,888	$1,844	$1,849	$1,818	$1,733	$1,729	$1,621	$1,532
Total annual allowance**	$63,708	$60,061	$56,391	$53,406	$51,746	$49,891	$46,387	$43,966	$40,161	$35,978
Average total monthly allowance	$2,617	$2,519	$2,426	$2,349	$2,318	$2,250	$2,136	$2,118	$1,976	$1,886
Safety										
Number	354	344	337	330	323	314	322	316	305	293
Basic annual allowance	$10,724	$10,302	$9,783	$9,347	$9,086	$8,996	$8,279	$7,791	$7,379	$6,863
Average basic monthly allowance	$2,524	$2,496	$2,419	$2,360	$2,344	$2,387	$2,143	$2,054	$2,016	$1,952
Total annual allowance**	$14,763	$14,044	$13,255	$12,547	$12,015	$11,735	$10,811	$10,139	$9,527	$8,887
Average total monthly allowance	$3,475	$3,402	$3,278	$3,168	$3,100	$3,114	$2,798	$2,674	$2,603	$2,528
Total										
Number	2,383	2,331	2,274	2,225	2,183	2,162	2,132	2,046	1,998	1,883
Basic annual allowance	$59,902	$56,864	$53,657	$51,277	$50,351	$49,312	$45,925	$43,676	$40,312	$36,095
Average basic monthly allowance	$2,095	$2,033	$1,966	$1,920	$1,922	$1,901	$1,795	$1,779	$1,681	$1,597
Total annual allowance**	$78,471	$74,105	$69,646	$65,953	$63,761	$61,626	$57,198	$54,105	$49,688	$44,865
Average total monthly allowance	$2,744	$2,649	$2,552	$2,470	$2,434	$2,375	$2,236	$2,204	$2,072	$1,986

*As of 2015, divorcees will be excluded from Membership data as they are technically not members and only represent a party to a single split benefit.

**Total Annual Allowance includes COLA, and partial monthly payment/one-time catch up payment. Excludes death refunds, lump sum death benefits and separation refunds.

Merced County Employees’ Retirement Association

Retired Members by Type of Retirement

As of June 30, 2020

Amount of Monthly Benefit	Number of Members	Type of Retirement*							Option Selected**					
		1	2	3	4	5	6	7	U	1	2	3	4	SD
1-250	83	22	34	17	0	8	2	0	51	6	17	9	0	0
251-500	127	38	63	16	3	2	2	3	93	4	24	3	0	3
501-750	180	56	80	27	5	5	0	7	138	7	27	3	0	5
751-1,000	184	57	85	24	5	0	7	6	143	12	21	3	0	5
1,001-1,250	175	62	72	30	5	1	4	1	138	5	23	4	0	5
1,251-1,500	160	48	76	13	0	7	16	0	128	0	24	7	1	0
1,501-1,750	135	57	50	11	0	8	7	2	118	3	10	4	0	0
1,751-2,000	133	48	49	13	2	10	5	6	109	1	14	6	1	2
Over 2,000	1,206	552	462	54	6	102	5	25	1,036	33	98	25	8	6
Totals:	2,383	940	971	205	26	143	48	50	1,954	71	258	64	10	26

*Type of Retirement:

1-Normal retirement for age and service

2-Early retirement

3-Beneficiary payment, normal or early retirement

4-Beneficiary payment, death in service

5-Service-connected disability retirement

6-Non-service-connected disability retirement

7-Beneficiary payment, disability retirement

**Option Selected:

Unmodified Plan-Beneficiary receives 60% continuance

The following options reduce the retired member’s monthly Benefit:

Option 1-Beneficiary receives lump sum or member’s reduced allowance

Option 2-Beneficiary receives 100% of member’s reduced allowance

Option 3-Beneficiary receives 50% of member’s reduced allowance

Option 4-Multiple beneficiaries receive a designated percentage of a reduced allowance

The monthly benefit for the following option varies dependent upon multiple factors:

Option SD-Pre-retirement death in service

Merced County Employees' Retirement Association

Retired Members Average Benefit Payments

Last Ten Fiscal Years

Retirement Effective Dates	Years of Credited Service 0-5	5-10	10-15	15-20	20-25	25-30	30+
Period 7/1/2019 to 6/30/2020							
Average monthly benefit	$440	$1,195	$1,844	$3,575	$4,400	$5,481	$5,373
Average final average salary	$9,061	$6,086	$5,193	$7,592	$7,376	$7,319	$6,166
Number of retired members	6	7	24	15	25	13	9
Period 7/1/2018 to 6/30/2019							
Average monthly benefit	$473	$1,026	$1,930	$3,352	$4,144	$6,511	$6,540
Average final average salary	$7,581	$6,545	$5,392	$6,982	$6,792	$8,710	$7,142
Number of retired members	12	9	18	22	14	12	12
Period 7/1/2017 to 6/30/2018							
Average monthly benefit	$309	$1,421	$1,432	$2,240	$4,202	$4,691	$4,969
Average final average salary	$6,936	$5,742	$4,324	$4,786	$6,713	$5,943	$5,639
Number of retired members	6	19	16	21	17	11	11
Period 7/1/2016 to 6/30/2017							
Average monthly benefit	$574	$1,044	$1,852	$1,657	$3,490	$4,866	$7,294
Average final average salary	$9,068	$6,544	$5,327	$4,073	$5,618	$6,112	$8,780
Number of retired members	11	15	19	18	13	6	3
Period 7/1/2015 to 6/30/2016							
Average monthly benefit	$212	$1,273	$2,067	$3,227	$2,997	$3,724	$4,669
Average final average salary	$7,449	$5,585	$6,322	$6,299	$4,703	$4,750	$4,875
Number of retired members	8	15	19	11	4	4	2
Period 7/1/2014 to 6/30/2015							
Average monthly benefit	$448	$1,083	$1,650	$2,434	$2,981	$3,438	$8,150
Average final average salary	$7,700	$5,994	$5,007	$5,401	$5,303	$4,903	$8,849
Number of retired members	10	11	28	17	14	5	3
Period 7/1/2013 to 6/30/2014							
Average monthly benefit	$426	$1,121	$1,634	$2,714	$4,018	$5,013	$5,992
Average final average salary	$8,946	$4,750	$4,587	$5,441	$6,527	$6,566	$7,088
Number of retired members	7	17	22	16	15	13	13
Period 7/1/2012 to 6/30/2013							
Average monthly benefit	$467	$1,240	$1,750	$2,183	$3,895	$4,201	$6,431
Average final average salary	$8,663	$6,466	$5,215	$4,591	$7,293	$5,695	$7,463
Number of retired members	4	11	24	15	9	8	6
Period 7/1/2011 to 6/30/2012							
Average monthly benefit	$612	$899	$1,359	$2,476	$3,958	$4,683	$6,166
Average final average salary	$9,507	$4,097	$3,953	$5,148	$6,270	$6,257	$7,060
Number of retired members	5	9	26	27	36	15	24
Period 7/1/2010 to 6/30/2011							
Average monthly benefit	$805	$926	$1,120	$2,171	$3,693	$4,289	$8,010
Average final average salary	$8,545	$5,111	$4,042	$4,657	$5,715	$5,687	$8,180
Number of retired members	8	21	23	8	18	5	5

Merced County Employees' Retirement Association
Participating Employers and Active Members
Last Ten Fiscal Years

County of Merced	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
General members	1,683	1,736	1,690	1,665	1,596	1,542	1,490	1,478	1,453	1,521
Safety members	321	318	320	320	311	300	298	294	306	322
Total County of Merced	2004	2,054	2,010	1,985	1,907	1,842	1,788	1,772	1,759	1,843
Percentage of membership	93.47%	93.96%	93.88%	93.68%	93.39%	93.65%	93.56%	93.21%	92.53%	92.85%
Participating employers										
Merced Cemetery District	1	-	1	1	1	1	1	1	2	2
Percentage of membership	0.05%	-	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%	0.11%	0.10%
Transit Joint Powers Authority	-	-	-	-	-	-	-	-	1	3
Percentage of membership	-	-	-	-	-	-	-	-	0.05%	0.15%
Merced Superior Court	139	132	130	133	129	118	112	115	126	137
Percentage of membership	6.48%	6.04%	6.07%	6.28%	6.32%	6.00%	5.86%	6.05%	6.63%	6.90%
Regional Waste Mgt Authority	-	-	-	-	5	6	10	13	13	-
Percentage of membership	-	-	-	-	0.24%	0.31%	0.52%	0.68%	0.68%	-
Total Active Membership										
General	1,823	1,868	1,821	1,799	1,731	1,667	1,613	1,607	1,595	1,663
Safety	321	318	320	320	311	300	298	294	306	322
Total	2,144	2,186	2,141	2,119	2,042	1,967	1,911	1,901	1,901	1,985

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