



## **AGENDA**

### **RETIREMENT BOARD MEETING**

REGULAR MEETING

April 27, 2022, 9:00 a.m.

The Board of Retirement will hold its meeting via teleconferencing as permitted by Government Code Section 54953(e). The meeting is accessible telephonically at 669-900-6833, Webinar ID: 856 7762 4389, Passcode: 528549, or via the web at:

<https://us06web.zoom.us/j/85677624389?pwd=bXFHcDAXem5galppWHlvQXdOTTc2dz09>

Passcode: 528549

Persons who wish to address the Board of Retirement during public comment may call in during the meeting by dialing the phone number and passcode above. Access via Zoom is also available at the weblink above. To indicate you wish to speak during public comment, please select \*9 on your phone or “raise your hand” in the Zoom app.

Public comments are limited to any item that is within the subject matter jurisdiction of the Board of Retirement. Comments will be received in real time via telephone or Zoom, subject to a three-minute time limit per speaker.

THE RETIREMENT BOARD MAY DISCUSS AND TAKE ACTION ON THE FOLLOWING:

1. Pledge of Allegiance.
2. Roll Call.
3. Accept comments from the public.
4. Approve minutes from the March 23, 2022 meeting.
5. Review of report on liquidity sub-portfolio.
  - a. Presentation from staff
  - b. Presentation from Sit Investment Associates
6. Educational presentation from Verus on investing in a rising rate environment.

The Retirement Board will provide reasonable accommodations for persons with disabilities planning to attend Board meetings who contact the Retirement Office at least 24 hours before a meeting.

7. Consider and take possible action to authorize the Board to conduct teleconference meetings under Government Code section 54953 (e) and to make related findings.
8. Consider and take possible action to authorize the CCCERA delegate to vote on the SACRS 2020-2021 Annual Audit Report.
9. Consider and take possible action to cancel the Board meeting of May 4, 2022.
10. Miscellaneous
  - a. Staff Report
  - b. Outside Professionals' Report
  - c. Trustees' comments

The Retirement Board will provide reasonable accommodations for persons with disabilities planning to attend Board meetings who contact the Retirement Office at least 24 hours before a meeting.



Meeting Date  
**04/27/2022**  
Agenda Item  
**#4**

## **RETIREMENT BOARD MEETING MINUTES**

REGULAR MEETING  
March 23, 2022  
9:00 a.m.

The Board of Retirement meeting was accessible telephonically at (669) 900-6833, Webinar ID 811 9772 0927 Passcode 879812, as permitted by Government Code Section 54953(e).

### **1. Pledge of Allegiance**

The Board and staff joined in the *Pledge of Allegiance*.

### **2. Roll Call**

Present: Candace Andersen, Dennis Chebotarev, Donald Finley, Scott Gordon, Jerry Holcombe, Louie Kroll, Jay Kwon, David MacDonald, John Phillips, Reggie Powell, Mike Sloan and Russell Watts.

Absent: None

Staff: Gail Strohl, Chief Executive Officer; Christina Dunn, Deputy Chief Executive Officer; Karen Levy, General Counsel and Tim Price, Chief Investment Officer

Outside Professional Support:	Representing:
Scott Whalen	Verus
Paul Angelo	Segal

### **3. Accept comments from the public**

No member of the public offered comment.

### **4. Approval of Minutes**

It was **M/S/C** to approve the minutes from the February 23, 2022 meeting. (Yes: Andersen, Chebotarev, Finley, Gordon, Holcombe, Kroll, MacDonald, Phillips and Watts).

### **5. Review of total portfolio performance for period ending December 31, 2021**

#### a. Presentation from Verus

Whalen reviewed CCCERA's investment total portfolio performance for period ending December 31, 2021.

- b. Presentation from staff  
Price reviewed CCCERA's sub-portfolios.

**6. Update on private equity and real estate allocations**

Price gave an update on the private equity and real estate allocations.

It was the consensus of the Board to move to Item 8.

**8. Miscellaneous**

- a. Staff Report - Strohl reported that Sagitec is going to provide a short list of sub-contractors for CCCERA to review. She also noted CCCERA continues to search for an Executive Recruitment Firm to handle the Internal Auditor Position Recruitment.
- b. Outside Professionals - None
- c. Trustee' comments - None

**7. Information session from CCCERA's actuary, Segal – Consideration when approaching Full Funding**

Paul Angelo presented an information session on considerations when a pension fund is reaching full funding.

It was **M/S/C** to adjourn the meeting. (Yes: Andersen, Chebotarev, Finley, Gordon, Holcombe, Kroll, MacDonald, Phillips and Watts)

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Scott Gordon, Chairman

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Jerry R. Holcombe, Secretary



**Timothy Price, CFA**

Chief Investment Officer

**Mitch Taylor, CFA**

Investment Officer

# Liquidity Sub-portfolio Review

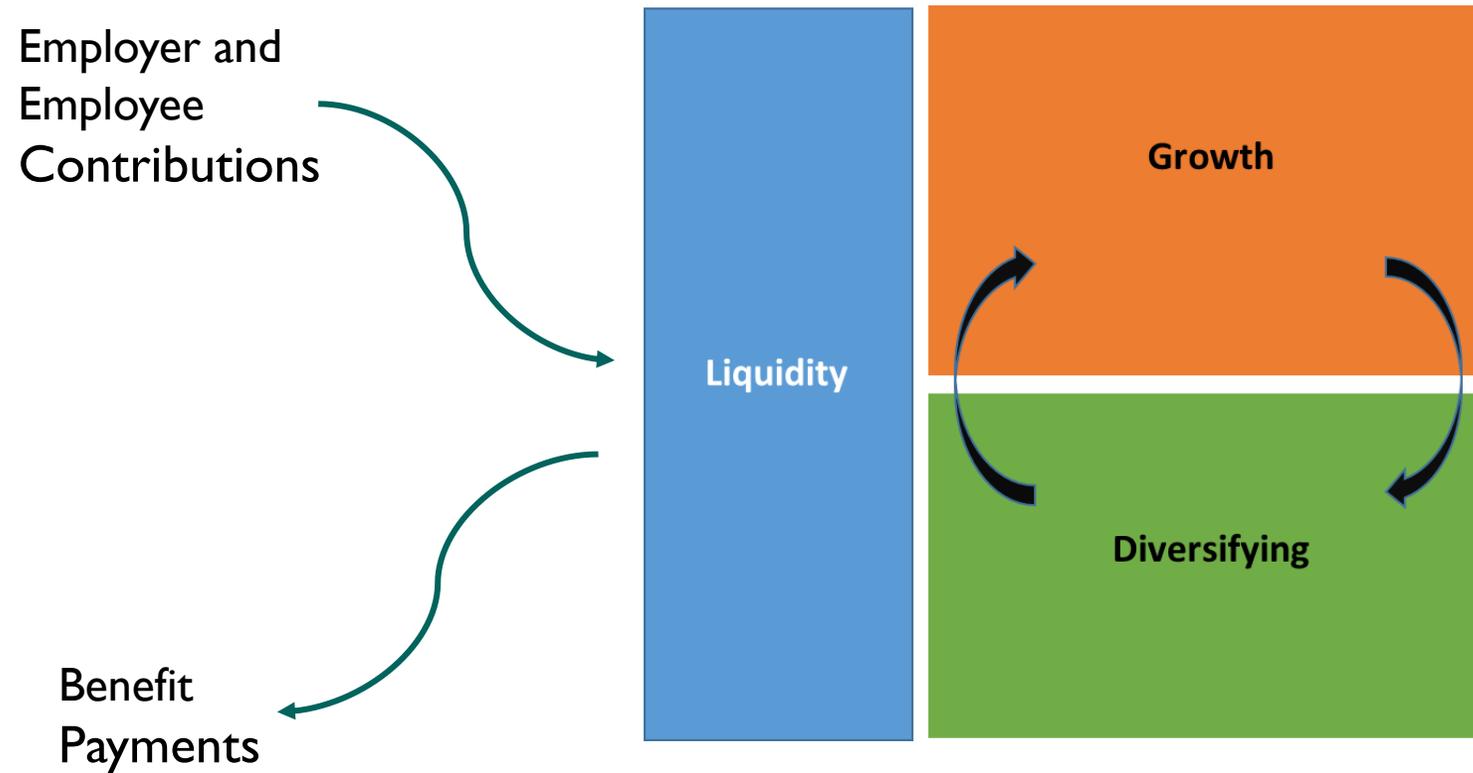
April 27, 2022

Meeting Date  
**04/27/2022**  
Agenda Item  
**#5a.**

# Liquidity Program Review

- 1) Role in FFP framework
- 2) Composition of program and role of each manager
- 3) Cash flow profile
- 4) Annual Funding Plan
- 5) Strategic Decisions

# Role of Liquidity in CCCERA Portfolio



# Liquidity

- The Liquidity Sub-Portfolio is the cornerstone of the FFP
- Using actuarial projections, we model each month's projected benefit payment
- The benefit payment cash flow model is then used to build the investment program
- Through contractual income, trading and maturing debt, the Liquidity sub-portfolio provides the necessary monthly cash flow to make benefit payments

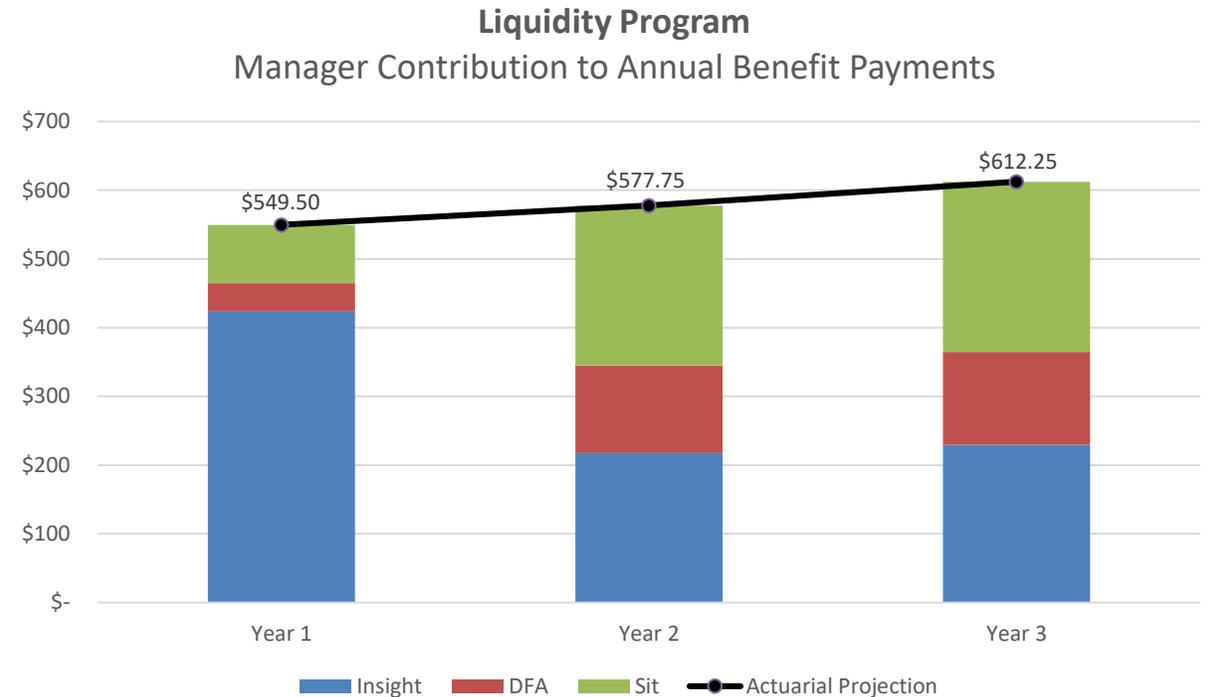
## Objectives

Match 2-3 years of benefit payments with high certainty

Produce cash flow to match monthly benefit payment

# Manager Structure

- Utilizes a multi-manager approach to produce unique income and liquidity profile
- Current Manager Roles
  - Sit Fixed Income: ~40% allocation when fully funded. Invests in seasoned government-guaranteed securities that pay robust coupons. Income stream pulled monthly and we can liquidate assets on an as-needed basis.
  - DFA: ~22% allocation when fully funded. Invests across a wide range of fixed income assets in order to build characteristics and behaviors into the aggregate portfolio. We pull a set amount from the portfolio monthly and give DFA discretion on where and how to raise the necessary cash.
  - Insight: ~38% allocation when fully funded. Invests in a “buy and maintain” portfolio of short-duration, high quality securities designed to complete the needed CCCERA cash flows monthly. Insights builds and maintains the CCCERA cash flow profile based upon actuarial projections.



# Liquidity Managers: Relevant Statistics

Metric	Description
Credit Quality	<p>Credit quality informs investors of a bond or bond portfolio's credit worthiness or risk of default.</p> <p>Independent rating services such as Standard &amp; Poor's, Moody's Investors Service and Fitch Ratings Inc. provide evaluations of a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion.</p>
Duration	Duration is a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. Duration is a gauge of sensitivity to interest rate changes roughly equal to bond maturity.
Coupon	A coupon is the annual interest rate paid on a bond, expressed as a percentage of the face value.

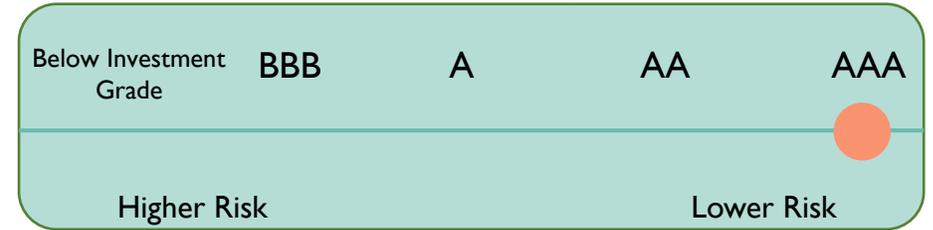
Characteristics as of 12/31/21			
	Sit	Insight	DFA
Credit Quality	AAA	A	A+
Duration	2.0	1.0	2.9
Coupon	5.3%	2.8%	1.9%
Yield to Maturity	1.9%	1.8%	1.4%

# Sit

## Summary

Liquidity Program Role	Sit invests in high yielding, government backed mortgages. The cash flow from these securities is harvested monthly to make up a portion of CCCERA's monthly benefit payment.
Key Personnel	Bryce Doty, Senior Portfolio Manager Mark Book, Portfolio Manager Chris Rasmussen, Portfolio Manager
Fee Structure	Estimated Annual Fee: 14 basis points
CCCERA AUM as of 3-31-2022	\$521.2MM
2021 Cash Flow	\$84.5MM
Projected 2022 Cash Flow	\$233.0MM

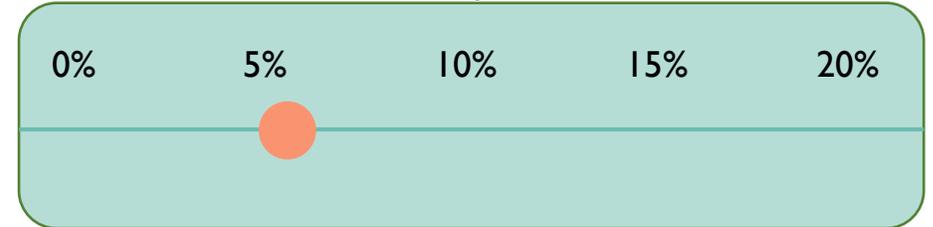
### Credit Quality



### Duration



### Coupon

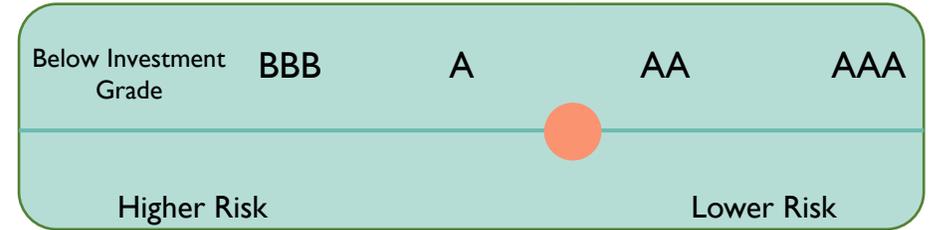


# DFA

## Summary

Liquidity Program Role	Dimensional Fund Advisors runs a strategy that focuses on obtaining fixed income exposures via the most liquid securities available. DFA contributes to the Liquidity Program by selling securities at regular intervals to pay a portion of CCCERA's monthly benefit payment.
Key Personnel	Joseph Kolerich, Senior Portfolio Manager David Plecha, Global Head of Fixed Income
Fee Structure	Estimated Annual Fee: 11 basis points
CCCERA AUM as of 3-31-2022	\$281.6MM
2021 Cash Flow	\$41.0MM
Projected 2022 Cash Flow	\$127.5MM

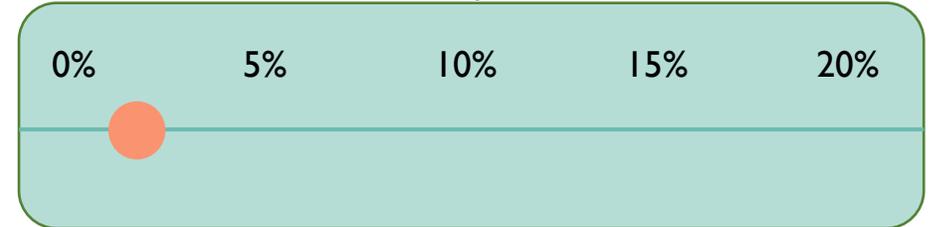
### Credit Quality



### Duration



### Coupon

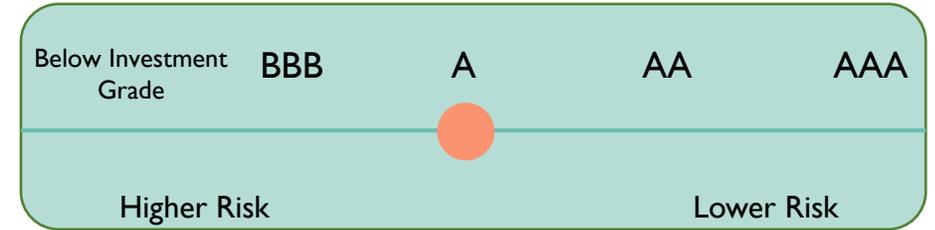


# Insight

## Summary

Liquidity Program Role	Insight plays a completion role in the liquidity program, matching out liabilities with short duration government and corporate fixed income securities.
Key Personnel	Gerry Berrigan, Senior Portfolio Manager Kevin Loescher, Asset Liability Solutions
Fee Structure	Estimated Annual Fee: 6 basis points
CCCERA AUM 3-31-2022	\$579.5MM
2021 Cash Flow	\$424.0MM
Projected 2022 Cash Flow	\$217.3MM

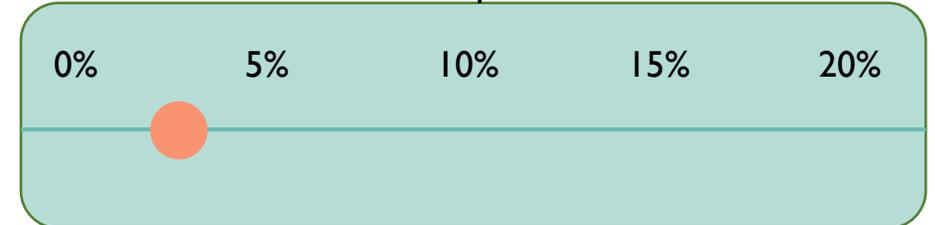
### Credit Quality



### Duration



### Coupon



# Providing Benefit Payments

- Benefit payments are accounted for over the year, and follow a process of dollar value estimation, which flows to liquidity program sizing and the annual funding plan, through to the accounting function of disbursement

Annual	Semi-Annual	Monthly
<p>CCCERA receives updates to benefit projections from actuaries</p> <p>Updated benefit projections are reviewed by Insight, which seeks to match each discrete benefit payment</p> <p>CCCERA Investment Staff “tops up” the liquidity program during the Annual Funding Process</p>	<p>CCCERA Investment Staff reviews tracking of actual benefit payment sizing versus initial estimate, and adjusts subsequent six months of liquidity program cash flows accordingly</p> <p>Several months of benefit payments are scheduled at custodial bank</p>	<p>Benefit payments are disbursed from bank</p>

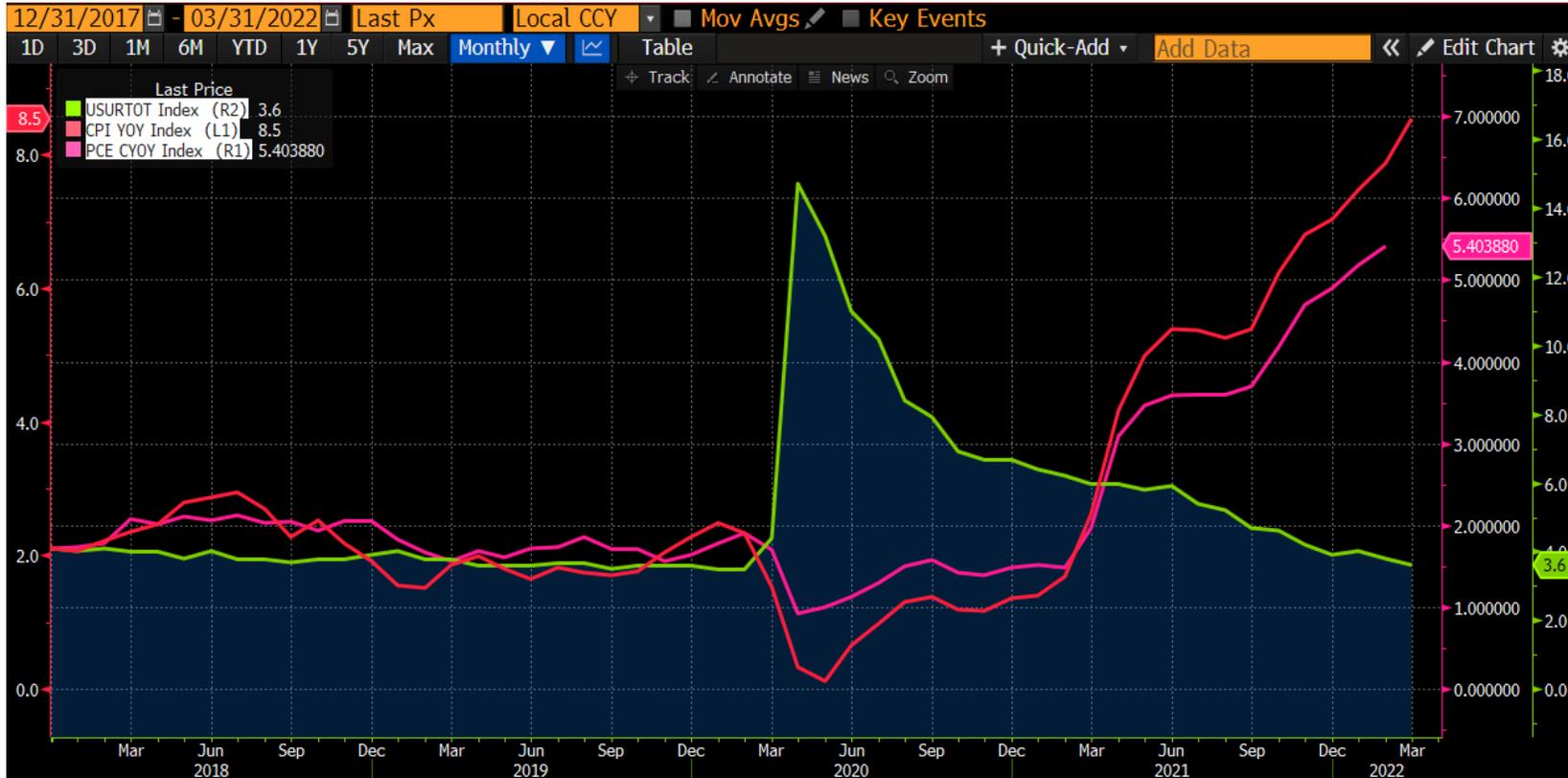


# Inflation, Rates and Asset Valuation

- Fed's Dual Mandate: Maximum Stable Employment and Price Stability
  - Unemployment was 3.6% at the 31-31-2022, matching the 3.6% pre-pandemic level of 3.6% at 12-31-2019
  - Inflation, measured by core PCE, increased from 1.49% in February of 2021 to 5.4% one year later
  - COVID and Ukraine supply disruptions
  - COVID induced monetary and fiscal accommodation
- Fed Pivot – Hikes Accelerate
  - Inflation, measured by Core PCE, accelerated from 1.49% in February of 2021 to 5.40% in February of 2022.
  - Bloomberg's World Interest Rate Probability predicted 3 hikes of 25bps each by February 2023 at year-end 2021; now predicts 9 more hikes after the first hike on March 16<sup>th</sup>, 2022.
- Rates and Asset Values
  - The 10-year UST is the risk-free rate used to value assets. The risk-free rate is the building block used to calculate all discount rates.
  - Bond yield = risk-free rate + credit spread; Equity Expected return = risk-free rate + equity risk premium
  - All else equal, as rates increase asset value decreases; price sensitivity to interest rates is measured by duration
  - The 10-year UST is a nominal rate equal to the real rate, a proxy for GDP growth, and inflation.

# Fed's Dual Mandate

- Unemployment 3.6% (green), Headline CPI 8.5% (red) and Core PCE 5.4% (magenta)



## Inflation Measures

**Headline.** What the consumer experiences day to day

**Core.** Excludes more volatile food & energy components

**CPI.** Volatile vs PCE, components weights are consistent, based on household surveys and higher weights to shelter vs PCE.

**Headline CPI** used in Social Security COLAs

**PCE.** Less volatile, component weights can change reflecting consumer substitutions and based on business surveys. **Core PCE** is the Fed's primary inflation gauge.

# Commodities: SPGSCI Index

Commodities YTD  
4-14-2022

- Commodity index up 29% in 1Q2022; March Headline CPI was 8.5%, Core CPI was 6.5%

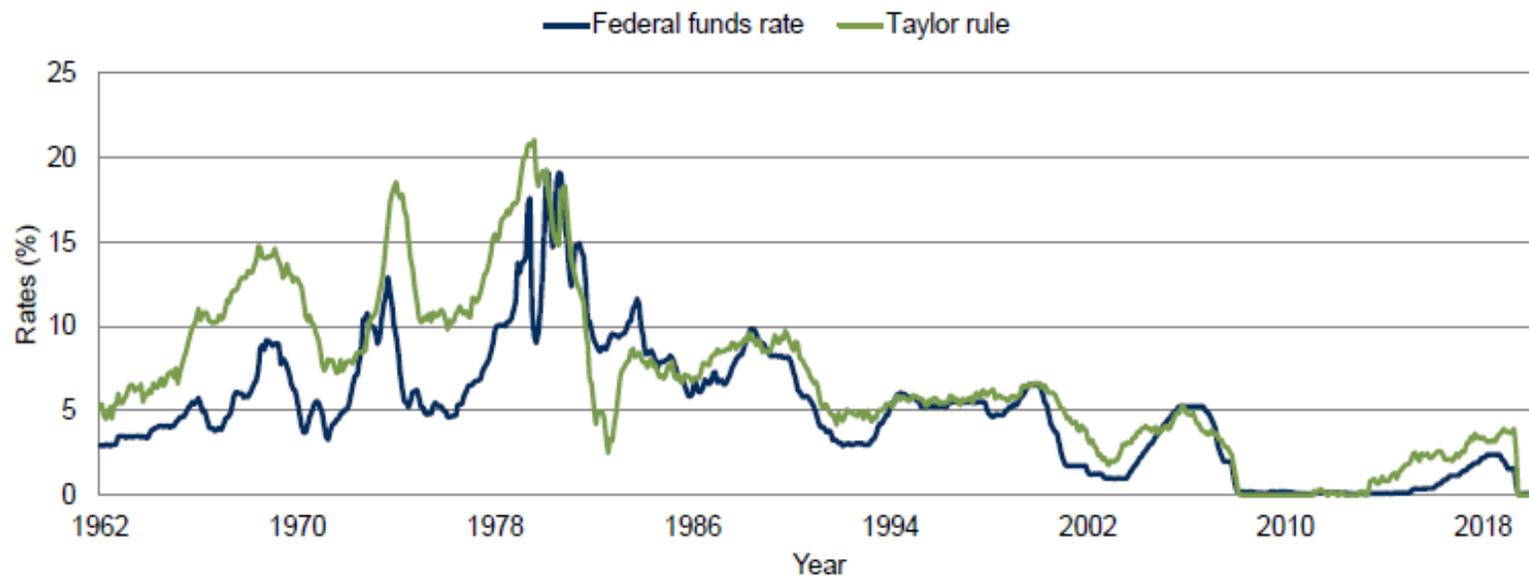


WTI Oil	+42.2%
HH Nat Gas	+95.7%
Polyethylene*	+32.6%
Polypropylene*	+39.8%
Aluminum	+15.3%
Copper	+6.0%
Nickel	+58.9%
Iron Ore*	+38.3%
Corn	+33.2%
Soybeans	+26.6%
Wheat	+42.3%
Cotton	+26.1%
Coffee	-1.2%
Class III Milk*	+32.1%
Chicken Breast*	+17.6%

\*Not included in SPGSCI

# Taylor Rule: Policy rate is a function of inflation and GDP

- Widely used by central banks to inform monetary policy; some version of which has been used by the Fed since 1993
- Fed funds target rate is sum of i) assumed real rate, or r-star ii) inflation and iii) output gap and iv) inflation gap. The output gap is the difference between current GDP and potential GDP; the inflation gap is the difference between current inflation and target inflation.
- Over time there have been significant differences between Fed policy and Taylor Rule targets



## Taylor Rule Formula

$$r = r^* + p + 0.5(y - y^*) + 0.5(p - p^*)$$

Where:

$r$  = nominal fed funds rate

$r^*$  = natural rate of interest, or real rate

$y$  = current GDP growth rate

$y^*$  = potential GDP

$y - y^*$  = Output Gap

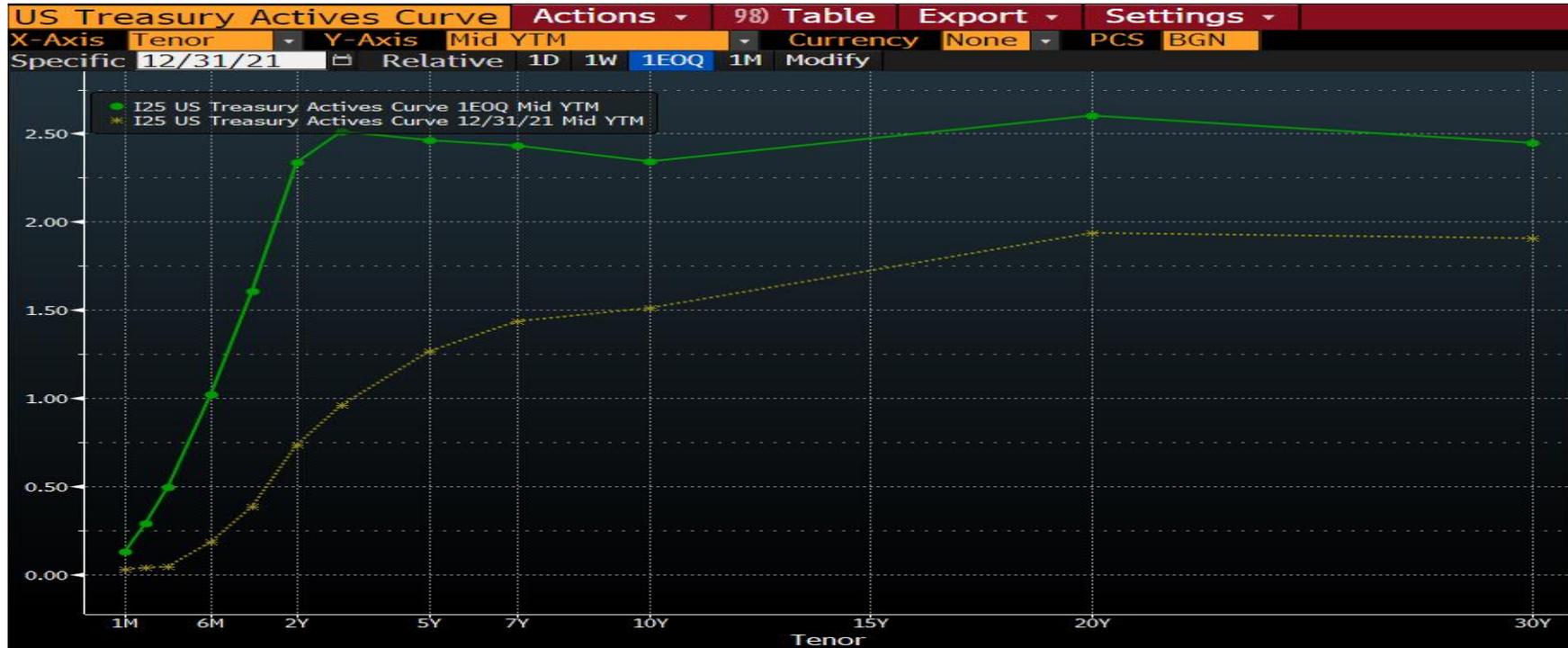
$p$  = current inflation

$p^*$  = target inflation

$p - p^*$  = Inflation Gap

# Rate Curve: Year-end 12-31-2021 (khaki), Quarter-end 3-31-2022 (green)

- Impact most pronounced on the front-end: 2-year bond from 0.73% to 2.34%; 10-year bond from 1.50% to 2.34%
- Curve flattened; 2s and 5s inverted



# Inflation & Growth: Asset Returns

- Not all inflationary cycles are equal: Asset returns are inflation and economic growth dependent

Growth/Inflation Scenarios and Asset Returns					
<i>Average Returns since 1920s (Source: Bridgewater Associates)</i>					
Macro Scenario Average Asset Returns	Equities	Bonds	TIPS	Gold	60/40 R*
Stagflation (Growth lower/Inflation higher)	0.7%	-1.3%	10.9%	14.0%	0.4%
Successful Reflation (Growth higher/Inflation higher)	5.2%	7.4%	12.1%	5.3%	6.8%
Unsuccessful Reflation (Growth lower/Inflation higher)	-1.0%	8.1%	9.1%	4.1%	0.3%
Deflation (Growth lower/Inflation lower)	-18.4%	6.0%	-15.6%	-0.9%	-16.3%

\* Risk Balanced Bridgewater 60/40 Portfolio



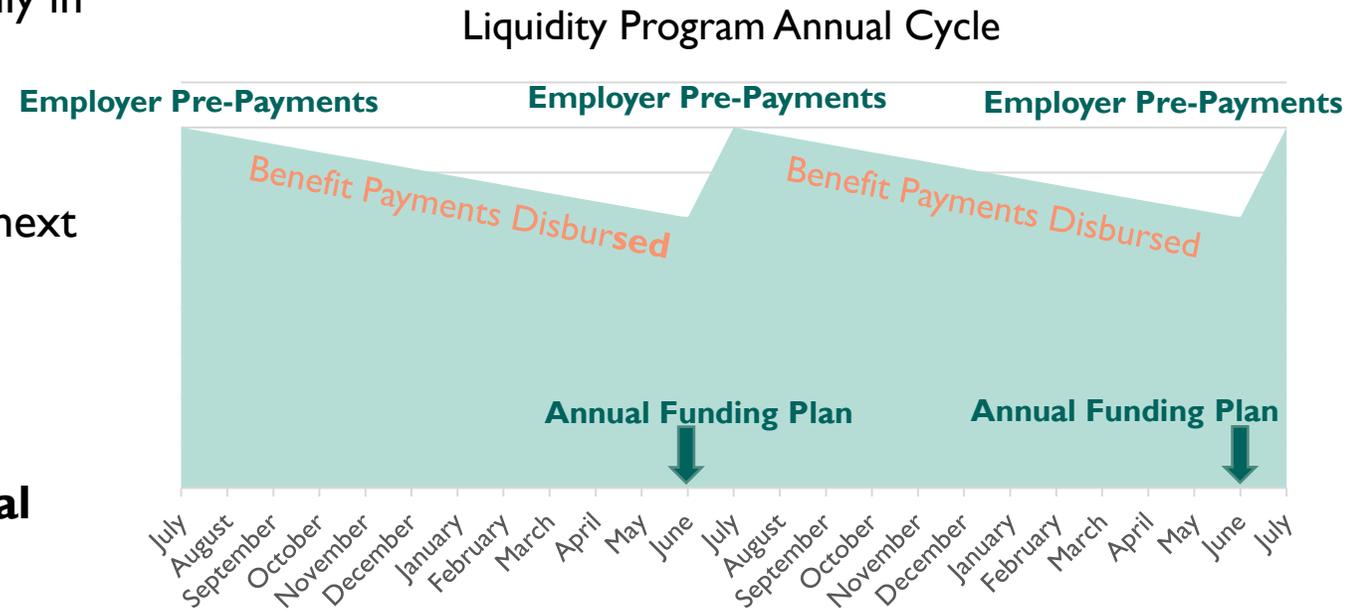
# Liquidity Sub-Portfolio Returns

- Year-to-Date 3-31-2022: Investment Grade bonds -7.7%, Muni Bonds -6.2%, UST -5.6%, Mortgages -5.0% and SPX -4.6%

Liquidity Sub-Portfolio Returns							
	3-31-2022, preliminary				12-31-2021		
	YTD	1 Yr.	3 Yrs.	5 Yrs.	1 Yr.	3 Yrs.	5 Yrs.
<b>Liquidity Sub-Portfolio</b>	-2.5%	-2.6%	1.2%	1.6%	-0.3%	2.6%	2.2%
<i>BBG US Corp &amp; Govt 1-3, BBB</i>	-2.5%	-3.0%	1.0%	1.2%	-0.5%	2.2%	1.8%
<b>DFA</b>	-3.8%	-4.0%	0.5%	1.1%	-0.5%	2.5%	2.1%
<i>BofA US Corp &amp; Govt 1-5</i>	-3.5%	-3.8%	1.2%	1.4%	-0.9%	2.9%	2.3%
<b>Insight Short Duration</b>	-1.2%	-1.1%	1.7%	1.8%	0.0%	2.6%	2.2%
<i>BBG US Agg Govt Credit 1-3</i>	-2.5%	-2.9%	1.0%	1.3%	-0.5%	2.3%	1.9%
<b>SIT Short Duration</b>	-3.1%	-3.6%	1.1%	1.7%	-0.5%	2.8%	2.4%
<i>BBG US Gov 1-3 Years</i>	-2.5%	-3.0%	0.8%	1.1%	-0.6%	2.0%	1.6%

# Refreshing the Program

- The Liquidity Sub-Portfolio is topped up annually in July in conjunction with the employer pre-payments
- The Portfolio operates in a drawdown mode for the next 11 months before the process starts again
- The game plan for how to refresh the Liquidity Sub-Portfolio is communicated to the Board in the **Annual Funding Plan** which is presented annually



# Board Input

The Board's input is needed for critical aspects of the liquidity sub-portfolio

1. Duration of benefit payments to be matched. This will be reviewed every 3-5 years.
2. Board approved a reduction from 4 years to 3 years of matching benefit payments in December of 2020.
3. Decision to reduce benefit payments by one year for rebalancing in extraordinary market environments. This is referred to in the Investment Policy Statement as "Zone 2" rebalancing and is subject to Board approval.

## Board Decisions

Board chose to match 3 years of benefit payments

Zone 2 rebalancing has not been utilized to date

# Reducing to Three Years of Benefit Payments

- Given 2020 Board decision to move from four to three years of benefit payments in reserve, staff conducted a review of the manager lineup and allocations
- We determined that Sit should play a larger role in generating monthly cash flow and its allocation increased as result, the relative weights of DFA and Insight decreased as a result
- For 2021, we did not provide July funding to the three strategies to allow an organic run-off to three years of benefits. In July 2022, we will provide annual funding in line with our optimized allocation

# Conclusion

- Liquidity Sub-Portfolio matches benefit payments to limit liquidity demands on the Growth Sub-Portfolio
- Multi-manager structure provides diversification of process while keeping all managers focused on unique CCCERA goals
- Annual refreshing of the program and periodic reviews of the duration of benefits to be funded allows for readjustments of the program as needed

# Presentation – Sit Associates

- Bryce Doty – Senior VP and Portfolio Manager

Meeting Date  
**04/27/2022**  
Agenda Item  
**#5b.**



## INVESTMENT PRESENTATION



**APRIL 27, 2022**

**Bryce Doty CFA, Senior Vice President and Senior Portfolio Manager – Fixed Income**

Sit Investment Associates, Inc.  
80 South Eighth Street, Suite 3300  
Minneapolis, MN 55402-2211  
612.332.3223  
[www.sitinvest.com](http://www.sitinvest.com)

# PRESENTATION OUTLINE

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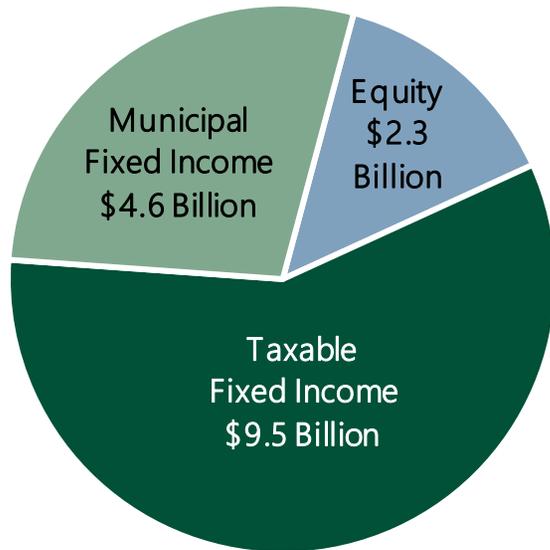
- I. Introduction
- II. Short Duration Portfolio
- III. Economic Outlook
- IV. Miscellaneous

# INTRODUCTION

# SIT INVESTMENT ASSOCIATES : FIRM OVERVIEW



**\$16.4B Total Gross AUM**  
as of March 31, 2022



72%: Separately Managed Accounts

13%: Private Investment Funds

15%: Mutual Funds

## Independent & Employee-owned Firm

- Founded in 1981 by Eugene Sit
- Independent: Sit family and employee ownership
- One of the largest minority-owned advisory firms in the U.S.

## Seasoned Team, Aligned With Our Investors

- Experienced investment team with long Sit tenure
- Focus on investment results, controlled AUM growth
- Significant internal investment in Sit strategies

## Consistent Process & Compelling Track Record

- Value-added, active management philosophy
- Time-tested and consistent investment process
- Unique traditional and alternative strategies complement portfolios

# LEADING FIXED INCOME TRACK RECORD & DIFFERENTIATED APPROACH

## Sit Fixed Income: Investment Philosophy

Consistently achieve superior risk-adjusted returns using a conservative investment approach emphasizing:

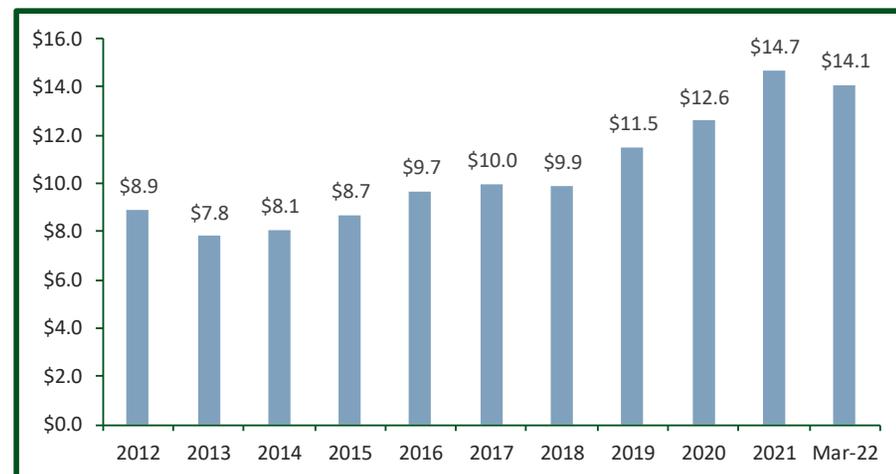
- Investment grade securities
- Income component of total return
- Active management and building portfolios distinctly different from benchmark indices

## Sit Fixed Income: Our Advantage

- Focus on select, high relative value areas of the market where we have recognized expertise
- Consistent and repeatable approach has produced top quartile performance across strategies
- Strong, differentiated commitment to client service, which includes:
  - Direct access to portfolio managers and monthly commentary letter
  - Assistance in crafting investment guidelines and responsiveness to changing needs
  - Invitation to Sit's Annual Client Workshop, a unique educational event

**Sit Fixed Income**  
Controlled AUM Growth Driven by  
Strong Investment Performance &  
Committed Client Service

**Sit Fixed Income: Annual AUM**  
2012-22 (in \$B)



# TRADITIONAL & ALTERNATIVE STRATEGIES TO COMPLEMENT PORTFOLIOS

	Taxable Fixed Income	Tax-Free Municipal Fixed Income	Growth Equity
Traditional Strategies	<ul style="list-style-type: none"> <li>Total Return</li> <li>Intermediate Duration</li> <li>Short Duration</li> <li>Quality Income</li> <li>Long Duration Quality Income</li> <li>Taxable Municipal</li> </ul>	<ul style="list-style-type: none"> <li>Total Return</li> <li>Intermediate Duration</li> <li>Short Duration</li> </ul>	<p><u>US Focus</u></p> <ul style="list-style-type: none"> <li>Large Cap</li> <li>Mid/Small Cap</li> <li>Small Cap</li> <li>Dividend Growth</li> <li>Small Cap Dividend Growth</li> <li>Balanced</li> </ul>
Alternative Strategies: Closed-End Funds	<ul style="list-style-type: none"> <li>Return Plus (Investment Grade)</li> <li>HY Return Plus (HY/Bank Loans)</li> <li>Targeted Opportunity (Event)</li> <li>Energy/MLP (Infrastructure)</li> </ul>	<ul style="list-style-type: none"> <li>Municipal Return Plus (Municipal Fixed Income)</li> </ul>	<p><u>Global &amp; International Focus</u></p> <ul style="list-style-type: none"> <li>Global</li> <li>ESG Growth</li> <li>EAFE+</li> <li>Pacific Basin</li> <li>Developing Markets</li> </ul>
Alternative Strategies: Custom Alpha	<ul style="list-style-type: none"> <li>Alpha Bond</li> <li>Rising Rates</li> <li>S&amp;P 500</li> <li>EAFE</li> <li>5-Year Treasury</li> <li>30-Year Treasury</li> </ul>	<p>Short Duration</p> <p><i>The Custom Alpha Series employs the <u>Taxable Short Duration</u> strategy, duration hedged and levered. This return stream can be ported on to a range of beta exposures</i></p>	

**Available Investment Structures:** Separately Managed Accounts, Private Investment Funds, Collective Investment Trusts, Mutual Funds (*select strategies*)

## SIT PERFORMANCE STATISTICS

	As of 12/31/21					
<b>TAXABLE:</b>	10 Yr Ann Rtn	Rank	10 Yr Sharpe	Rank	10 Yr Alpha	Rank
<b>Sit Total Return</b>	<b>4.41%</b>		<b>1.30</b>		<b>1.70</b>	
Bloomberg Aggregate	<u>2.90</u>	<b>6</b>	<u>0.77</u>	<b>2</b>	<u>0.00</u>	<b>3</b>
Incremental Return	1.51		0.53		1.70	
<b>Sit Intermediate Govt/Corp</b>	<b>3.45%</b>		<b>1.45</b>		<b>1.28</b>	
Bloomberg Intermediate Govt/Credit	<u>2.38</u>	<b>10</b>	<u>0.83</u>	<b>1</b>	<u>0.00</u>	<b>4</b>
Incremental Return	1.07		0.50		1.28	
<b>Sit Short Duration</b>	<b>2.63%</b>		<b>1.28</b>		<b>1.27</b>	
Bloomberg 1-3 Year Government	<u>1.10</u>	<b>1</b>	<u>1.14</u>	<b>10</b>	<u>0.00</u>	<b>1</b>
Incremental Return	1.53		0.14		1.27	
<b>Sit Quality Income (Since Inception 12/31/12)</b>	<b>2.21%</b>		<b>2.12</b>		<b>1.32</b>	
Bloomberg 1-3 Year Govt/Credit	<u>1.40</u>	<b>19</b>	<u>0.89</u>	<b>1</b>	<u>0.00</u>	<b>8</b>
Incremental Return	0.81		1.23		1.32	
<b>Sit Closed-End Funds</b>	<b>7.18%</b>		<b>1.13</b>		<b>4.23</b>	
Bloomberg Aggregate	<u>2.90</u>	<b>1</b>	<u>0.77</u>	<b>31</b>	<u>0.00</u>	<b>1</b>
Incremental Return	4.28		0.36		4.23	
<b>Sit Targeted Opportunity (Since Inception 3/31/13)</b>	<b>11.95%</b>		<b>1.17</b>		<b>8.13</b>	
8% Hurdle	<u>8.00</u>	<b>1</b>	<u>n/a</u>	<b>5</b>	<u>0.00</u>	<b>1</b>
Incremental Return	3.95		n/a		8.13	
<b>Sit Return Plus High Yield (Since Inception 3/31/13)</b>	<b>12.18%</b>		<b>1.01</b>		<b>2.03</b>	
BofA ML US High Yield	<u>6.72</u>	<b>1</b>	<u>0.94</u>	<b>28</b>	<u>0.00</u>	<b>31</b>
Incremental Return	5.46		0.07		2.03	
<b>Sit Taxable Municipal</b>	<b>5.85%</b>		<b>1.47</b>		<b>2.75</b>	
Bloomberg Aggregate	<u>2.90</u>	<b>1</b>	<u>0.77</u>	<b>1</b>	<u>0.00</u>	<b>1</b>
Incremental Return	2.95		0.70		2.75	
<b>Custom Alpha Bond Portfolio</b>	<b>4.69%</b>		<b>1.21</b>		<b>3.56</b>	
Merrill Lynch 3-Month Libor	<u>0.89</u>	<b>1</b>	<u>1.14</u>	<b>30</b>	<u>0.00</u>	<b>1</b>
Incremental Return	3.80		0.07		3.56	

Universe: eVestment US Core Fixed Income. (Observations on 1/31/2022: 3yr=182 5yr=185; 7yr=171). eVestment Alliance and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable; however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable. All categories not necessarily included, and totals may not equal 100%. Copyright: 2012-2021 eVestment Alliance, LLC. All Rights Reserved.

# SIT INVESTMENT ASSOCIATES PROFESSIONALS

## GLOBAL EQUITY

	Years of Investment Experience	Years with SIA
Roger J. Sit	31	24
Kent L. Johnson, CFA	29	33
Ronald D. Sit, CFA	37	37
David A. Brown, CFA	27	24
Denise A. Anderson, Ph.D.	24	13
Joseph R. Eshoo	27	14
Michael T. Manns	35	7
Mark A. Pepper	23	18
Raymond E. Sit	30	30
Robert W. Sit, CFA	30	30
Stacey M. Curme	25	29
Ningning Tang, CFA	18	14
Deepak Chaulagai, CFA	16	0
Bradley W. Meyer	19	21
Lee J. Feltman, CFA	14	14
Eric M. Manthe	10	17
Nicholas D. Tich	14	17
Samuel K. V. Krawczyk	8	8
Michael J. Sit	7	2

**Total Investment Experience: 424 Years**  
**Average Investment Experience: 22.3 Years**

## FIXED INCOME

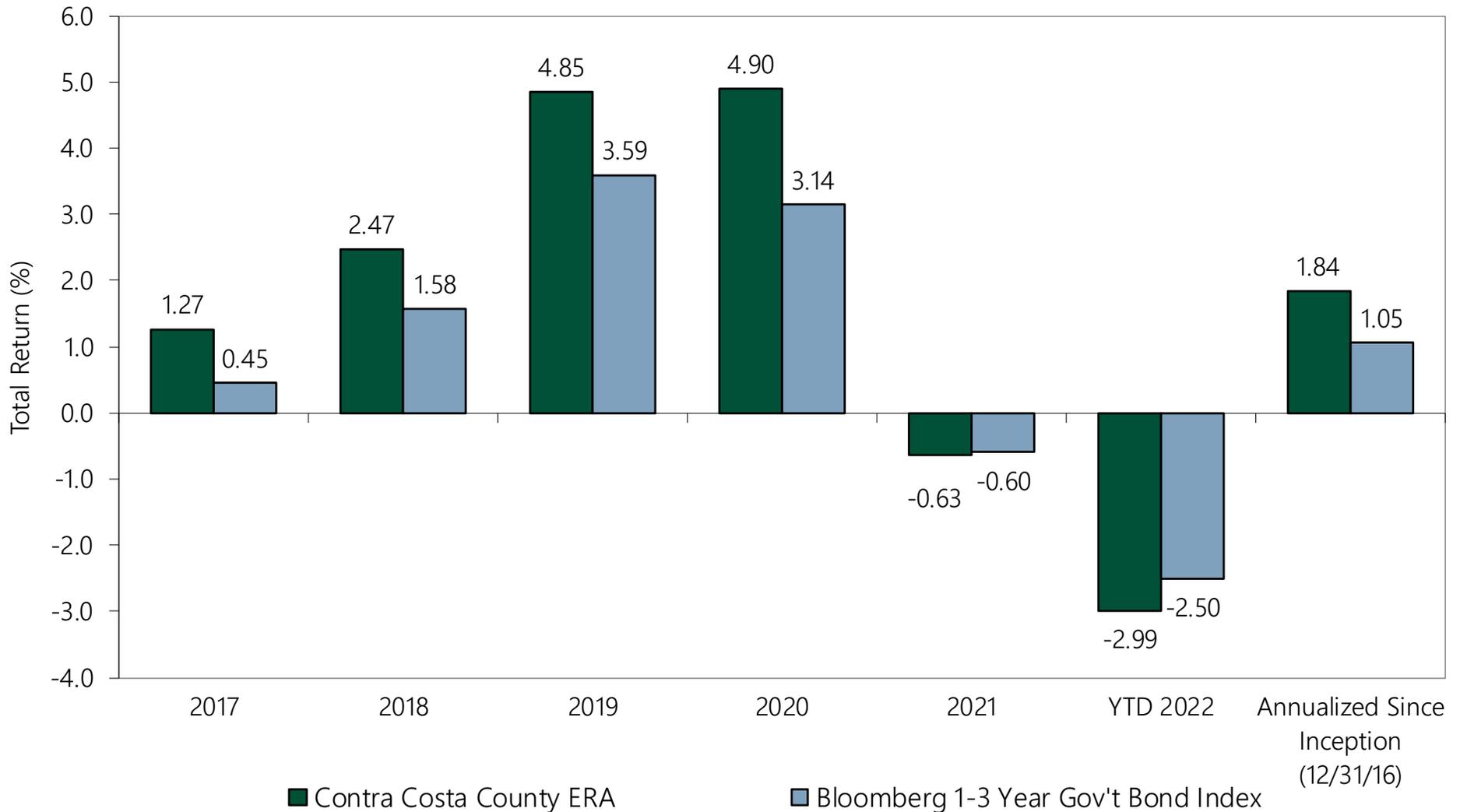
	Years of Investment Experience	Years with SIA
Roger J. Sit	31	24
Bryce A. Doty, CFA	31	26
Paul J. Jungquist, CFA, CPA	28	28
Mark H. Book, CFA, CMA	36	21
Kurt van Kuller, CFA	42	3
Michael R. Hilt, CFA	33	0
Christopher M. Rasmussen, CFA	21	23
Todd S. Emerson, CFA	27	15
Kevin P. O'Brien, CFA	19	21
Michael J. Reich, CFA	17	18
Michael C. Hubbard, CFA	16	10
Jessica A. Ersfeld, CFA	15	14
Jason B. Miller, CFA	14	8
Andrew J. Tich, CFA	14	15
Nick F. Ochsner, CFA	10	4
Joseph H. Lepinski, CFA	16	15
Michael J. Book	6	2
Marci Lorge	38	33

**Total Investment Experience: 410 Years**  
**Average Investment Experience: 22.8 Years**

# SHORT DURATION PORTFOLIO

# CONTRA COSTA COUNTY ERA PERFORMANCE

As of March 31, 2022



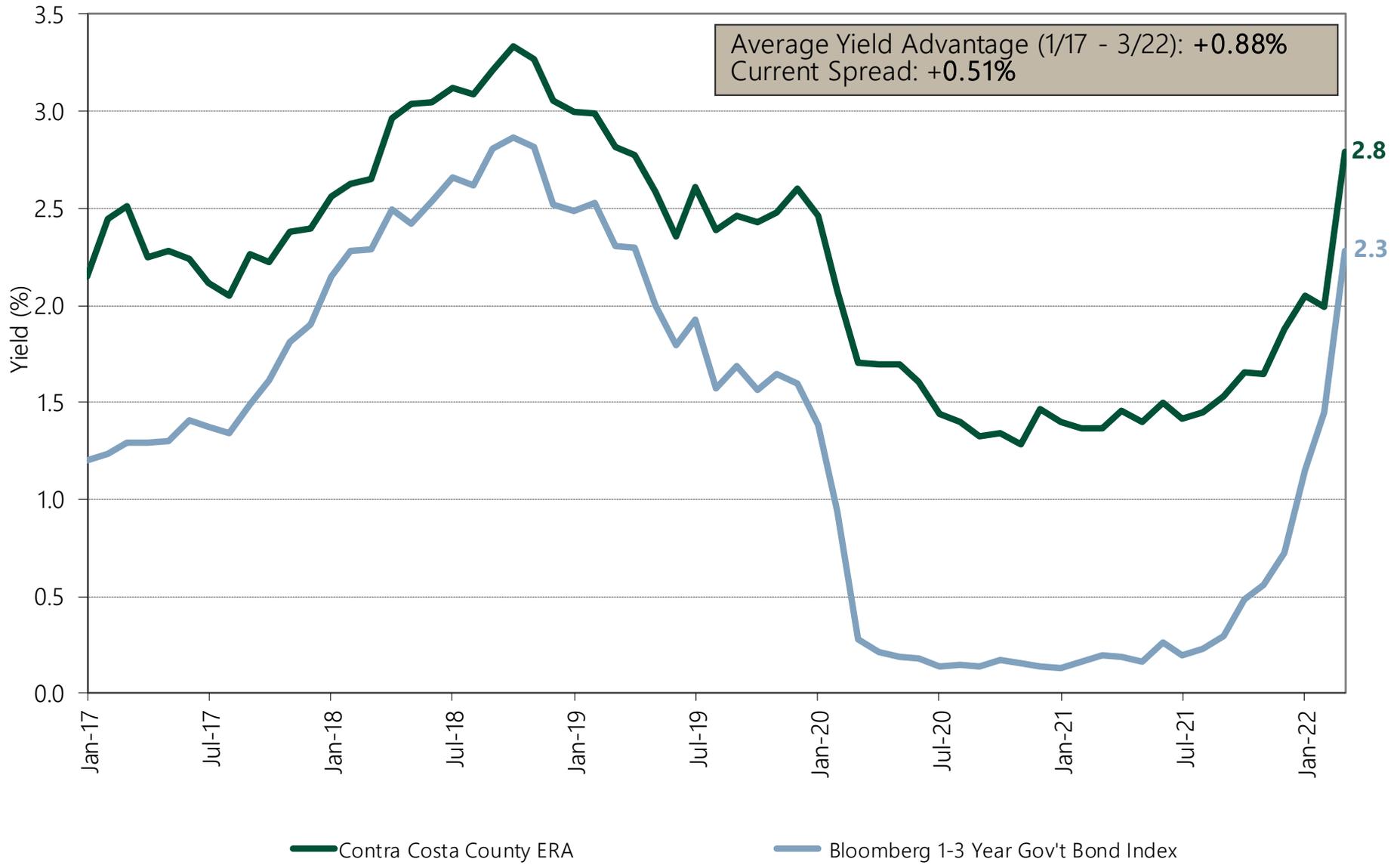
# CONTRA COSTA COUNTY ERA SECTOR WEIGHTINGS

As of March 31, 2022

	<u>Jun-17</u>	<u>Dec-17</u>	<u>Jun-18</u>	<u>Dec-18</u>	<u>Jun-19</u>	<u>Dec-19</u>	<u>Jun-20</u>	<u>Dec-20</u>	<u>Jun-21</u>	<u>Dec-21</u>	<u>Mar-22</u>
Government & Agencies	0%	0%	0%	0%	0%	0%	0%	6%	5%	12%	12%
Mortgage Pass-Throughs	65	62	57	55	51	47	50	48	39	34	35
CMO's	34	35	41	44	48	48	46	46	56	51	50
Cash Equivalents	1	3	2	1	1	5	4	0	0	3	3
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b><u>Duration (years)</u></b>											
Contra Costa County ERA	2.5	2.4	2.6	2.6	2.6	2.6	3.0	2.9	2.0	2.0	2.4
Bloomberg 1-3 Yr. Gov't	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	2.0	2.0	1.9
<b><u>Yield</u></b>											
Contra Costa County ERA	2.2%	2.4%	3.1%	3.1%	2.4%	2.6%	1.6%	1.5%	1.5%	1.9%	2.8%
Bloomberg 1-3 Yr. Gov't	1.4%	1.9%	2.5%	2.5%	1.8%	1.6%	0.2%	0.1%	0.3%	0.7%	2.3%

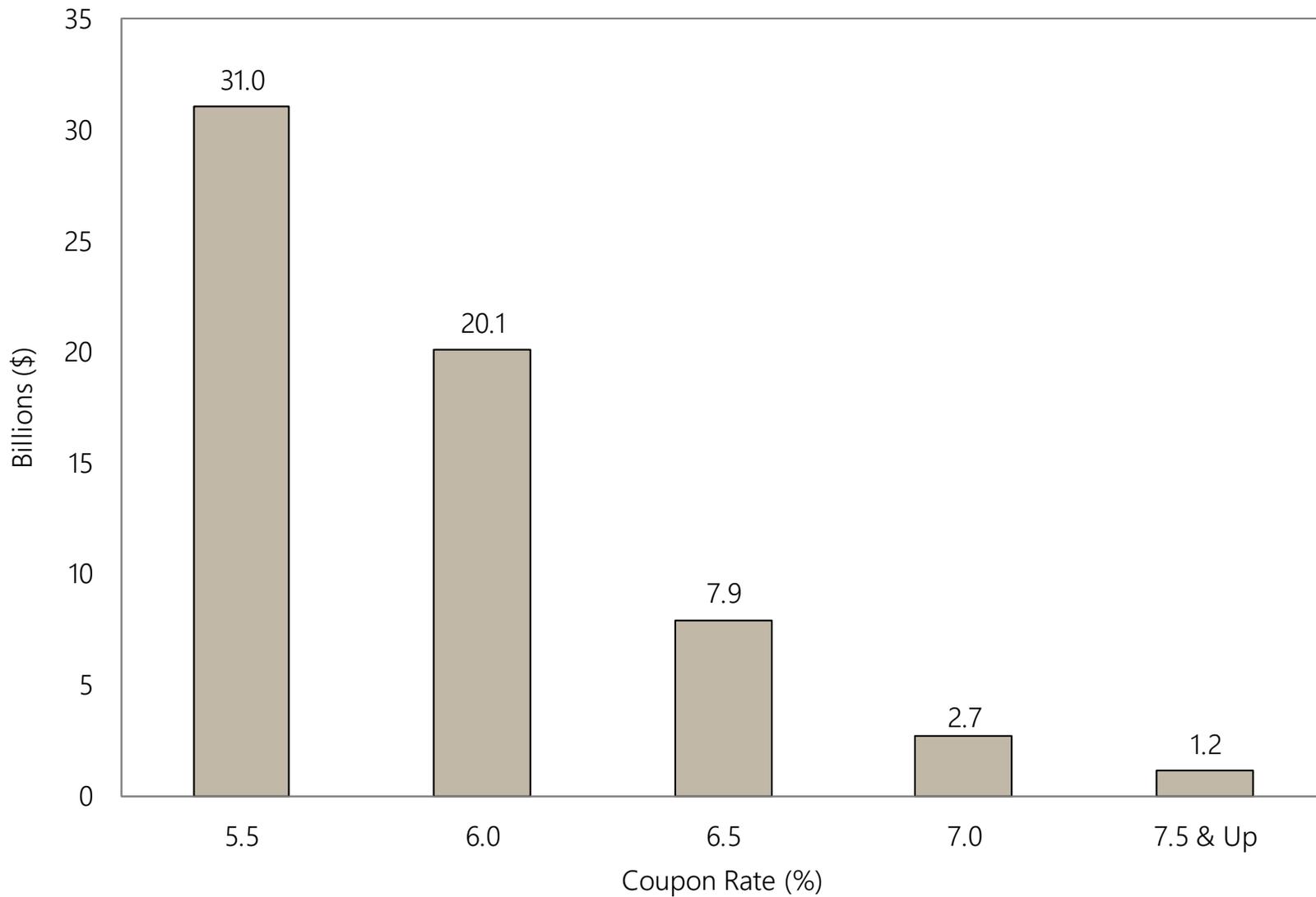
# CONTRA COSTA COUNTY ERA YIELD ADVANTAGE

As of March 31, 2022



# HIGH COUPON MORTGAGE UNIVERSE AS OF MARCH, 2020

Outstanding Balance of High Coupon Mortgages



## SEASONED GOVERNMENT AGENCY MORTGAGES - SIMPLIFIED EXAMPLE

---

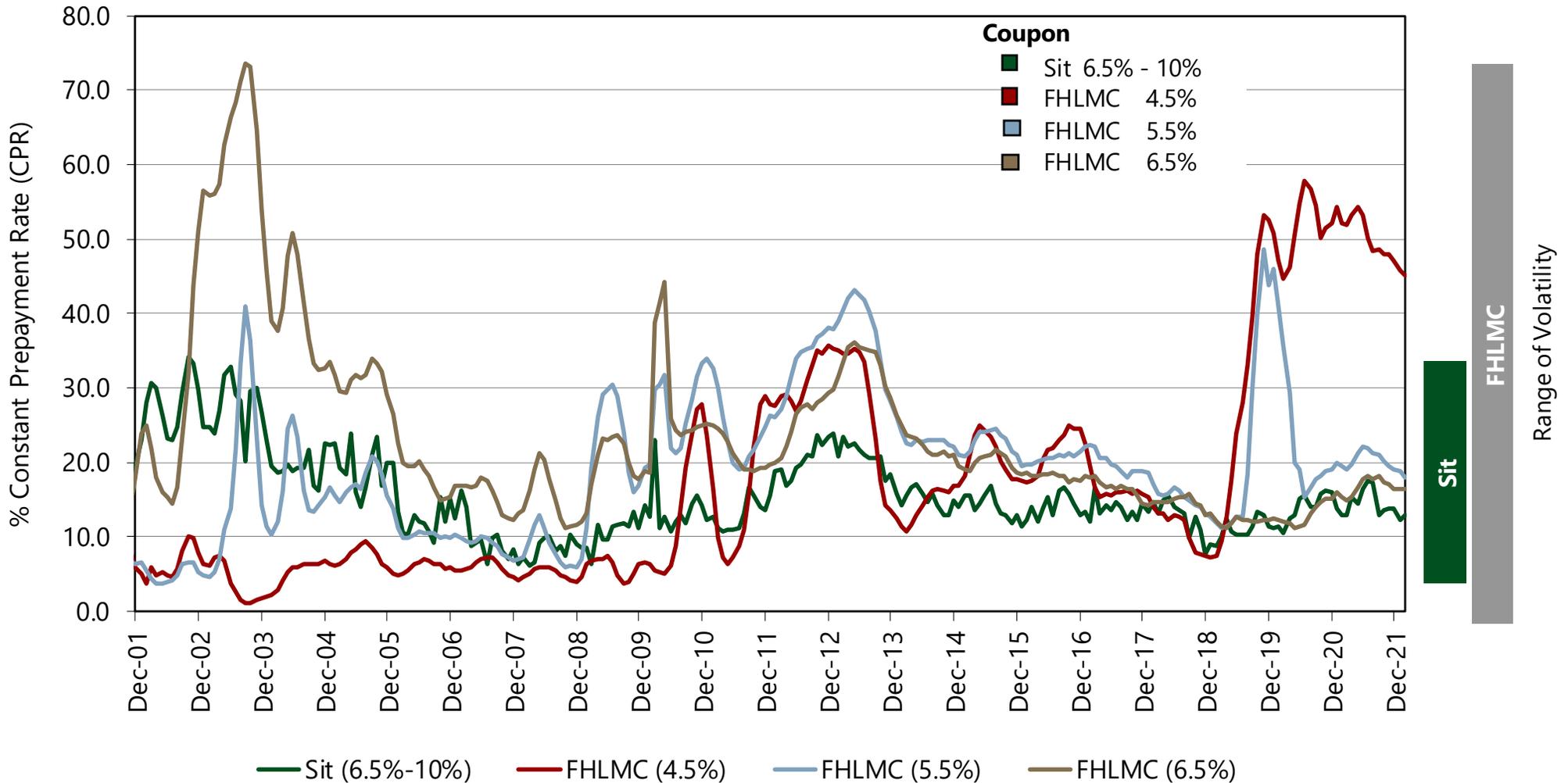
<b>Coupon</b>	<b>Purchase Cost</b>	—	<b>Par</b>	=	<b>Premium Paid</b>
6.00%	\$116,000		\$100,000		\$16,000

### One Year Profit / Loss Scenarios

	<b>Interest Received</b>	—	<b>Premium Loss</b>	=	<b>Profit</b>	<b>Profit / Cost</b>
1) Nobody refinances	\$6,000	—	\$0	=	\$6,000	5.17%
2) One-fifth is refinanced after 6 months	\$5,400	—	\$3,200	=	\$2,200	1.90%
3) Half is refinanced after 6 months	\$4,500	—	\$8,000	=	-\$3,500	-3.02%
4) All is refinanced after 6 months	\$3,000	—	\$16,000	=	-\$13,000	-11.21%

# SEASONED MORTGAGES HAVE LOWER PREPAYMENT EXPERIENCE

High coupon seasoned mortgages exhibit the most stable prepayments.



# ECONOMIC OUTLOOK

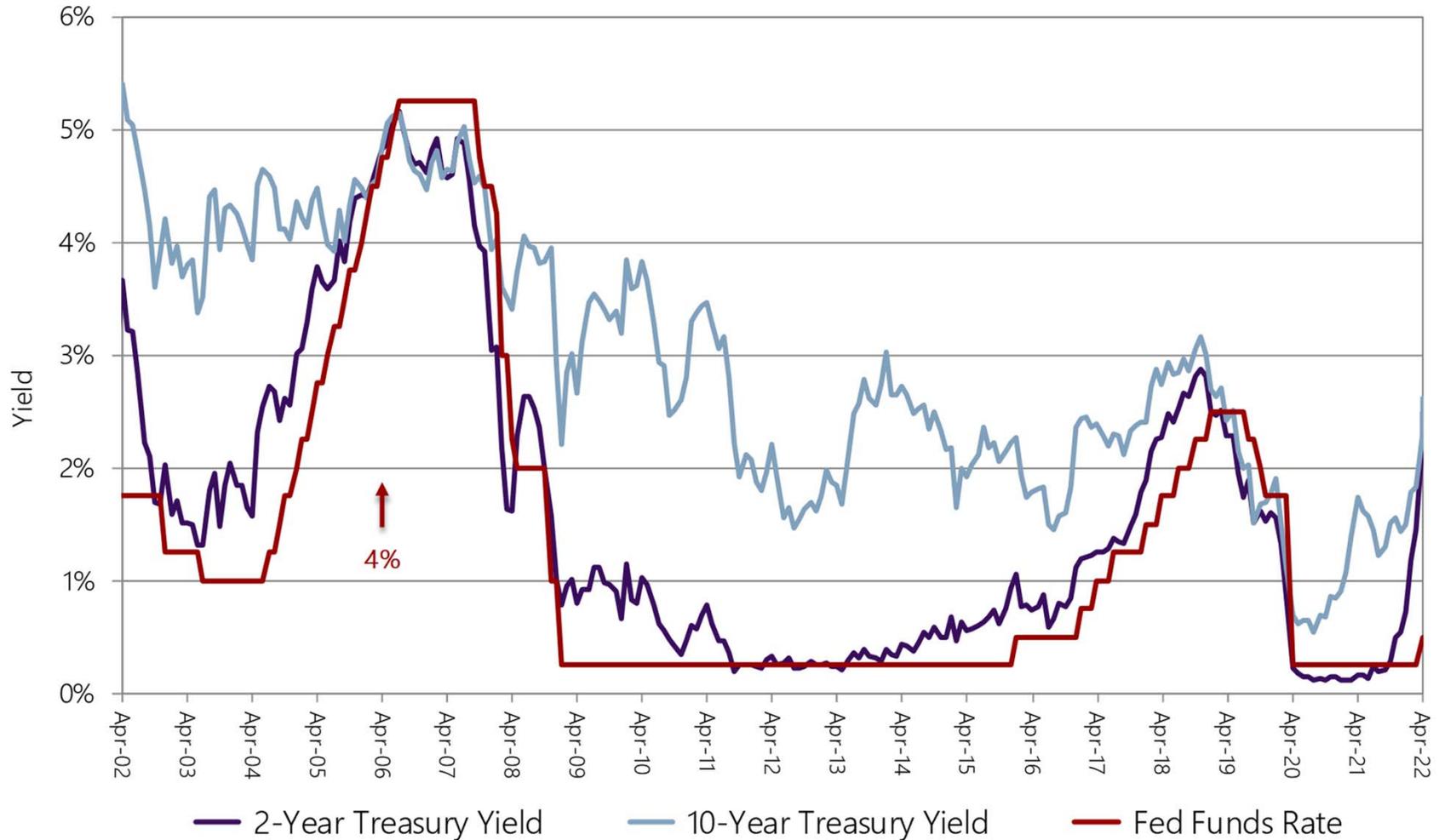
## DON'T FIGHT THE FED (OR A CORONAVIRUS)

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## 2- AND 10-YEAR U.S. TREASURY RATES VS. FED FUNDS RATE

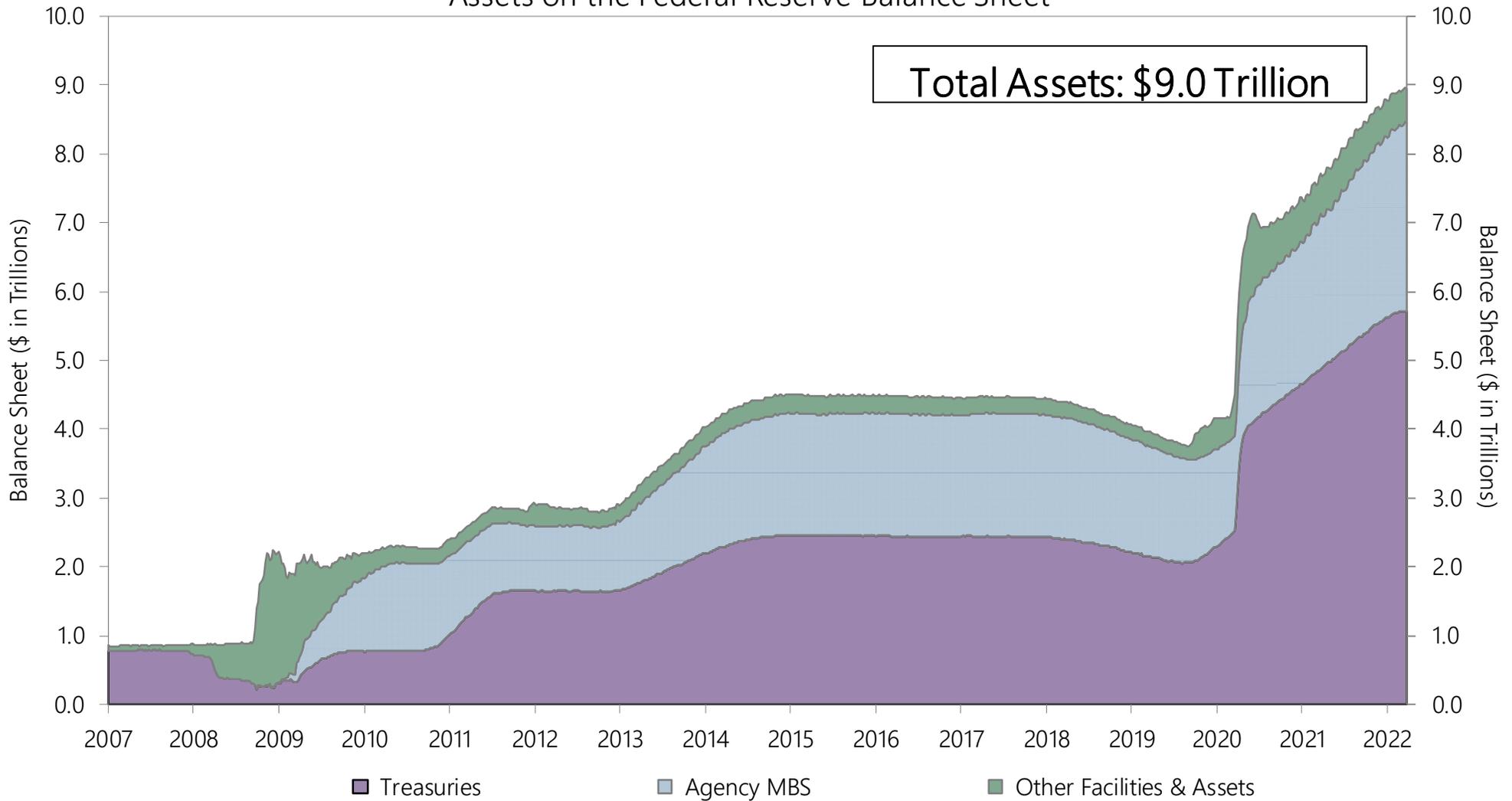
As of April 6, 2022



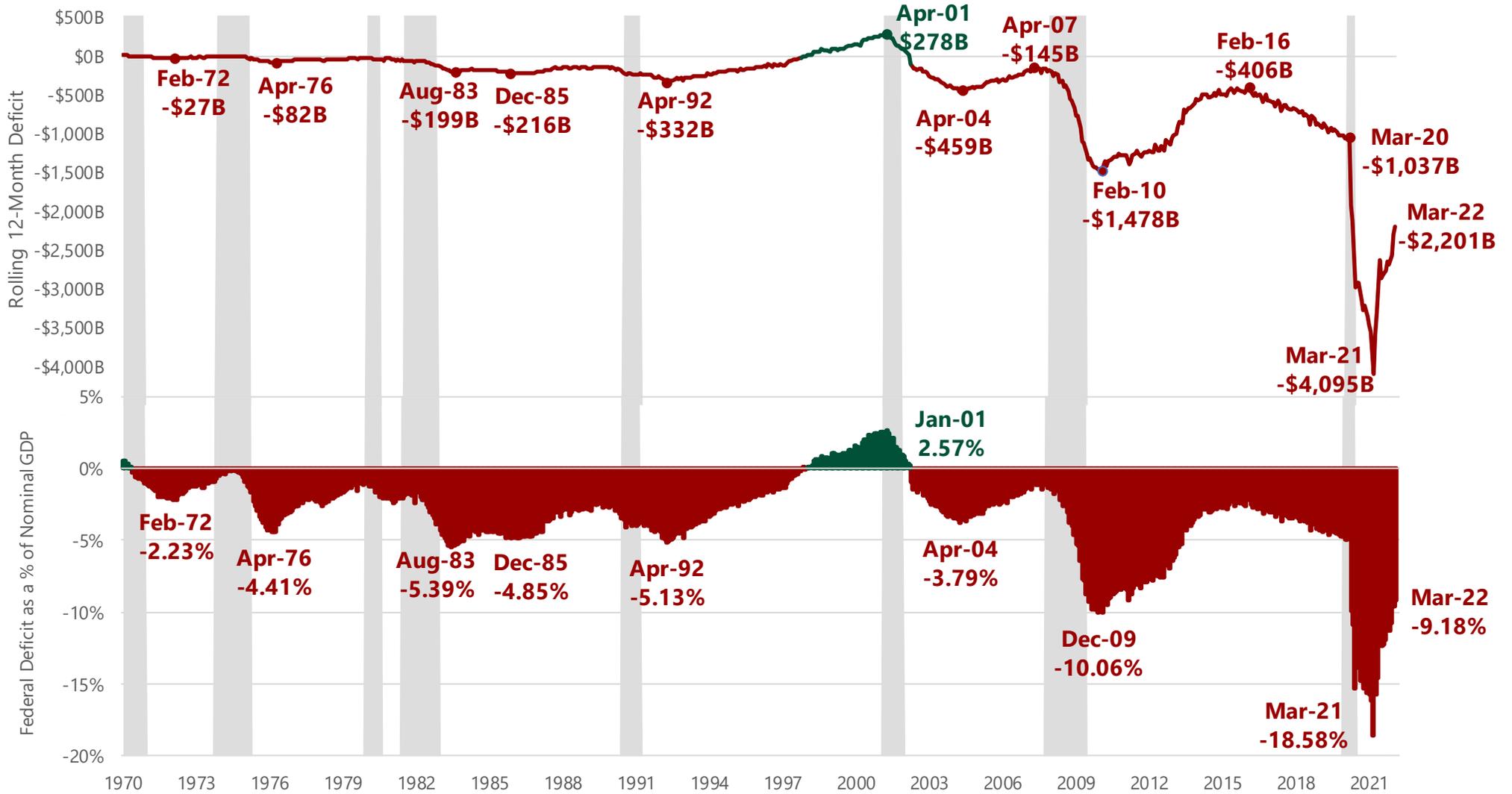
Source: Bloomberg, March 2022

# FEDERAL RESERVE BALANCE SHEET

As of March 30, 2022  
Assets on the Federal Reserve Balance Sheet



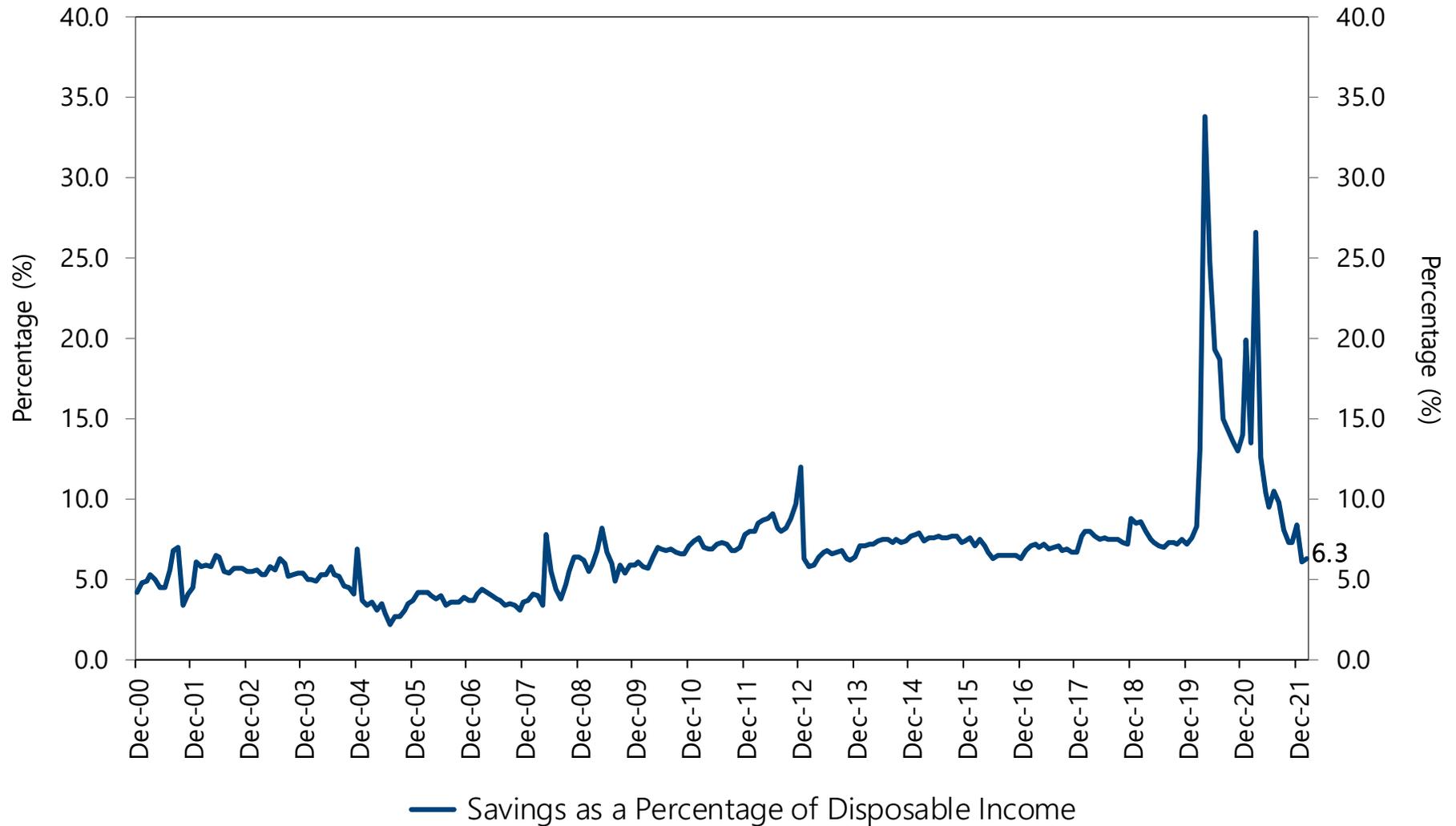
# THE U.S. FEDERAL DEFICIT



Source: Bloomberg, March, 2022

# PERSONAL SAVINGS AS A PERCENTAGE OF DISPOSABLE INCOME

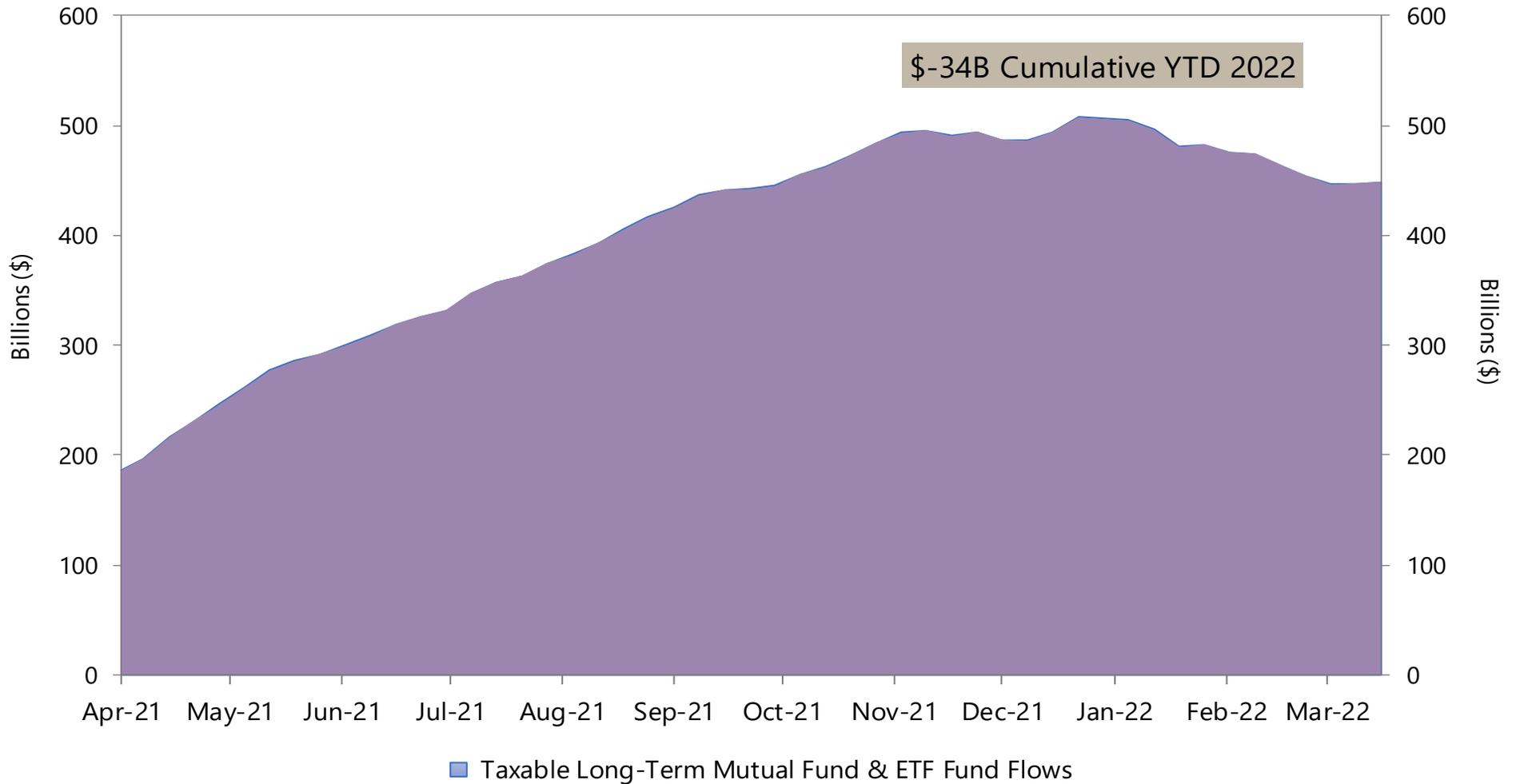
As of February 28, 2022



Source: Bloomberg, April, 2022

# ICI TAXABLE BOND LONG-TERM MUTUAL FUND AND ETFs WEEKLY FUND FLOWS

As of March 30, 2022



Source: Bloomberg, April, 2022

## COMPONENTS OF NOMINAL VS. REAL GDP

### **Nominal GDP:**

Contribution to Q/Q Percent Change	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Personal Consumption Expenditures	-3.9%	-24.4%	29.6%	3.3%	10.4%	12.9%	5.1%	6.8%
Nonresidential Fixed Investment	-1.0%	-4.4%	2.4%	1.6%	1.8%	1.3%	0.8%	1.2%
Residential Fixed Investment	0.8%	-1.4%	2.5%	1.6%	1.2%	0.1%	0.3%	0.4%
Change in Private Inventories	-0.8%	-4.9%	6.4%	0.8%	-2.8%	-1.4%	2.0%	5.0%
Net Exports	-0.2%	0.1%	-3.8%	-1.4%	-1.4%	-0.2%	-1.1%	-0.3%
Government Expenditures	1.1%	0.5%	0.0%	0.4%	1.7%	0.7%	1.2%	0.8%
<b>Gross Domestic Product</b>	<b>-3.9%</b>	<b>-32.4%</b>	<b>38.7%</b>	<b>6.6%</b>	<b>10.9%</b>	<b>13.4%</b>	<b>8.4%</b>	<b>14.3%</b>

### **Real GDP:**

Contribution to Q/Q Percent Change	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Personal Consumption Expenditures	-4.8%	-24.1%	25.5%	2.3%	7.4%	7.9%	1.4%	2.3%
Nonresidential Fixed Investment	-1.1%	-4.3%	2.7%	1.6%	1.7%	1.2%	0.2%	0.3%
Residential Fixed Investment	0.7%	-1.4%	2.2%	1.3%	0.6%	-0.6%	-0.4%	0.0%
Change in Private Inventories	-0.5%	-4.0%	6.8%	1.1%	-2.6%	-1.3%	2.2%	4.9%
Net Exports	-0.1%	1.5%	-3.3%	-1.7%	-1.6%	-0.2%	-1.3%	0.0%
Government Expenditures	0.6%	1.0%	-0.2%	-0.1%	0.8%	-0.4%	0.2%	-0.5%
<b>Gross Domestic Product</b>	<b>-5.1%</b>	<b>-31.2%</b>	<b>33.8%</b>	<b>4.5%</b>	<b>6.3%</b>	<b>6.7%</b>	<b>2.3%</b>	<b>6.9%</b>

Source: U.S. Bureau of Economic Analysis, January, 2022

# U.S. 10-YEAR BREAKEVEN INFLATION RATE

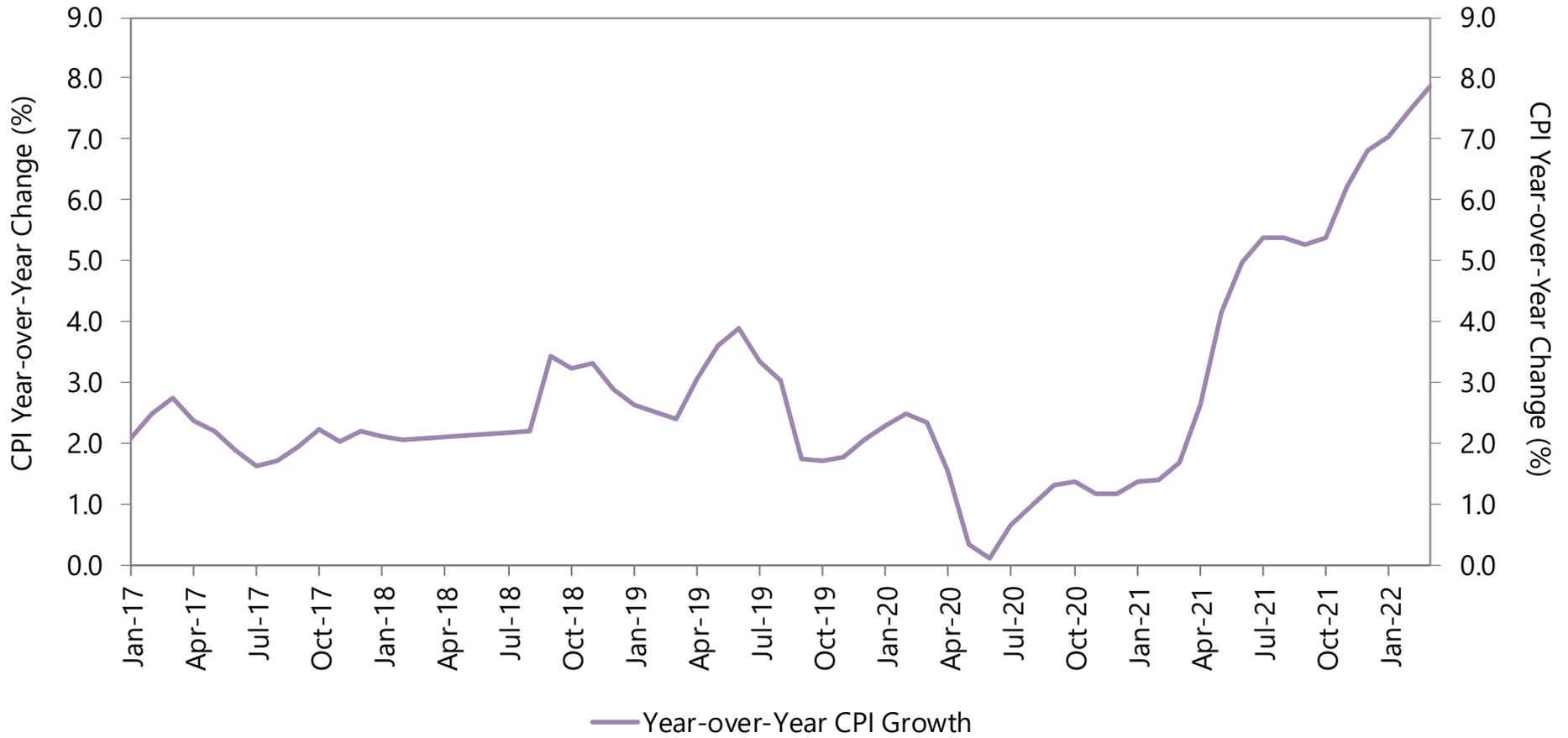
As of April 1, 2022



Source: Bloomberg, April, 2022

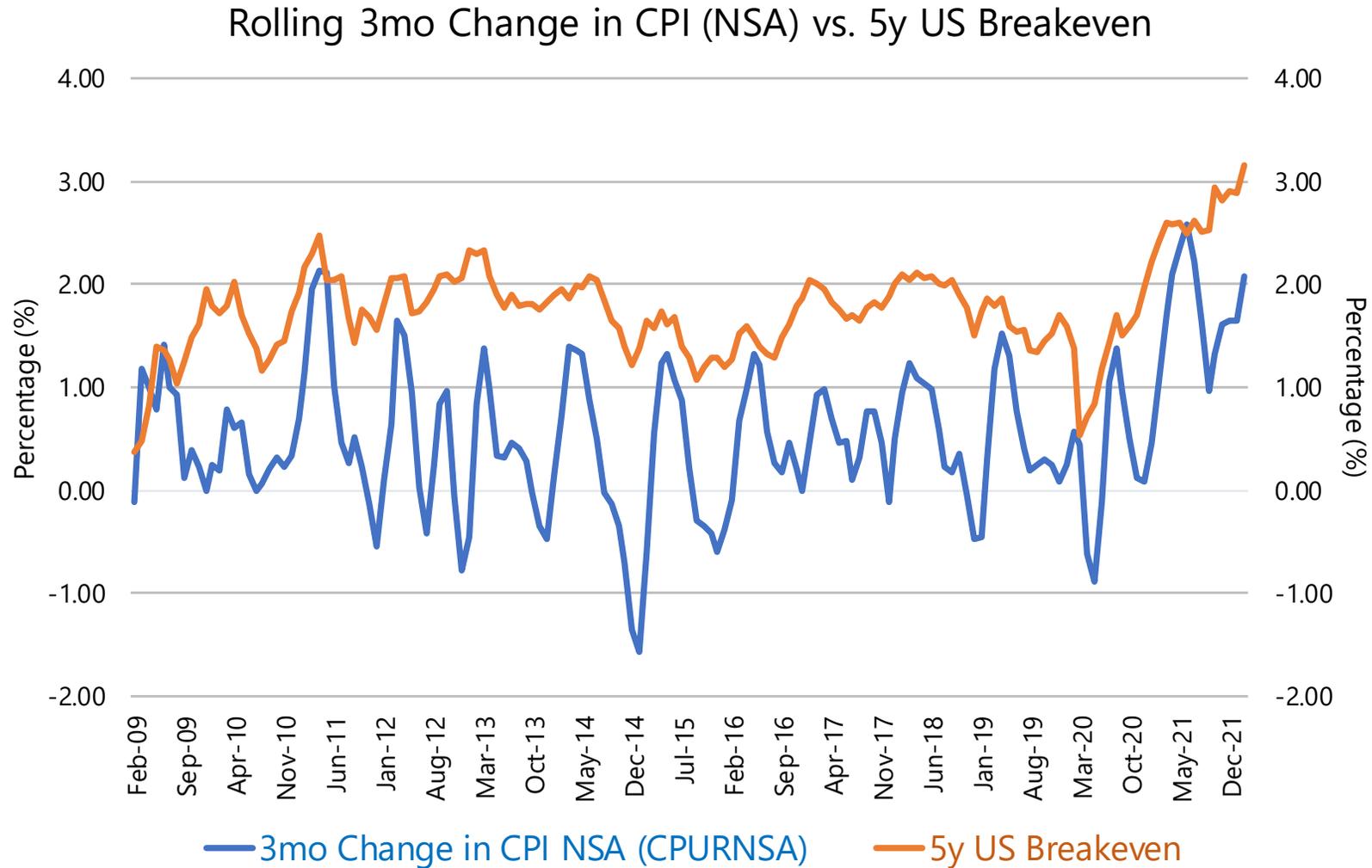
# INFLATION SPIKES

As of March 31, 2022



Source: Bloomberg, April, 2022

# ROLLING 3-MONTH CHANGE IN CPI (NSA) VS. 5-YEAR US BREAKEVEN



“Breakeven” refers to the difference in coupon yield between a traditional treasury bond and a Treasury Inflation Protected (TIP) security. This difference reflects the expected inflation rate that will be earned by TIPS.

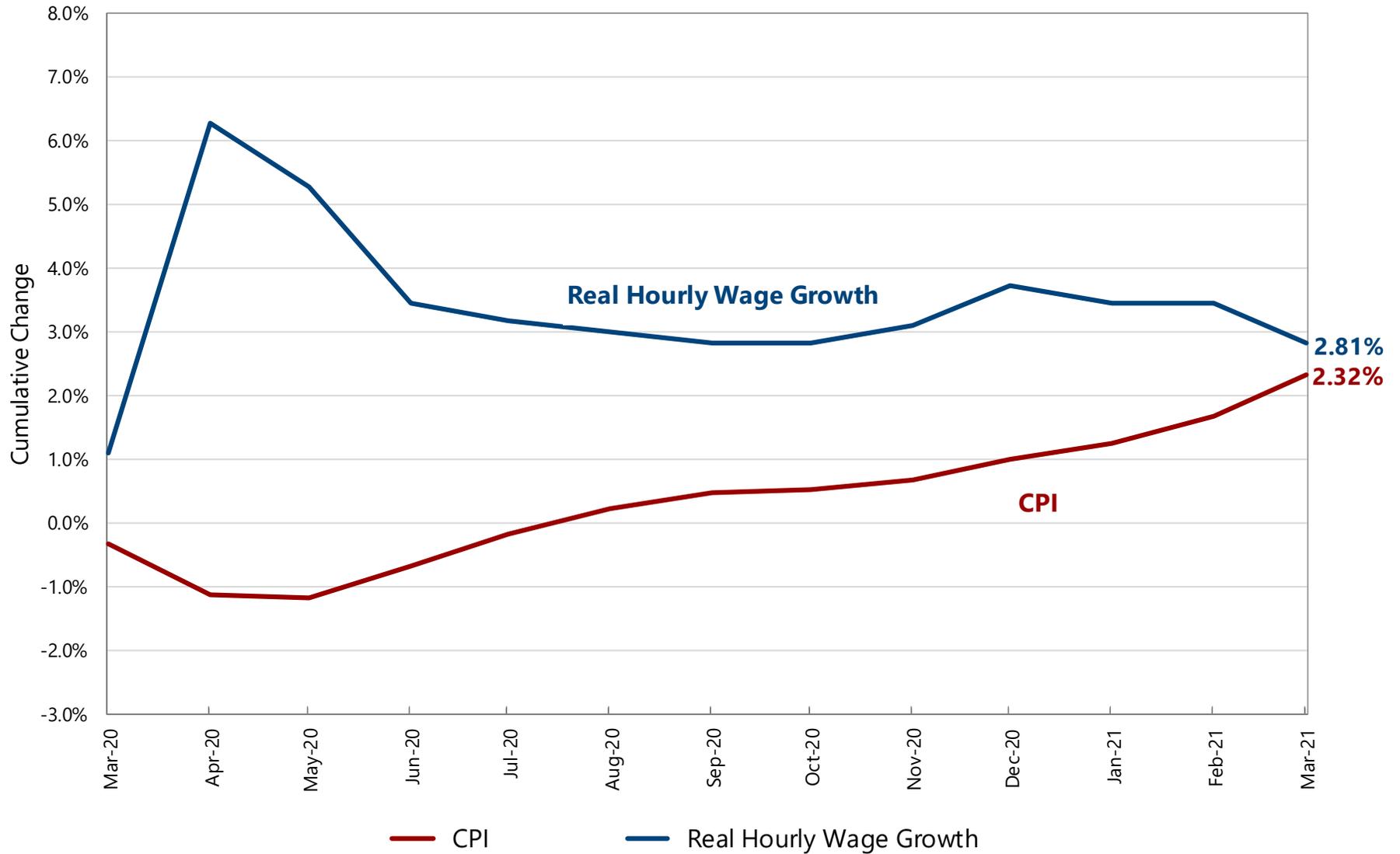
## SEASONALITY OF CPI (NSA, CPURNSA)

CPI (NSA) - Rolling 3 month Change in CPURNSA												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2022	1.65%	2.08%										
2021	0.46%	1.07%	1.69%	2.09%	2.35%	2.57%	2.23%	1.62%	0.96%	1.31%	1.60%	1.64%
2020	0.24%	0.57%	0.44%	-0.61%	-0.88%	-0.12%	1.06%	1.37%	0.96%	0.50%	0.12%	0.07%
2019	-0.46%	0.29%	1.18%	1.52%	1.31%	0.76%	0.40%	0.18%	0.24%	0.30%	0.25%	0.08%
2018	0.49%	0.94%	1.23%	1.08%	1.04%	0.98%	0.58%	0.22%	0.18%	0.35%	-0.04%	-0.48%
2017	0.46%	0.93%	0.98%	0.69%	0.46%	0.47%	0.11%	0.32%	0.76%	0.77%	0.47%	-0.12%
2016	-0.39%	-0.09%	0.68%	0.99%	1.31%	1.21%	0.57%	0.26%	0.17%	0.46%	0.21%	0.00%
2015	-1.57%	-0.61%	0.56%	1.24%	1.31%	1.07%	0.87%	0.21%	-0.29%	-0.34%	-0.41%	-0.60%
2014	0.16%	0.73%	1.39%	1.35%	1.33%	0.87%	0.50%	-0.02%	-0.13%	-0.34%	-0.72%	-1.35%
2013	-0.45%	0.84%	1.38%	0.98%	0.34%	0.31%	0.46%	0.40%	0.28%	-0.02%	-0.35%	-0.47%
2012	0.11%	0.63%	1.65%	1.51%	0.95%	0.04%	-0.43%	0.25%	0.84%	0.97%	-0.07%	-0.78%
2011	0.69%	1.15%	1.96%	2.13%	2.10%	1.01%	0.45%	0.26%	0.52%	0.22%	-0.14%	-0.54%
2010	0.24%	0.19%	0.78%	0.61%	0.66%	0.15%	0.00%	0.06%	0.22%	0.32%	0.22%	0.34%
2009	-2.51%	-0.11%	1.18%	0.99%	0.78%	1.40%	0.99%	0.92%	0.13%	0.38%	0.23%	-0.01%

CPI (NSA) - 1 month Change in CPURNSA												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2022	0.84%	0.91%										
2021	0.43%	0.55%	0.71%	0.82%	0.80%	0.93%	0.48%	0.21%	0.27%	0.83%	0.49%	0.31%
2020	0.39%	0.27%	-0.22%	-0.67%	0.00%	0.55%	0.51%	0.32%	0.14%	0.04%	-0.06%	0.09%
2019	0.19%	0.42%	0.56%	0.53%	0.21%	0.02%	0.17%	-0.01%	0.08%	0.23%	-0.05%	-0.09%
2018	0.54%	0.45%	0.23%	0.40%	0.42%	0.16%	0.01%	0.06%	0.12%	0.18%	-0.33%	-0.32%
2017	0.58%	0.31%	0.08%	0.30%	0.09%	0.09%	-0.07%	0.30%	0.53%	-0.06%	0.00%	-0.06%
2016	0.17%	0.08%	0.43%	0.47%	0.40%	0.33%	-0.16%	0.09%	0.24%	0.12%	-0.16%	0.03%
2015	-0.47%	0.43%	0.60%	0.20%	0.51%	0.35%	0.01%	-0.14%	-0.16%	-0.04%	-0.21%	-0.34%
2014	0.37%	0.37%	0.64%	0.33%	0.35%	0.19%	-0.04%	-0.17%	0.08%	-0.25%	-0.54%	-0.57%
2013	0.30%	0.82%	0.26%	-0.10%	0.18%	0.24%	0.04%	0.12%	0.12%	-0.26%	-0.20%	-0.01%
2012	0.44%	0.44%	0.76%	0.30%	-0.12%	-0.15%	-0.16%	0.56%	0.45%	-0.04%	-0.47%	-0.27%
2011	0.48%	0.49%	0.98%	0.64%	0.47%	-0.11%	0.09%	0.28%	0.15%	-0.21%	-0.08%	-0.25%
2010	0.34%	0.02%	0.41%	0.17%	0.08%	-0.10%	0.02%	0.14%	0.06%	0.12%	0.04%	0.17%
2009	0.44%	0.50%	0.24%	0.25%	0.29%	0.86%	-0.16%	0.22%	0.06%	0.10%	0.07%	-0.18%

# CPI VS. REAL WAGES (CUMULATIVE)

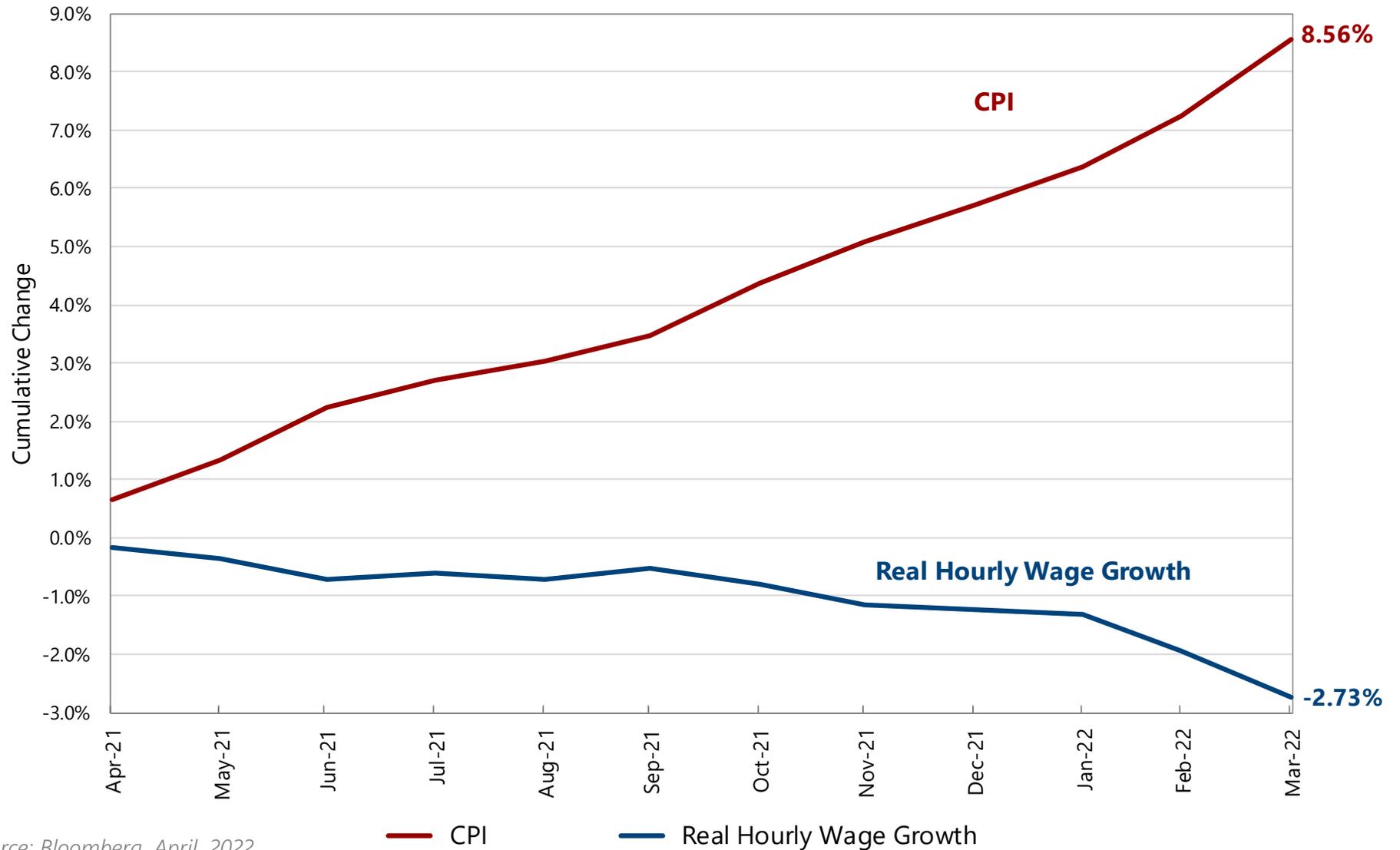
March 2020 – March 2021



Source: Bloomberg, March, 2022

# CPI VS. REAL WAGES (CUMULATIVE)

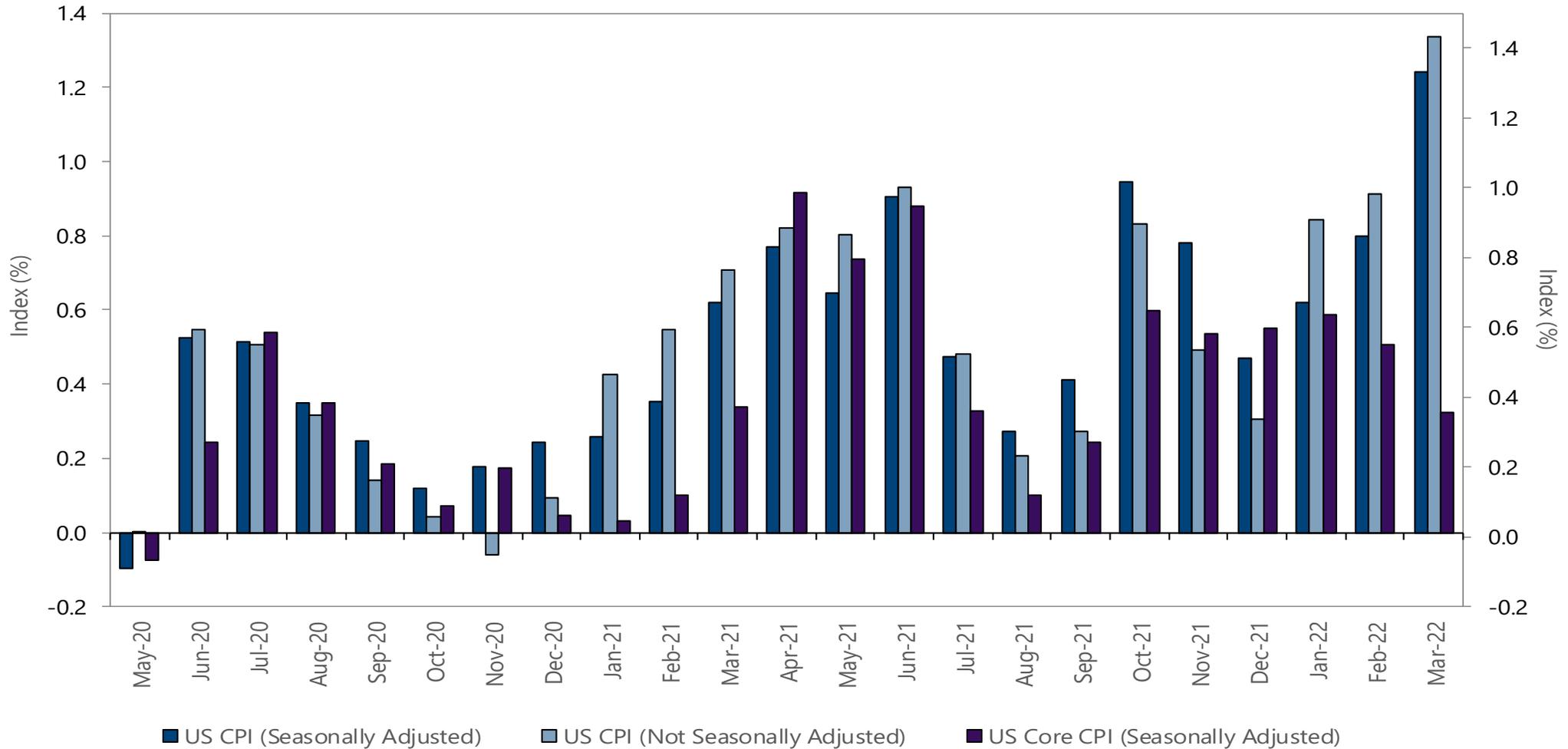
April 2021 - March 2022



Source: Bloomberg, April, 2022

# MONTHLY CONSUMER PRICE INDEX (CPI)

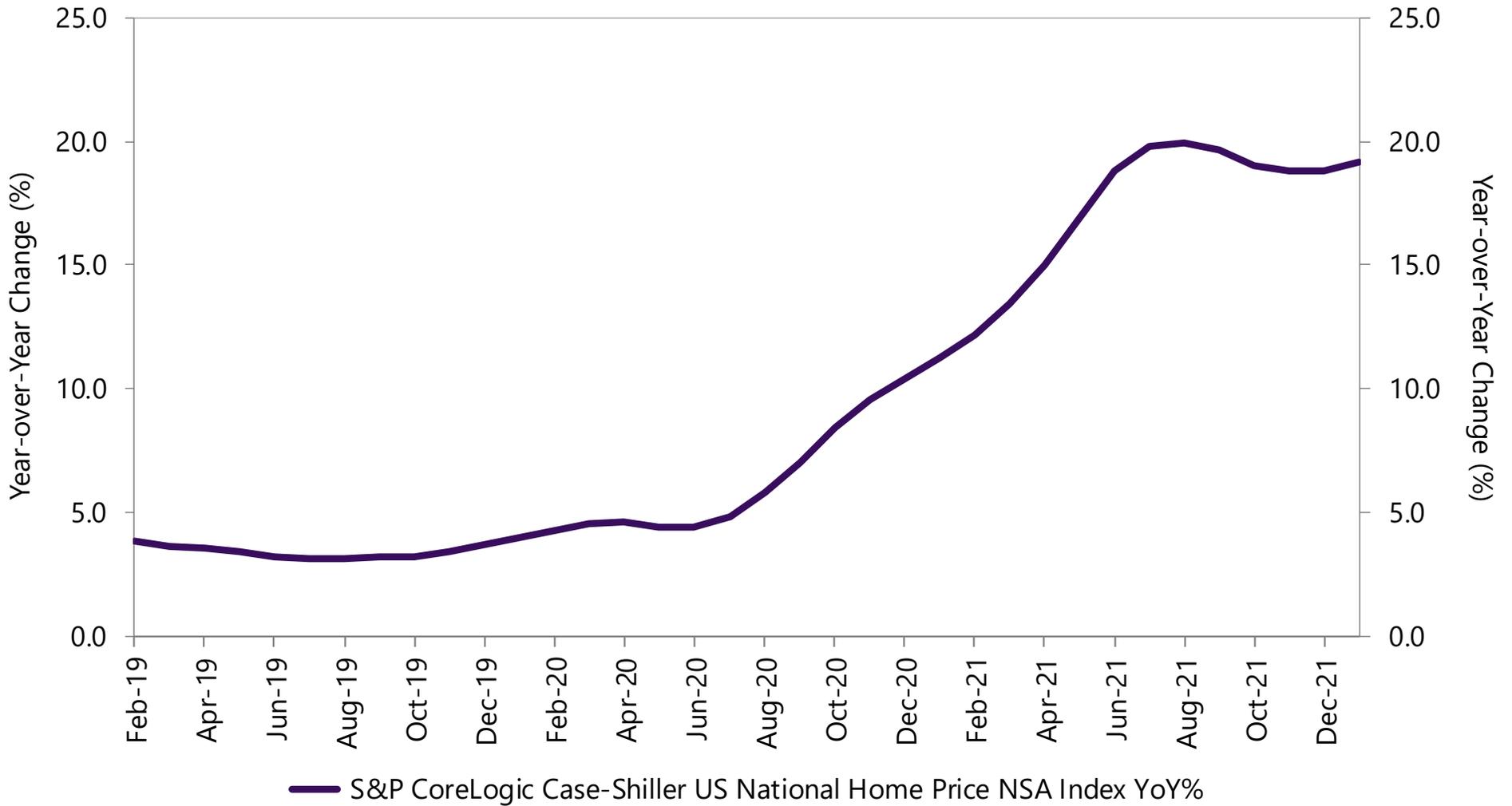
As of March 31, 2022



Source: Bloomberg, April, 2022

# CASE-SHILLER U.S. NATIONAL HOME PRICE INDEX

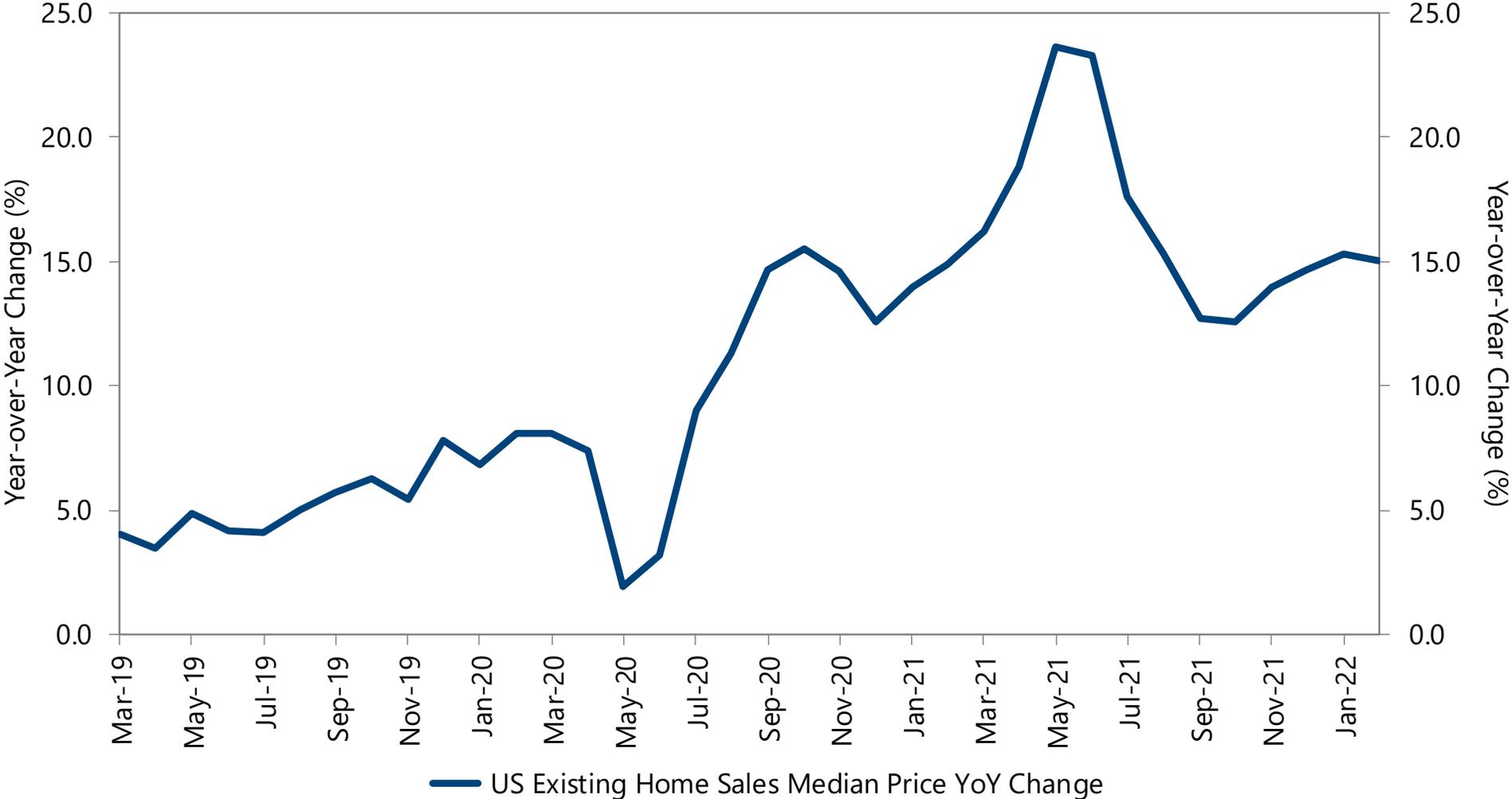
As of January 31, 2022



Source: Bloomberg, March, 2022

# U.S. EXISTING HOME SALES MEDIAN PRICE

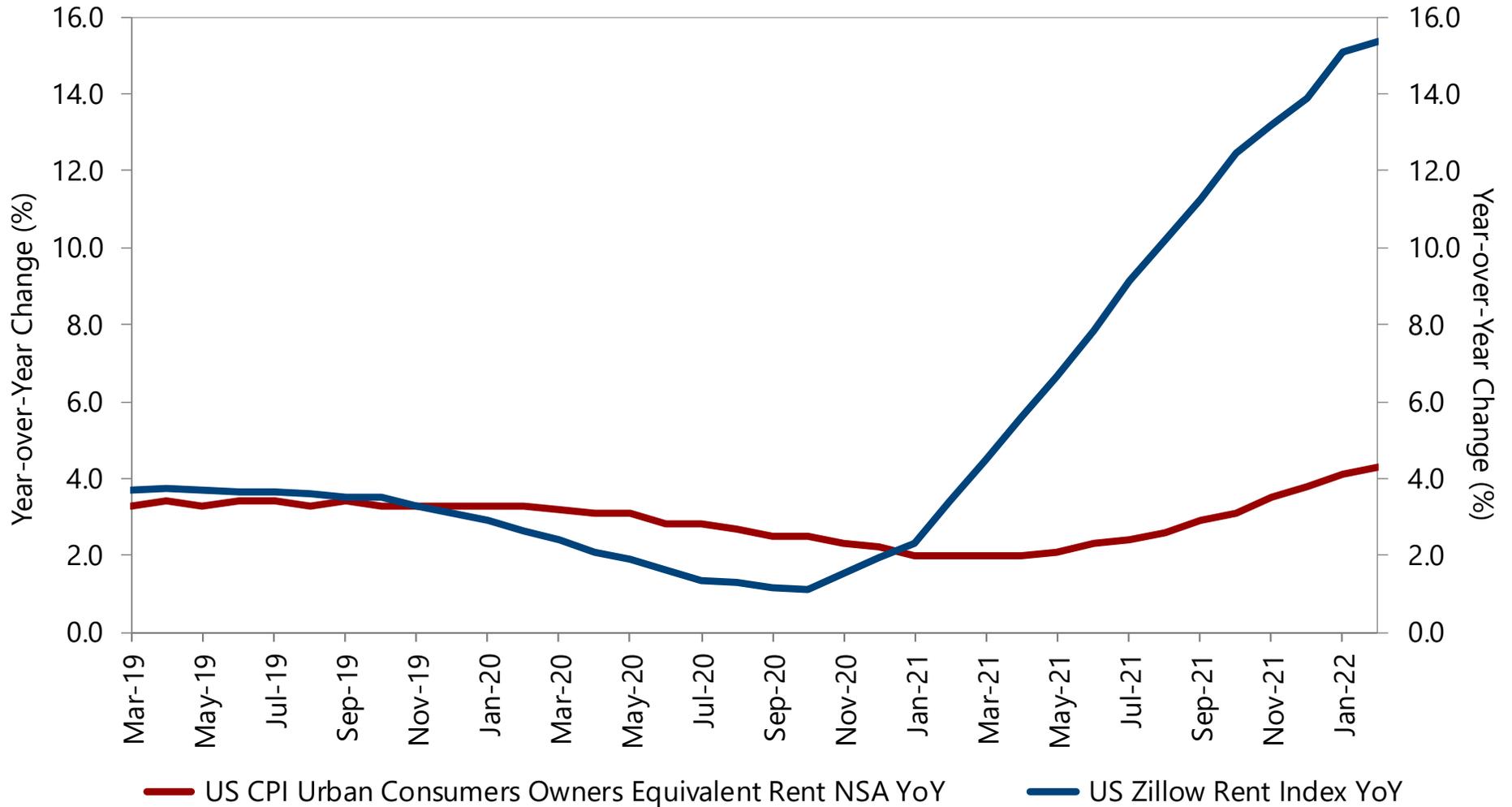
As of February 28, 2022



Source: Bloomberg, March, 2022

# YEAR-OVER-YEAR RENT GROWTH

As of February 28, 2022



Source: Bloomberg, March, 2022

# U.S. HOURLY COMPENSATION AND TOTAL JOB OPENINGS

As of February 28, 2022



Source: Bloomberg, March, 2022

## POTENTIAL PATH OF FED RATE INCREASES

---

Fed Meeting Date	Rate Increase	Fed Funds Rate
March 16 <sup>th</sup>	0.25%	0.25% - 0.50%
May 4 <sup>th</sup>	0.50%	0.75% - 1.00%
June 15 <sup>th</sup>	0.50%	1.25% - 1.50%
July 27 <sup>th</sup>	0.25%	1.50% - 1.75%
September 21 <sup>st</sup>	0.25%	1.75% - 2.00%
November 2 <sup>nd</sup>	0.50%	2.25% - 2.50%
December 14 <sup>th</sup>	No Change	2.25% - 2.50%

## STATUS OF FEDERAL RESERVE EMERGENCY BOND MEASURES

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Nickname	Program Name	Status
PMCCF	Primary Market Corporate Credit Facility	Sold
SMCCF	Secondary Market Corporate Credit Facility	Sold
TALF	Term Asset-Backed Securities Loan Facility	Ceased Lending 12/31/2020
MLF	Municipal Securities	Ceased Lending 12/31/2020
MSLP	Main Street Lending Program	Ceased Lending 1/8/2021
PDCF	Primary Dealer Credit Facility	Assets Matured
CPFF	Commercial Paper Funding Facility	Assets Matured
MMLF	Money Market Mutual Fund Liquidity Facility	Assets Matured
PPPLF	Paycheck Protection Program (PPP)	Ceased Lending 6/30/2021
TSY	Treasury Security Purchases (\$80B/month)	Ceased Purchases
MBS	Agency MBS Purchases (\$40B/month)	Ceased Purchases
\$\$\$	Nearly \$9 Trillion Balance Sheet	Reduce \$40B/month after 6/2022

Source: Bloomberg, March, 2022

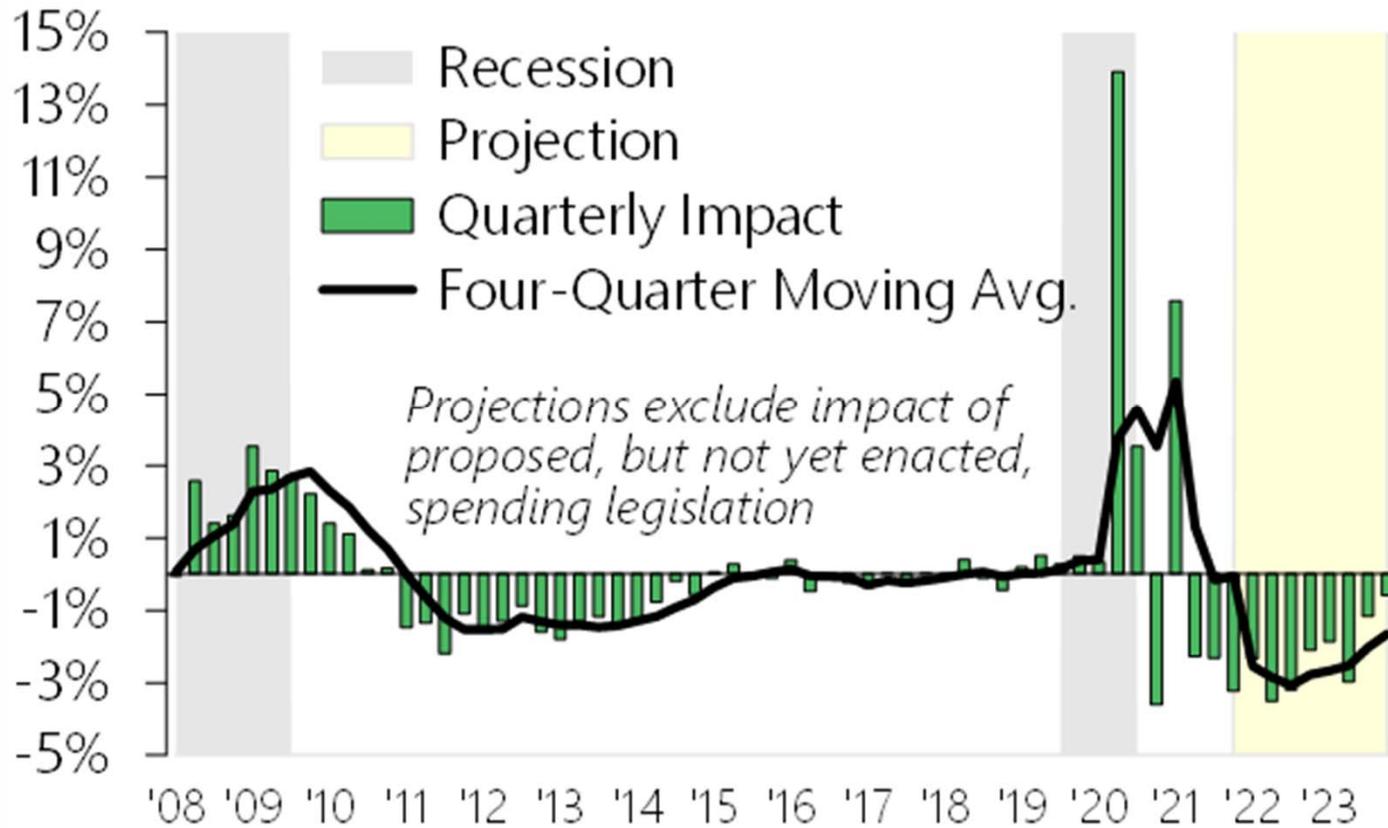
# NORMALIZING FACTORS TO SLOW 2023 ECONOMIC GROWTH

---

- 1. Dissipation of Excess Savings**
- 2. \$3 Trillion Less Fiscal Deficit Spending**
- 3. Federal Reserve Raising Rates and Shrinking Money Supply**
- 4. Tax Increases**

# FISCAL CLIFF

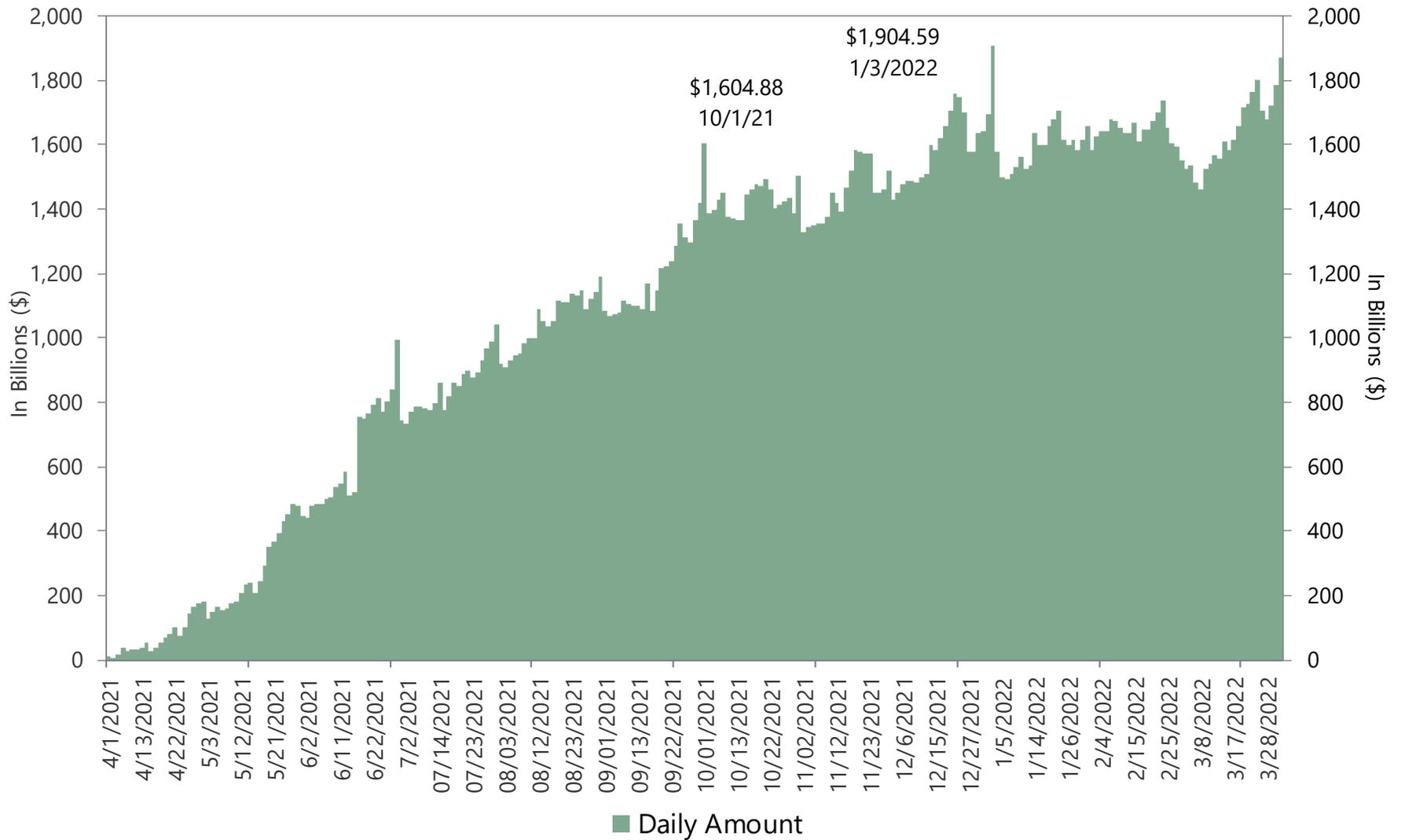
## Contribution of Fiscal Policy to U.S. Real GDP Growth



Source: Hutchins Center at Brookings

# THE NEW YORK FED'S REVERSE REPO FACILITY

As of March 31, 2022



Source: New York Federal Reserve, April, 2022

# MISCELLANEOUS

# ESG (ENVIRONMENTAL, SOCIAL AND GOVERNANCE) PRACTICES

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## PHILOSOPHY AND INTEGRATION

- Sit is a signatory of the UN Principles for Responsible Investment.



- Sit Investment Associates (SIA) strives to improve people's standard of living by achieving our clients' investment goals. Our clients include hospitals, insurance providers, endowments, foundations, families, pension funds and religious organizations that deliver tremendous social value to the communities they serve.

**The better Sit serves our clients, the more good they can do in the world.**

- SIA manages portfolios to provide long-term reward commensurate with acceptable risk. We believe that integrating ESG risk analysis into the investment process results in better long-term investment returns for our clients. Further, we believe that allocating capital to companies with strong ESG practices creates positive incentives and benefits society as a whole.
- SIA incorporate ESG principles into our own organization:
  - We are deeply committed to following ethical business practices.
  - Sit Investment Associates is a minority-owned business enterprise - diversity and inclusion are an integral part of SIA's culture and history.
  - Sit fosters a culture of giving back to our communities and provides ongoing support to organizations focused on food and shelter, health care, education, military veterans and cultural activities.
  - Sit seeks to reduce our environmental footprint through adopting more efficient technologies, recycling and consuming fewer resources.

## SIT FIXED INCOME ESG PROCESS

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- Within Sit fixed income strategies, our objective is to achieve the highest level of portfolio income with the least amount of risk. Corporate bonds whose issuers have higher than average ESG risks will thus have a higher relative value threshold (i.e., they will need to yield significantly more than a comparably rated security with lower ESG risks).
- Sit does not exclude sectors with more ESG risk, unless instructed by client guidelines, but higher ESG risk sectors will only have significant weight in our portfolios when they become attractive from a relative-value perspective.
- Sit fixed income corporate credit approach considers ESG-related risks as a single component of our bottom-up fundamental analysis. We do not restrict our corporate bond holdings to corporate issuers that score highly on ESG related-factors.
- Sit Fixed Income strategies are relative-value driven. We view corporate and credit bonds with ESG issues as riskier, and these securities will have a higher relative value threshold.

## SIT INVESTMENT ASSOCIATES – DIVERSITY & INCLUSION

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- Sit Investment Associates is certified as a minority business enterprise by the North Central Minority Supplier Development Council, an affiliate of the National Minority Supplier Development Council, Inc.
  - Sit Investment Associates is a Diverse-Owned Firm with **over 80% minority ownership**



- Overall, SIA is **96.0% employee-owned**. Nearly half of Sit employees (35 total) own equity in the firm.
- SIA's diversity and inclusion efforts are reflected in SIA's Affirmative Action Plan and in the EEO Policy Statement the requirements of which apply to all employment actions
  - Our policies and procedures are designed to **eliminate barriers to employment and increase retention of minorities, women and persons with disabilities.**

## SIT INVESTMENT ASSOCIATES - MINORITY OWNERSHIP

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**Sit is an independent, employee-owned investment firm and one of the largest minority-owned firms in the industry:**

- Total employees: 71
- Employees with ownership: 35
- Minority employee ownership: 90.96%
- Employee ownership: 96.00%

# IMPORTANT DISCLOSURES

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## **Performance Results – Gross of Fees**

Gross returns were calculated on a time-weighted total return basis, including all dividends and interest, accrued income, realized and unrealized gains or losses. Returns for periods greater than one year are annualized. Gross of fees performance is presented net of brokerage commissions and execution costs, but does not reflect deduction for custodial and investment advisory fees, or the impact of income taxes. These expenses will reduce a client's return. For example, a \$5 million portfolio earning a 10% annualized return over 5 years would be valued at \$8.1 million. The same portfolio with an annual fee of 0.75% would be valued at \$7.8 million net of investment management fees. Advisory fees are described in Form ADV part 2. Please see the composite presentation including net of fees results at the end of the disclosure section.

The composite presentation includes a description of the securities held in the composite portfolio.

Index returns are presented as total returns, reflecting both price performance and income from dividend payments. The indexes are unmanaged and reflect no fees or expenses.

Past performance is not indicative of future performance. Investment return and principal value of an investment will fluctuate so that the value of an account may be worth more or less than the original invested cost.

**This gross performance presentation is intended for use in meetings with certain investors, or to be provided to consultants who are instructed to provide this information only on a one-on-one basis with qualified clients with the above disclosures.**

## **Supplemental Information**

Portfolio characteristic information is supplemental to and complements the composite presentation at the end of the disclosure section. The account characteristic information presented is for the composite and is provided for illustrative purposes only. Characteristics of the composite may differ from other accounts in the composite. Allocations and security selection are subject to change. There is no assurance that any security discussed herein will remain in an account's portfolio.

The information provided in this report should not be considered a recommendation of any particular security or strategy.

## **eVestment Alliance Peer Ranks**

Peer rankings represent percentile rankings which are based on monthly gross of fee returns and reflect where the Sit Investment composite returns fall within the indicated eVestment Alliance, LLC ("eVestment") universe. eVestment provides the institutional investment database which consists of institutional managers, investment consultants, plan sponsors and other similar financial institutions reporting on investment products. Performance figures are provided to eVestment by individual investment management firms for informational purposes only. eVestment does not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Additional information regarding eVestment rankings is available on eVestment's website. This presentation is intended for institutional investor use only.

*Meeting Date*  
**04/27/2022**  
*Agenda Item*  
**#6**

**Verus** 



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**



**APRIL 2022**

Perspectives on Interest Rates and Inflation

**Contra Costa Employees' Retirement Association**

# Overview

- First principles: interest rate mechanics
- Inflation and rates through history
- Current economic backdrop
- Assessing possible outcomes
- Conclusion

# Interest rates and bond prices

## Primary Factors:

### — Interest Rates



“Bad” for bond investors



“Good” for bond investors

### — Duration/Maturity

- The direction of interest rates determines the direction of bond pricing but the duration/maturity of the bond determines the magnitude of the change in pricing.
- The longer the duration/maturity, the bigger the price movement

# Interest rates and other assets

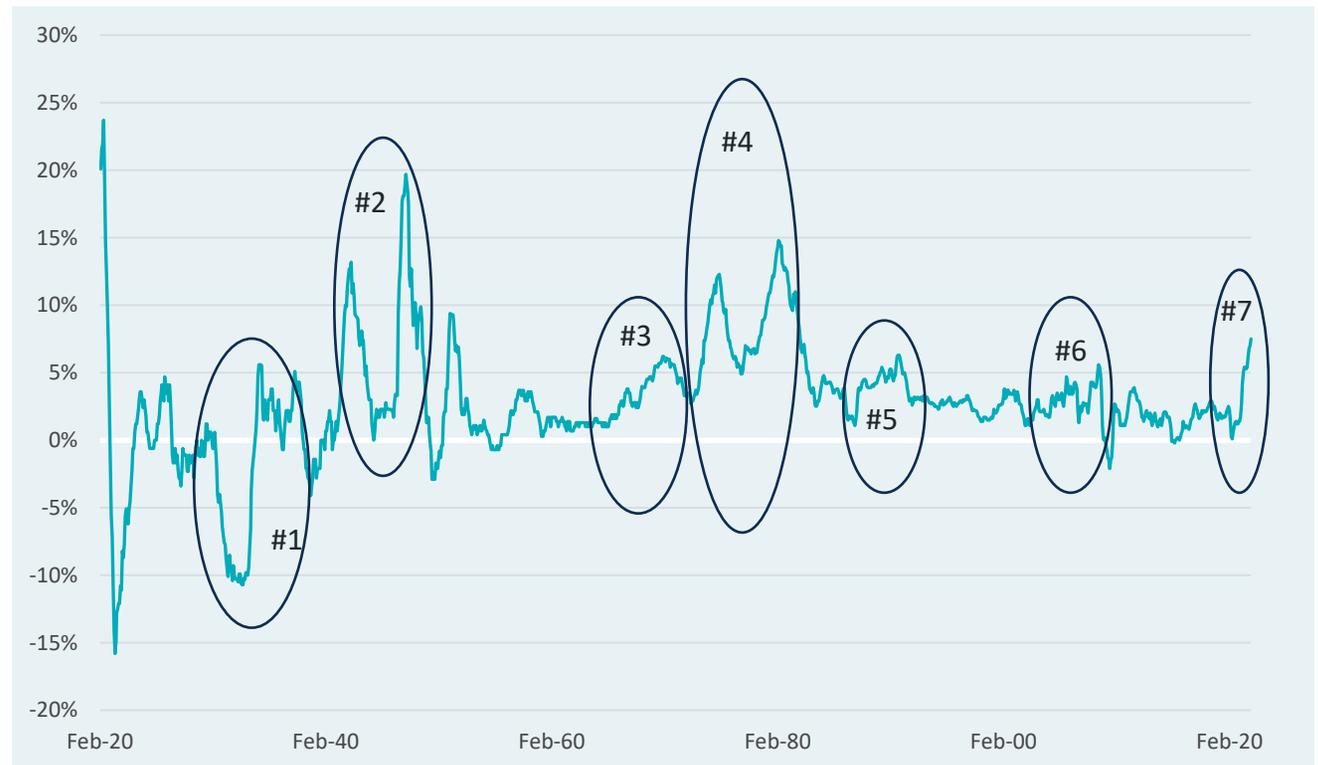
Asset Class	Valuation Mechanism	Other considerations
Domestic Equity	<ul style="list-style-type: none"> <li>Discounted cash flow</li> </ul>	<ul style="list-style-type: none"> <li>Sector differences (e.g., Tech vs. Utilities)</li> </ul>
International Equity	<ul style="list-style-type: none"> <li>Discounted cash flow</li> </ul>	<ul style="list-style-type: none"> <li>Foreign exchange rates</li> </ul>
Private Equity	<ul style="list-style-type: none"> <li>Discounted cash flow</li> <li>Public market comps</li> </ul>	<ul style="list-style-type: none"> <li>Cost of leverage</li> </ul>
Private Credit	<ul style="list-style-type: none"> <li>Minimal impact due to low duration of floating rate instruments</li> </ul>	<ul style="list-style-type: none"> <li>Financial stress</li> <li>Value of equity kickers</li> </ul>
Real Estate	<ul style="list-style-type: none"> <li>Discounted cash flow</li> </ul>	<ul style="list-style-type: none"> <li>Ability to raise rents</li> <li>Cost of leverage</li> </ul>

Similar to bonds, most financial assets have associated cash flows and timing by which those cash flows are expected to be realized

# What can history tell us about today's inflationary environment?

How do previous periods of high inflation compare in terms of similarities and differences? How do these periods compare to today?

1. Great Depression of the 1930s
2. World War II
3. Late 1960s expansion
4. 1970s oil shocks
5. 1990s Iraqi invasion of Kuwait
6. 2008-2009 Global Financial Crisis
7. COVID-19 pandemic recovery



Source: BLS, Bloomberg, as of 1/31/22; see Appendix for additional detail on selected historical scenarios.

# Inflation environment scorecard

*This table represents conditions leading up to each inflationary environment*

	DEMAND & SUPPLY DYNAMICS			MONETARY/FISCAL DYNAMICS			OTHER
	Significant increase in demand	Supply disruptions	Labor shortage	High fiscal spending	Monetary accommodation	Deficit spending	Geopolitical tensions
<b>Great Depression</b> (peak inflation 5.6%)						*	
<b>World War II</b> (peak inflation 9.4%)							
<b>Late 1960s expansion</b> (peak inflation 6.2%)							
<b>1970s oil shocks</b> (peak inflation 14.8%)							
<b>1990 oil shock</b> (peak inflation 6.3%)							
<b>2008-2009 GFC</b> (peak inflation 5.6%)							
<b>Covid-19 pandemic recovery</b> (peak inflation 8.5%)							

The causes of inflationary pressure over time have varied in type and magnitude



*Note: The economic events listed above are admittedly incredibly complex, with intelligent arguments on many sides regarding causes, effects, and general dynamics of each variable listed. Please accept this summary as a well-meaning attempt at an approximation.*

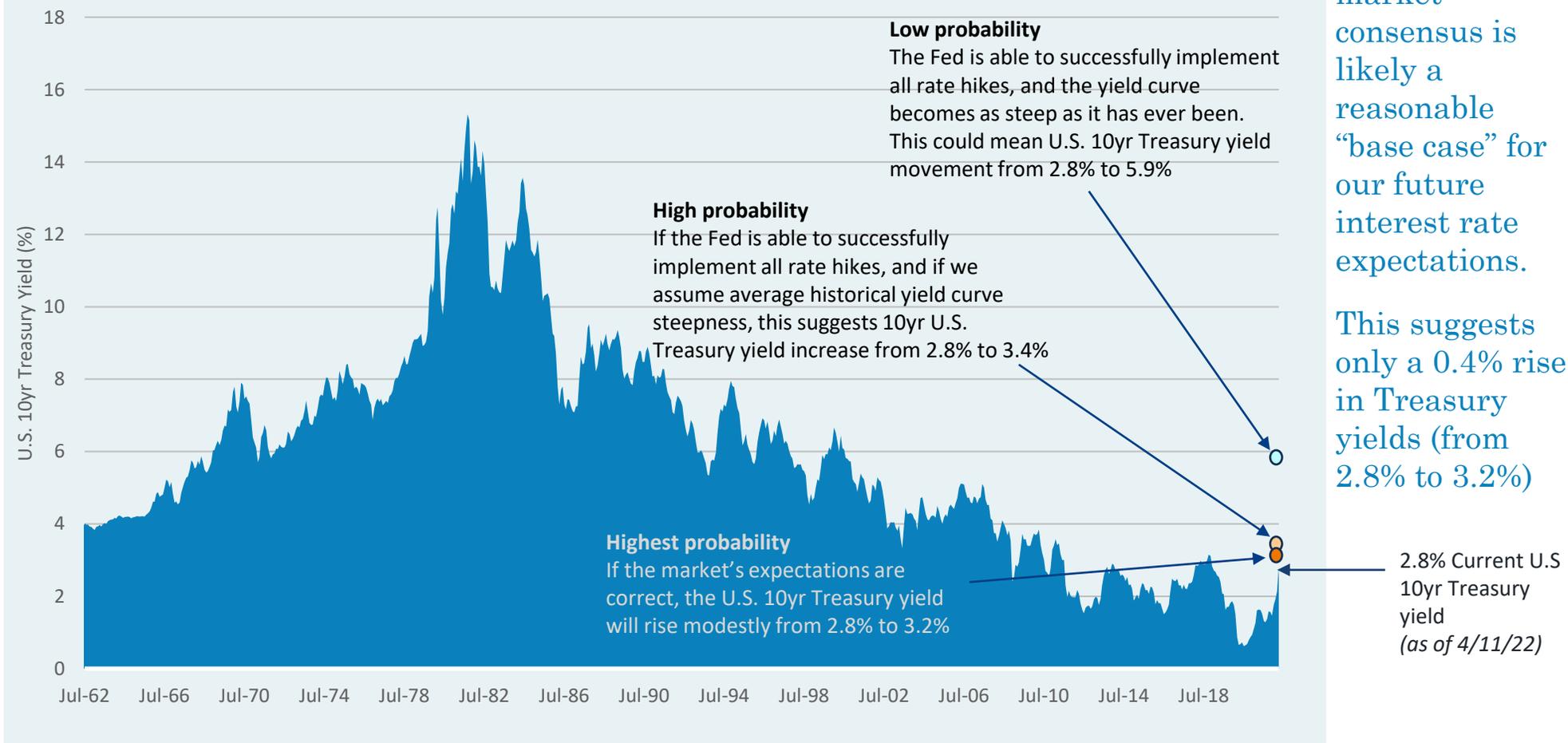
*\*The U.S. Government ran a budget surplus in the years leading up to the Great Depression. As the recession began, this surplus changed to deep deficit. This deficit spending peaked at 5.4% of GDP in 1934.*

# The current environment in context

- History illustrates that interest rates typically do not rise solely due to inflation. Rather, they rise because inflation is increasing and the Federal Reserve is hiking interest rates in reaction to higher inflation.
- During events of the past 100 years when inflation jumped but the Federal Reserve did not hike rates, rate rises were minimal.
- If the Federal Reserve maintains their current interest rate policy, history suggests interest rates may remain relatively low despite higher inflation.

# Identifying some possible scenarios, using history as a guide

## 10YR U.S. TREASURY YIELD

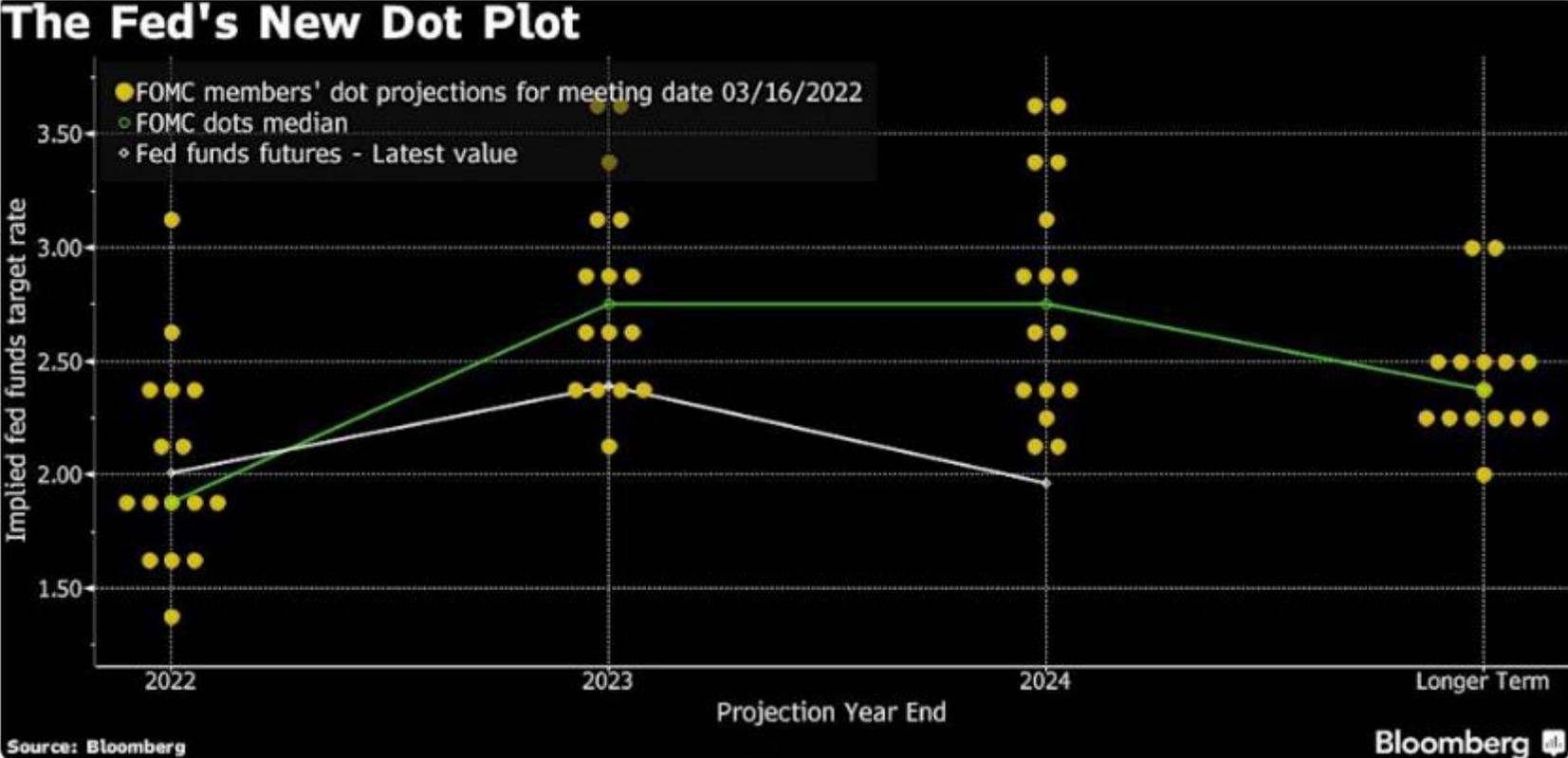


Source: Verus, FRED

# What might a rising rate environment look like?

- Federal Reserve-driven rate hikes
- This likely means a flatter or even inverted yield curve as short rates move more than long rates
- Which suggests investors might consider *which part* of the interest rate curve is likely to rise, and what this implies for bond portfolios

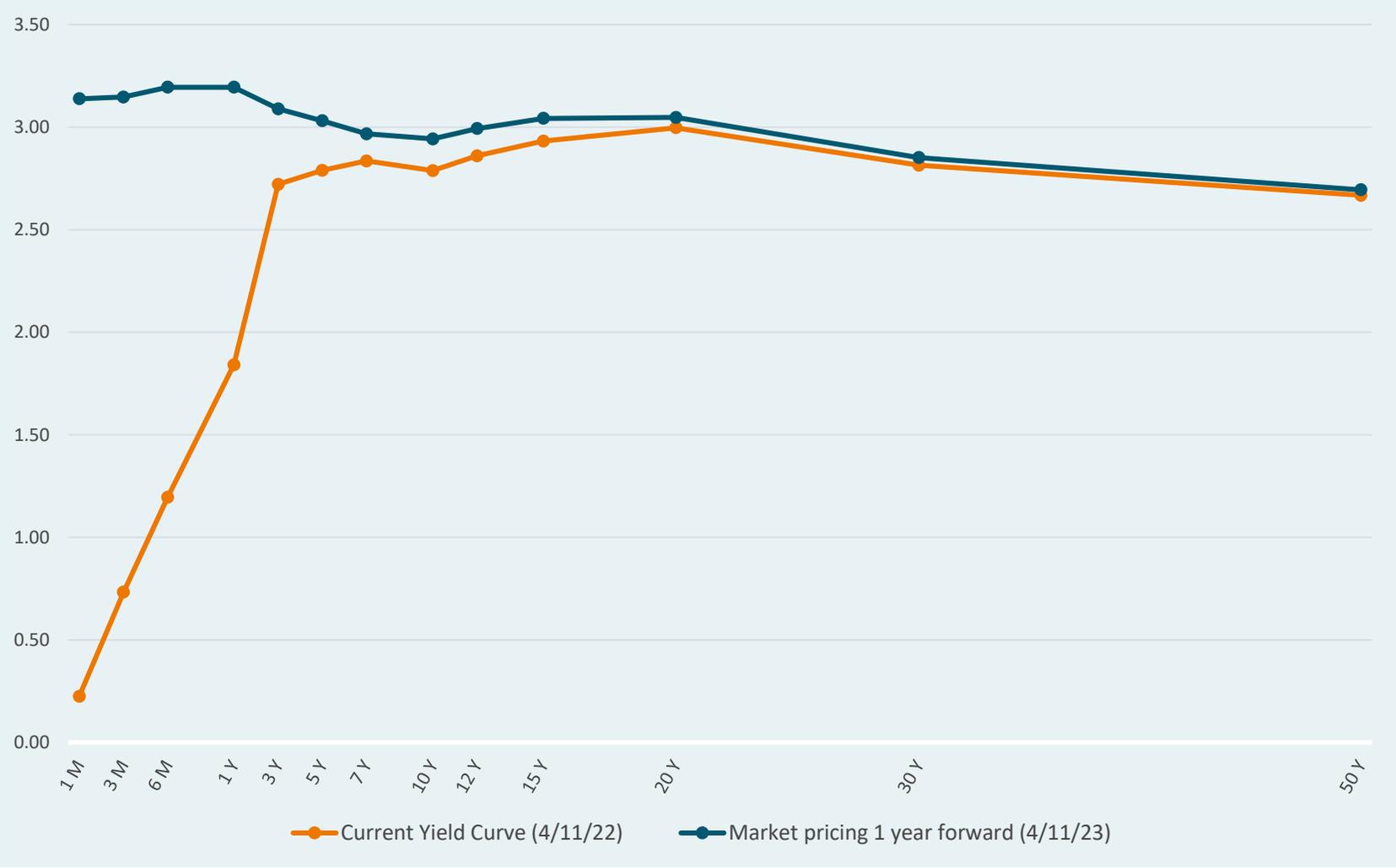
# Expected Fed rate hikes



Federal Reserve FOMC members predict a long-run interest rate of approximately 2.25-2.5%

Source: Bloomberg, Federal Reserve March meeting, as of 3/16/22

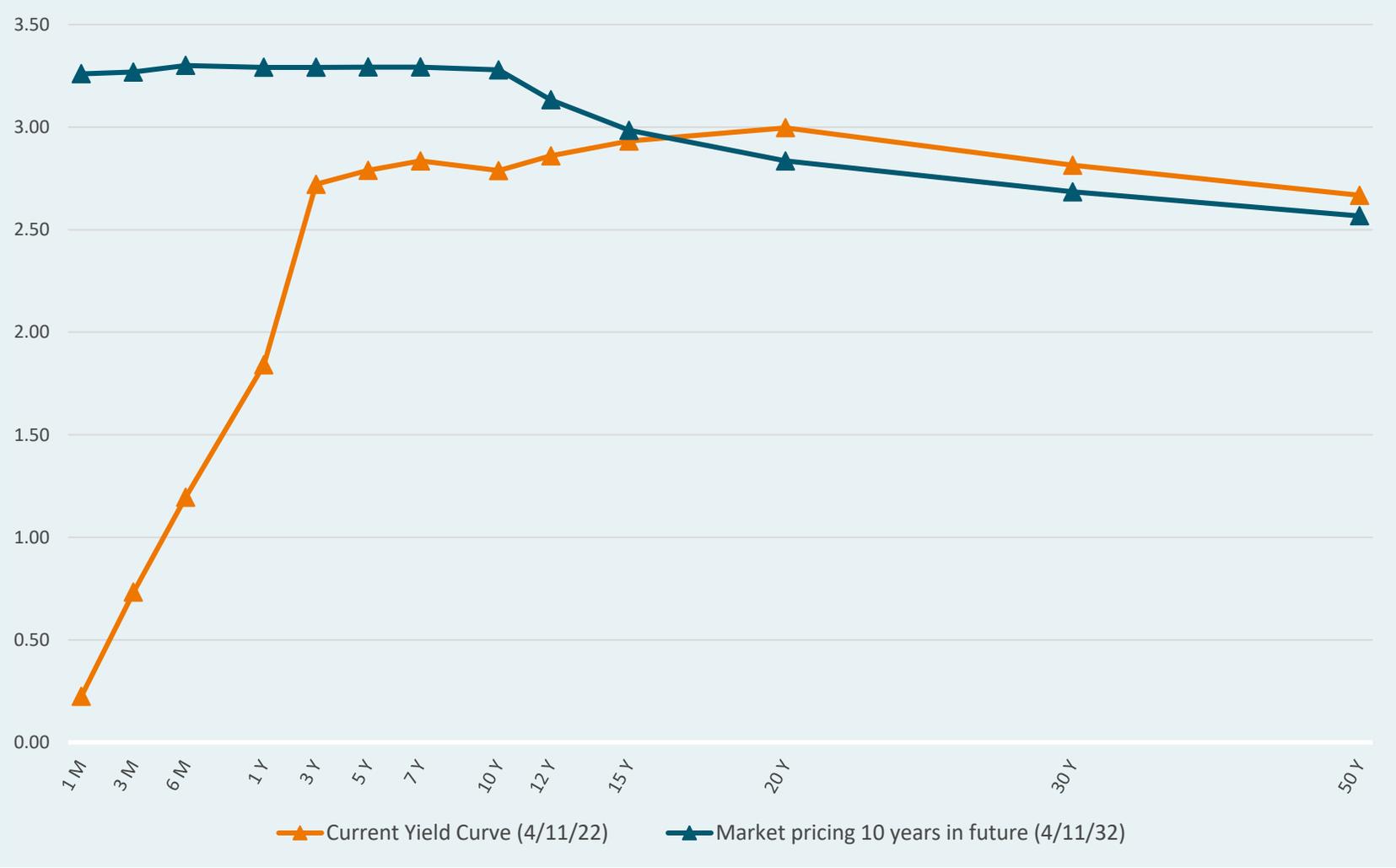
# Expected “flattening” of the yield curve



The Fed’s rate hikes are expected to only impact very short-term interest rates

Source: Bloomberg, as of 4/11/22

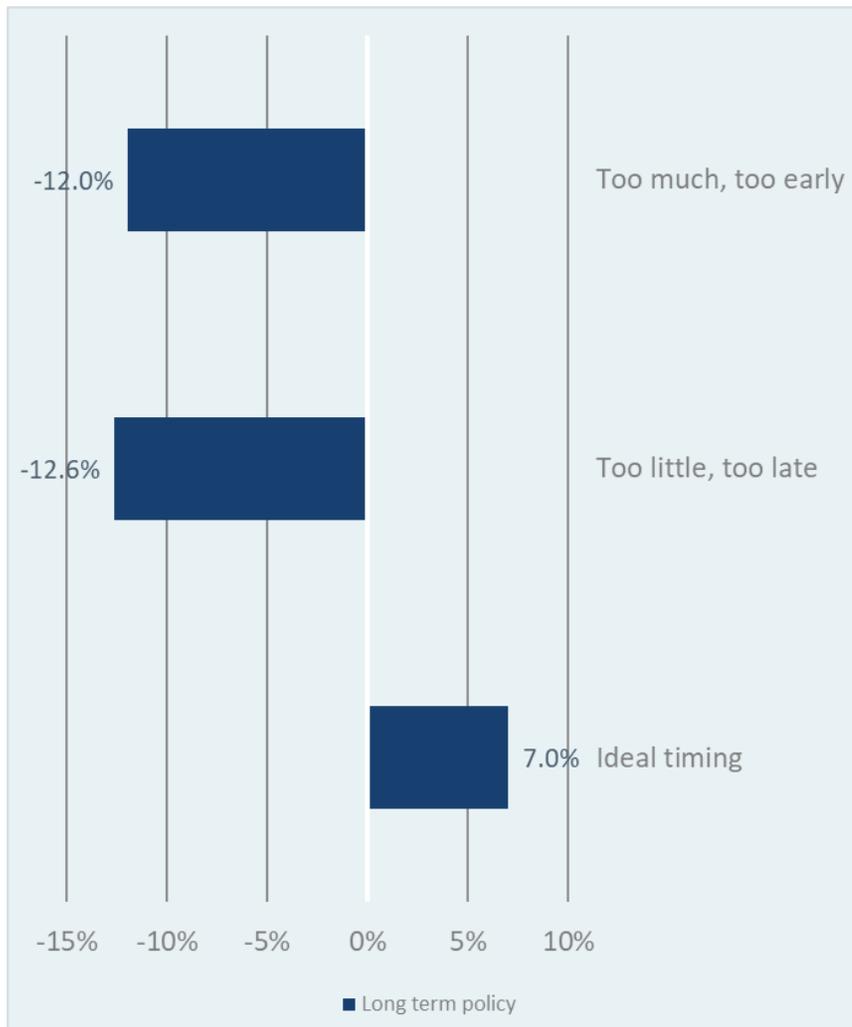
# Expected “flattening” of the yield curve



The market expects the Fed to successfully hike the Fed Funds Rate to approx. 3.2%

Source: Bloomberg, as of 4/11/22

# Potential Fed policy impact on CCCERA's portfolio



**Too much, too early:** Markets believe policy actions occur too early and are overaggressive. Short- and long-term economic growth are negatively impacted, and market-implied inflation expectations drop. Equities fall, the yield curve flattens and the slowdown in the U.S. growth hurts emerging markets.

**Too little, too late:** Markets believe the policy path is too slow, which brings inflation worries to the forefront. While short-term growth is steady, long-term forecasts are hit. Higher inflation and a diminished growth outlook increase equity risk premia. Equities decline, as long-term interest rates pick up, resulting in a positive bond-equity correlation.

**Ideal timing:** Markets believe the Fed tapers asset purchases and hikes rates at the right time to keep inflation controlled, while helping economic growth remain stable and robust. Investors are confident, equities gain, and long-term rates increase slightly. Emerging markets benefit from strong U.S. growth.

Source MSCI, CCCERA long-term Strategic Asset Allocation

# Conclusions

- History illustrates that interest rates typically do not rise solely due to inflation. Rather, they rise because inflation is increasing and the Federal Reserve is hiking interest rates in reaction to higher inflation.
- Federal Reserve rate hike plans are fairly moderate, which suggests that interest rates may not rise too much, despite high inflation.
- Investors might consider which part of the interest rate curve is likely to rise, and what this implies for bond portfolios.
- So, what might we expect for interest rate levels (10yr US Treasury yields), going forward?
  - **If market pricing is correct:** almost no material rise in interest rates over the next 1 year (about 0.1%), and over the next 10 years about a 0.4% rise.
  - **What was the historical range, given a 2.5% Fed Funds Rate:** US 10yr Treasury yields have ranged between 0.5% to 5.3% at a 0-2.5% Fed Funds Rate.
  - **Assuming historical yield curve steepness:** 2.8% US 10yr Treasury yield assuming a flat curve, 3.8% yield assuming average curve steepness, 5.9% assuming maximum historical curve steepness.

*Based on market expectations as of April 11, 2022*

# Appendix

# Great Depression of the 1930s

## Summary

- The Great Depression was a global economic downturn, which began with a stock market crash, known as Black Tuesday.
- Between 1929 and 1932, the worldwide economy shrunk by an estimated 15%. Some countries began to recover by the mid-1930s, while others languished until World War II.
- Heavy industrial production plummeted, and international trade was cut in half. Some historians attribute the Great Depression to the extreme exuberance and overheating of the economy in the years prior (the “roaring 20s”), while others blame the stock market crash and the subsequent decline in consumer spending as the catalyst.

## What Happened? *Inflation, Fed Funds Rate, and U.S. Treasury Yield*

- U.S. inflation had hovered around 0% in the years preceding the Great Depression. Then, the recession led to a deflationary environment, and inflation reached a low of -10%. The rate of inflation then recovered to a range of 0-4% until the late 1930s when inflation began to fall, once again.
- Beginning in the late 1920s, the Fed hiked short term interest rates from around 4.5% to above 7%. At the onset of the recession, rates were brought down quickly, reaching a low of 0.5% in 1935 before stabilizing above 1%.
- The 10-year U.S. Treasury yield sat at around 3.5% prior to and throughout the Great Depression. Yields steadily fell through the 1930s to around 2.0% in 1940. It is worth noting that the Treasury did institute a form of monetary easing during this time, purchasing government bonds on the open market, though the estimated impact of this program on longer-term bonds was roughly 50bps.

# Great Depression of the 1930s



During this period, Treasury yields showed little sensitivity to inflation fluctuations

Source: Shiller data, as of 3/1/22

# World War II

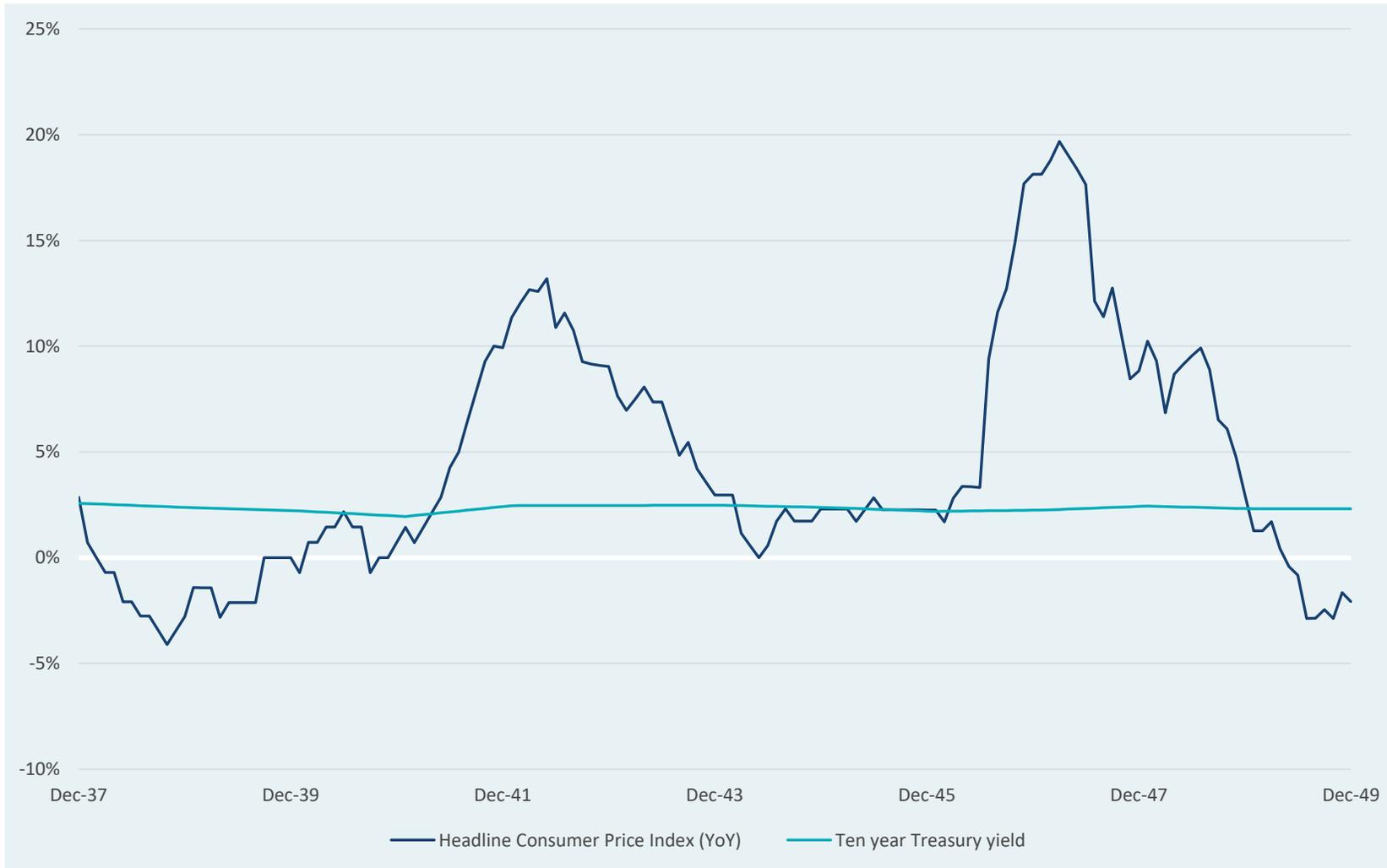
## Summary

- The U.S. economy was still recovering from the Great Depression of the late 1930s, and unemployment remained high. This changed considerably in 1940, as the need to support the war effort led men and women to find new work in (or were recruited to) war-related industrial production.
- Manufacturing output doubled, the need for commodities and energy drastically increased, and railroad transportation volumes increased to never-before-seen levels. Unemployment reached extremely tight levels as the economy fired on all cylinders (likely the tightest labor market in modern history).

## What Happened? *Inflation, Fed Funds Rate, and U.S. Treasury Yield*

- U.S. inflation had been relatively benign in the late 1930s, hovering around 0%. This changed in 1941 as inflation jumped from 0.7% to 9.9%, on the back of an extreme boom in economic growth (GDP increased from 8.8% in 1940 to 17.7% in 1941). This was unlike other periods of extreme government spending, because the spending was not intended to shore up a falling economy (enormous new government spending on top of a stable economy likely created unique inflation pressures). However, inflation after 1942-1943 fell back to a relatively low level of 2-3%.
- To keep costs of war under control, the Treasury asked the Federal Reserve to maintain short term interest rates at a below-average level. Short-term rates were pegged near 0.5% from 1942 to 1947 (prior to this time, rates of 2-4% were the norm).
- The 10-year U.S. Treasury yield kept generally stable, along stable short-term interest rates. Treasury yields did not react to large inflation and economic fluctuations, remaining between 2.0-2.5% throughout the 1940s.

# World War II



Once again, Treasury yields showed nearly no sensitivity to large inflation moves during this time

Source: Shiller data, as of 3/1/22

# Late 1960s

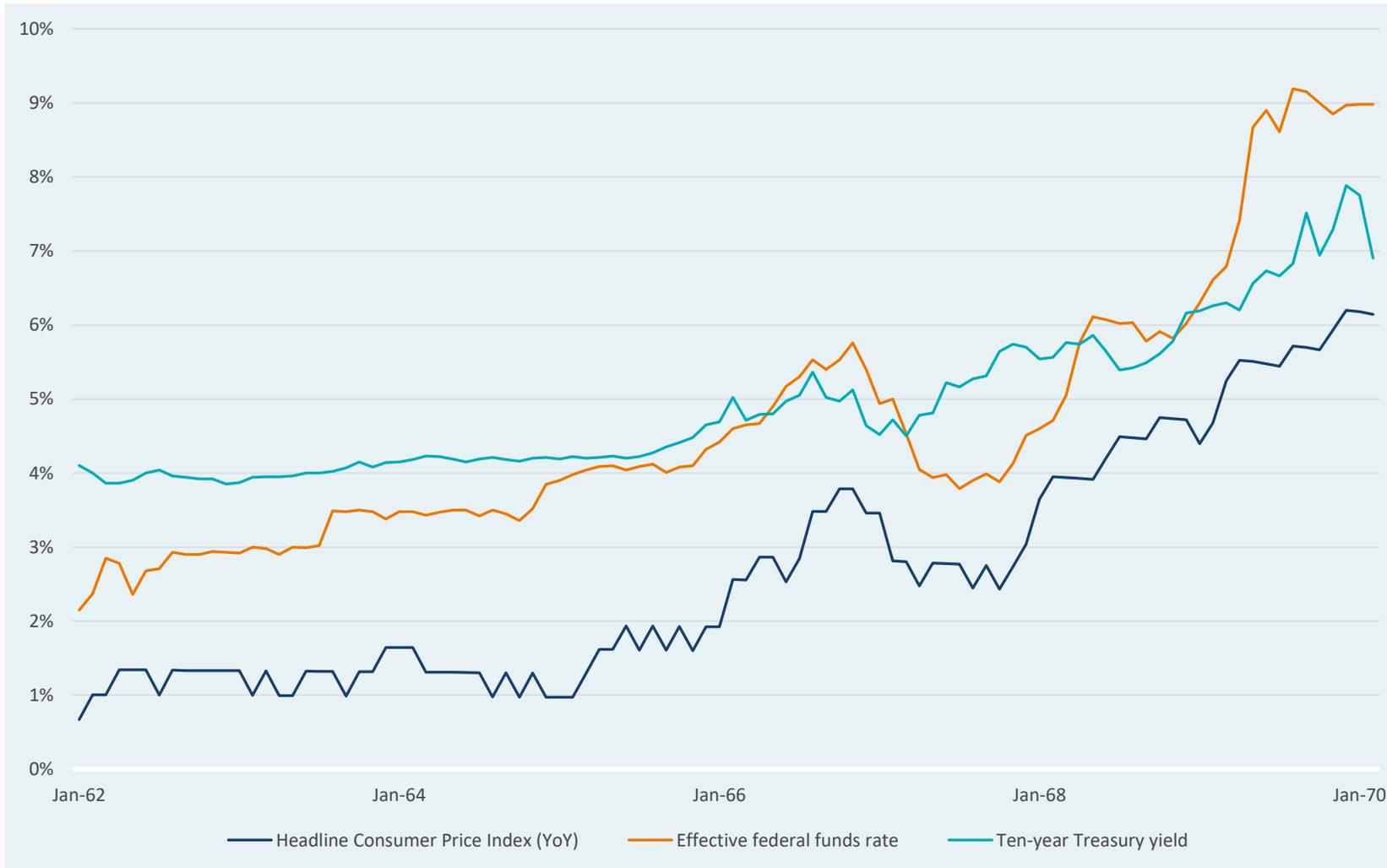
## Summary

- Growth and inflation of this period can likely be partially attributed to the pro-spending and pro-growth policies of President Kennedy, who made notable efforts to repair economic growth following the 1960 recession. JFK was not worried about deficit spending, and explained publicly that increasing the national debt was necessary to get the economy moving.
- The next administration of Lyndon B. Johnson (1963-1969) furthered these spending trends, increasing the national debt by 13%. The Revenue Act of 1964 reduced income taxes, which was believed to have large positive impacts on economic growth. In 1965, Johnson committed the United States to the Vietnam War, which led to significant government spending, likely further placing upward pressure on inflation.

## What Happened? *Inflation, Fed Funds Rate, and U.S. Treasury Yield*

- Inflation was very stable from 1960 to 1965, between 0-2%, but began rising in 1966 and reached 6% in 1970.
- Coming out of the 1960 recession, the Federal Reserve held the Fed Funds Rate near 2.0%. This rate was slowly increased to 4.0% in 1965, then was hiked more significantly, reaching 9.0% in 1969.
- The U.S. 10-year Treasury followed the same general trend of the Fed Funds Rate. The yield was very stable at 4% through 1965, then steadily increased to 7.5% in 1969.

# Late 1960s



During this period, the Fed was hiking rates as inflation headed higher

Treasury yields moved in tandem with those rate hikes

Source: BLS, Federal Reserve, Bloomberg, as of 3/1/22

# 1970s oil shocks

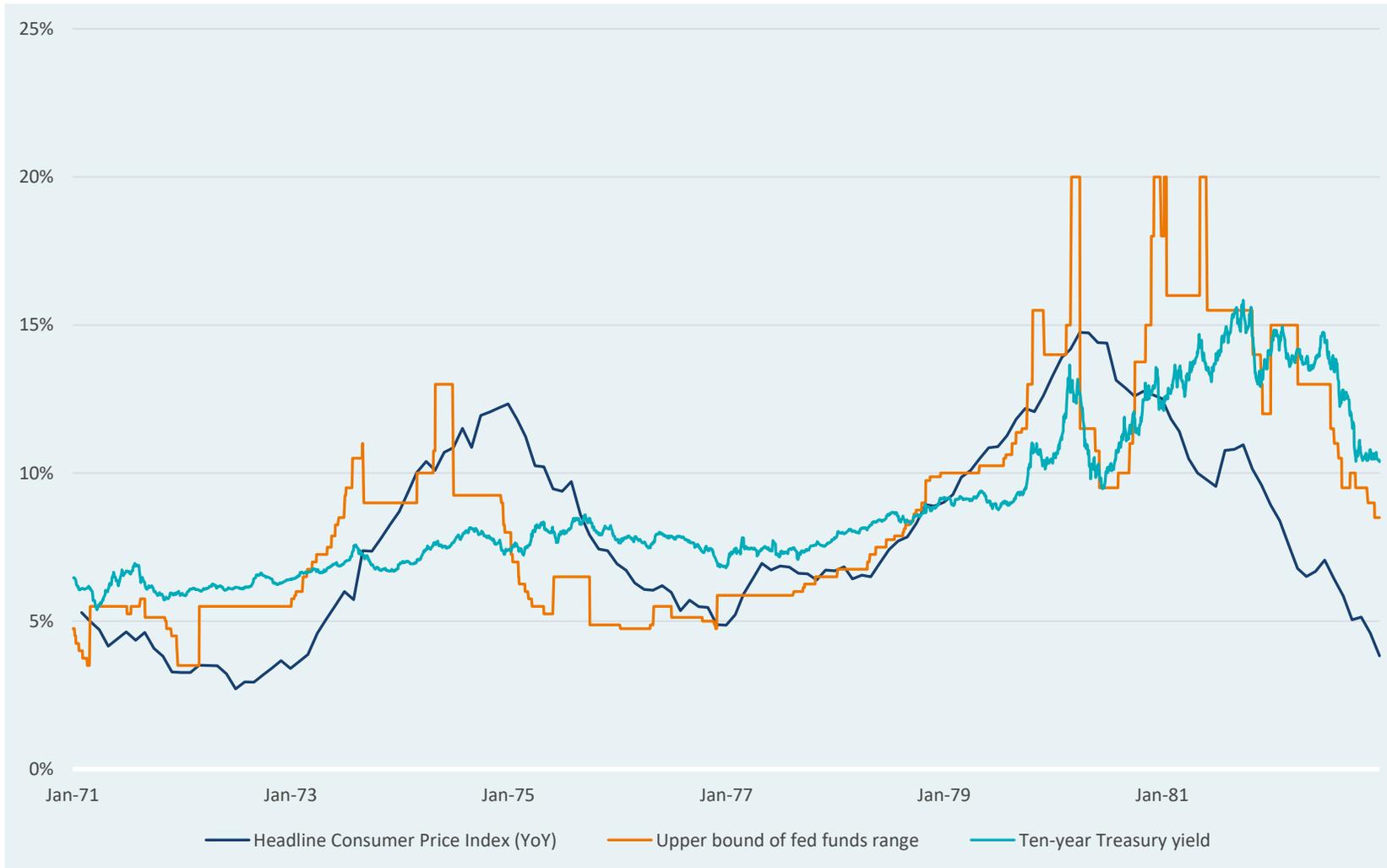
## Summary

- The United States suffered its longest stretch of elevated inflation in the 1970s, driven by two separate surges in oil prices. The first was caused by an oil embargo implemented by OPEC, and the second was caused by a decline in oil production due to the Iranian Revolution and the Iran-Iraq War.
- The dramatic acceleration in inflation between 1972-1974 can be attributed to two main shocks:
  - Rising food and energy prices
  - The end of the Nixon wage-price controls program
- Thus, the state of demand had very little to do with either the acceleration or the deceleration of inflation between 1972-1976. While it did play a role, the inflation spike was primarily a supply-side issue.

## What Happened? *Inflation, Fed Funds Rate, and U.S. Treasury Yield*

- Inflation was very stable from 1960 to 1965, between 0-2%, but began rising in 1966 and reached 6% in 1970. However, following the imposition of the oil embargo by OPEC, headline CPI rose as high as 12.3%, and by the summer of 1980, inflation has risen north of 14%.
- The Fed Funds Rate rose from around 3.5% in early 1972 to as high as 13.0% in 1974 as Fed officials attempted to rein in inflation caused by the first oil shock in 1974. After dipping slightly, inflation continued to climb into the late 70s, and Fed Chairman Volcker raised the upper end of the fed funds range to 20.0% in 1980, with the goal of taming inflation.
- Through the 1970s, the 10-year Treasury yield grinded higher fairly steadily and rose from 7% to 10% over the decade.

# 1970s oil shocks



During the early 1970s, inflation spiked considerably, and the Fed hiked rates as inflation jumped. However, Treasury yields were minimally impacted

This is in stark contrast to the late 1970s, where Treasuries were very sensitive to rate hikes

Source: BLS, Federal Reserve, Bloomberg, as of 3/1/22

# 1990s Iraqi invasion of Kuwait

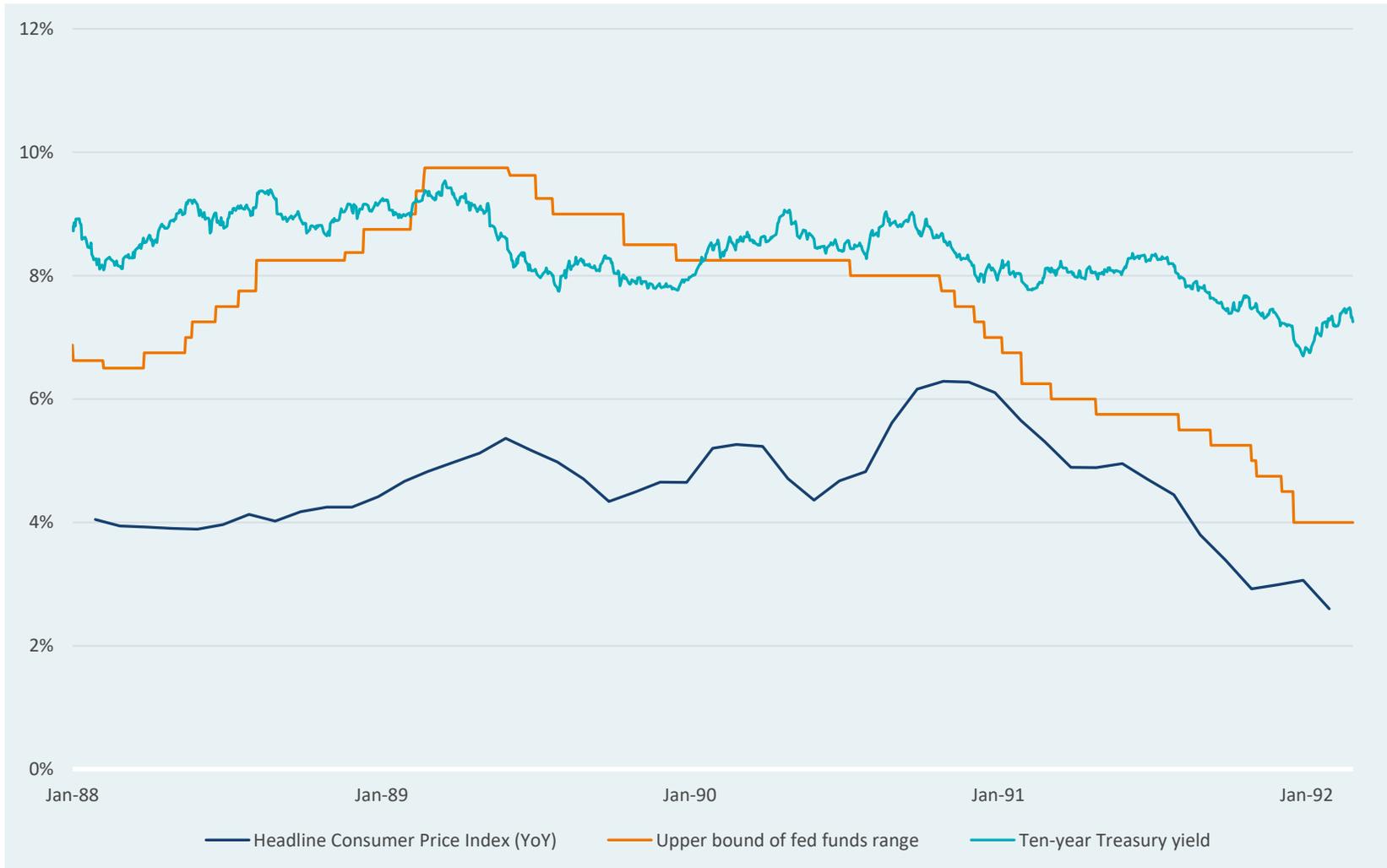
## Summary

- The Iraqi invasion of Kuwait kicked off the first Gulf War, and the resultant uncertainty led to significant increases in the price of crude oil, and a short bout of high inflation.
- Rapid intervention by the United States mitigated risks to future oil supplies and helped to calm the markets and restore confidence. The oil price spike subsided after just nine months, although it took years for the combined oil production of Iraq and Kuwait to regain its former level.

## What Happened? *Inflation, Fed Funds Rate, and U.S. Treasury Yield*

- After reaching as low as 1.1% year-over-year in December 1986, its lowest level since the mid-1960s, headline consumer price inflation picked back up to the 4-5% range in the late 80s and peaked at 6.3% in November 1990.
- The Federal Reserve did not choose to hike interest rates during this period, likely because inflation was rising specifically due to an international oil crisis. This compares to the 1970s, when the Fed hiked rates because of more broadly rising prices in the United States. In fact, the Federal Reserve actually cut the lower bound of the range for federal funds from 8.0% when Iraq invaded to as low as 3.0% by September 1992, perhaps less concerned with the risk of cutting interest rates in an environment characterized by relatively high levels of inflation caused by an energy price shock.
- From around 1990-1993, the 10-year US Treasury yield gradually fell lower, along with the Federal Funds Rate. Treasury yields jumped from 5.4% to 7.9% during 1994 while the Federal Reserve was hiking rates, but then proceeded to gradually fall, once again, throughout the 1990s.

# 1990s Iraqi invasion of Kuwait



The Fed hiked rates moderately along with rises in inflation

Treasury yields proved only moderately responsive to rate and inflation moves

Source: BLS, Federal Reserve, Bloomberg, as of 3/1/22

# 2008-2009 Global Financial Crisis

## Summary

- During the Global Financial Crisis, tremors in the U.S. housing market sent shockwaves through the U.S. financial market, which then spread from the United States to the rest of the world through linkages in the global financial system.
- Banks incurred large losses and depended on government support to avoid bankruptcy, and millions lost their jobs as major advanced economies experienced their deepest recessions since the 1930s. Recovery from the crisis was also much slower than past recessions, which were not associated with a financial crisis.

## What Happened? *Inflation, Fed Funds Rate, and U.S. Treasury Yield*

- In 2008, CPI growth rose above 5% for two months, primarily due to skyrocketing gas prices. One barrel of West Texas Intermediate crude oil cost more than \$140/barrel in July 2008, compared to \$70 just a year earlier. High levels of inflation proved to be fleeting, as the onset of the Global Financial Crisis in Q3 2008 presented massive deflationary pressure, and led to deflation that maxed out at -2.1% over the twelve months ended July 2009. Over the next 4-5 years, inflation recovered and then moderated to 2% on average.
- The effective fed funds rate fell from around 4% to around 2% in the months leading up to the GFC, and was subsequently cut to near-zero levels as the crisis fully developed.
- The 10-year Treasury yield was sitting at around 5% in mid-2007, and started to fall just a few months before the Fed started cutting interest rates in September 2007. By the peak of the inflation spike the following July, the 10-year yield had fallen from around 5.25% to around 4.00%.

# 2008-2009 Global Financial Crisis



Inflation moved mildly higher during this period, while Fed rate hikes were considerable

Treasury yields were only mildly affected by significant Fed rate hikes, but appear to have been sensitive to rate *cuts*

Source: BLS, Federal Reserve, Bloomberg, as of 3/1/22

# COVID-19 pandemic recovery

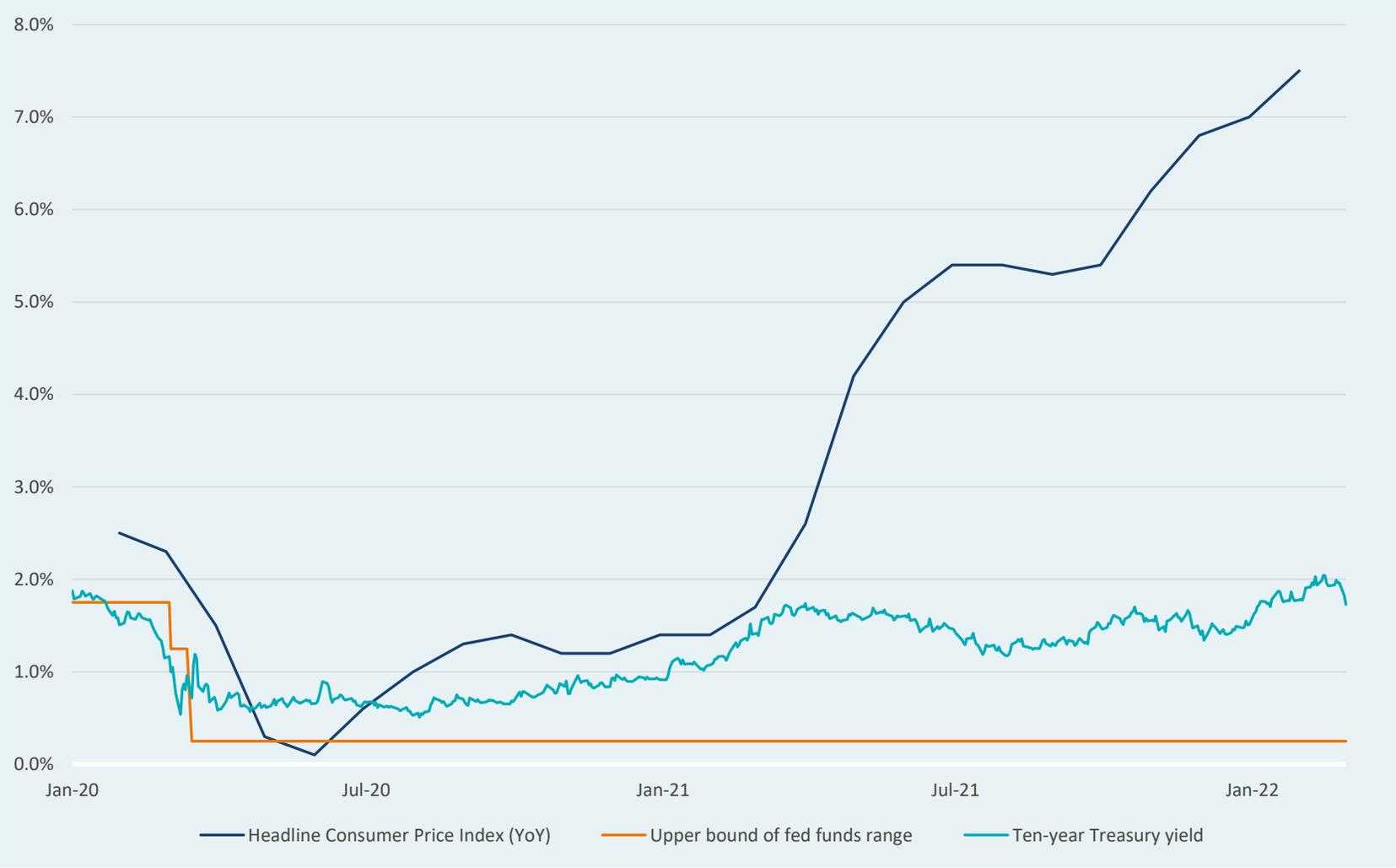
## Summary

- In early 2020, a novel coronavirus emerged in China and proceeded to spread around the world. The ensuing pandemic was the most significant in scope since the Spanish flu of nearly 100 years prior, and resulted in an unprecedented global shutdown of economic activity.
- Massive amounts of fiscal and monetary support were provided by government and central bank officials in the interest of “building a bridge” to the post-pandemic future. The sudden stop and then restart of economic activity, the enormous amount of uncertainty overhanging consumers and businesses, and the magnitude of global support measures, along with pandemic-related supply chain issues and labor shortages resulted in a surge in inflationary pressures. Those pressures were originally viewed as more “transitory” in nature, but by the end of 2021, Fed officials retired that term.

## What Happened? *Inflation, Fed Funds Rate, and U.S. Treasury Yield*

- Inflation fell as low as 0.1% at the beginning of the pandemic, before surging as high as 7.5% in early 2022. The surge in inflation was at first attributed to a recovery in energy prices from low levels, and to the outsized impact of a few CPI components which saw massive price surges due to pandemic-related supply chain issues. Used car & truck prices were the best example, as price increases were driven by low semiconductor supplies. In late 2021, after inflation had risen from 0.1% to around 5.0%, inflationary pressures showed evidence of broadening to other categories such as food and shelter.
- During the beginning of the equity market sell-off, the federal funds range was cut to 0.00-0.25%. At the time of writing, the Fed is planning to hike the Fed Funds rate to between 1.25%-1.50%.
- The 10-year U.S. Treasury yield fell as low as 0.54% during the pandemic, then recovered to 1.74% in March 2021 as the economy recovered. Treasury yields were then fairly rangebound during 2021 to 2022, despite rising inflation.

# COVID-19 pandemic recovery

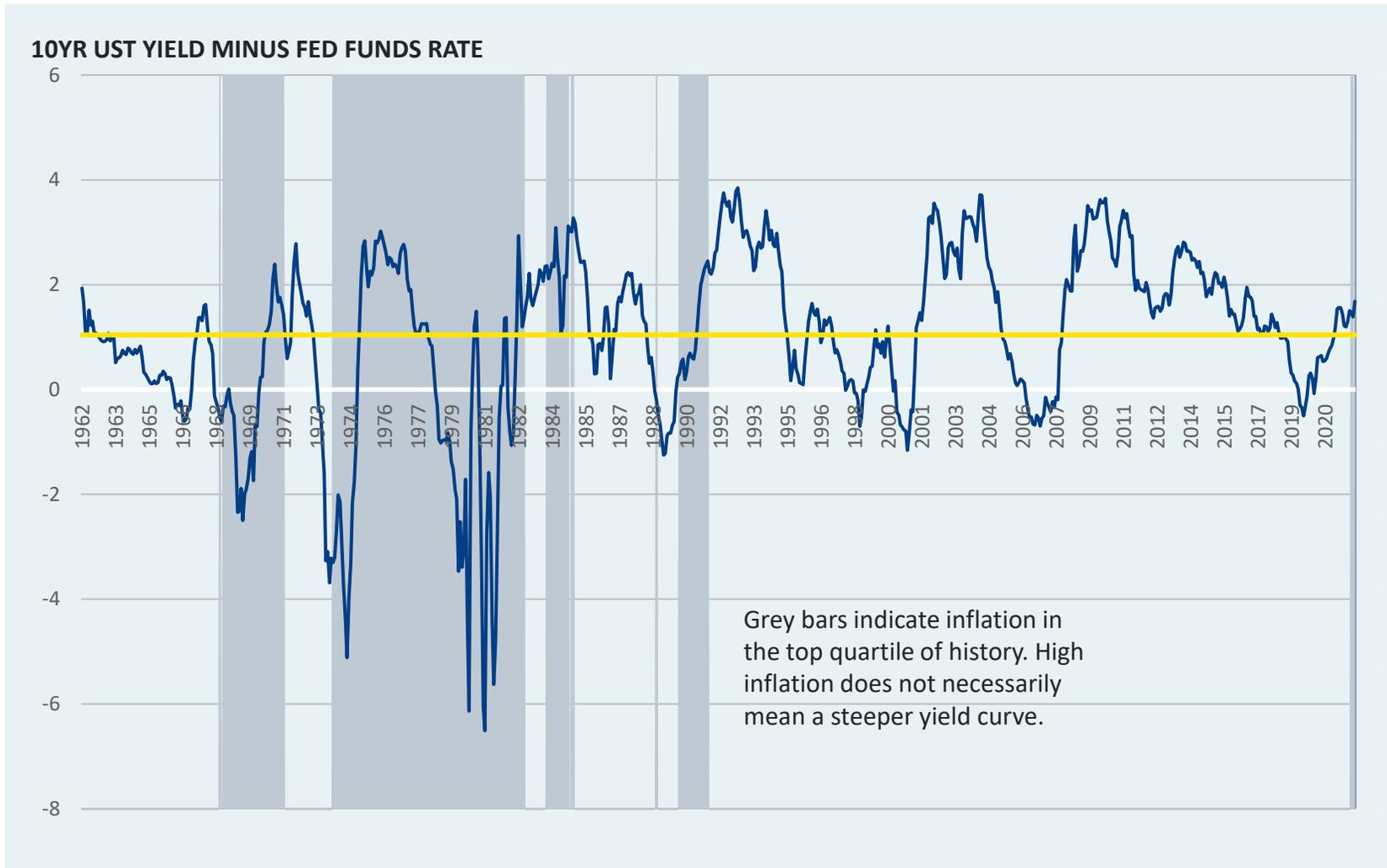


During this period, Treasuries fell along with Fed rate cuts, but have remained low along with a low Fed Funds rate

This is despite a large jump in inflation

Source: BLS, Federal Reserve, Bloomberg, as of 3/1/22

# Bond yields are restrained by the Fed



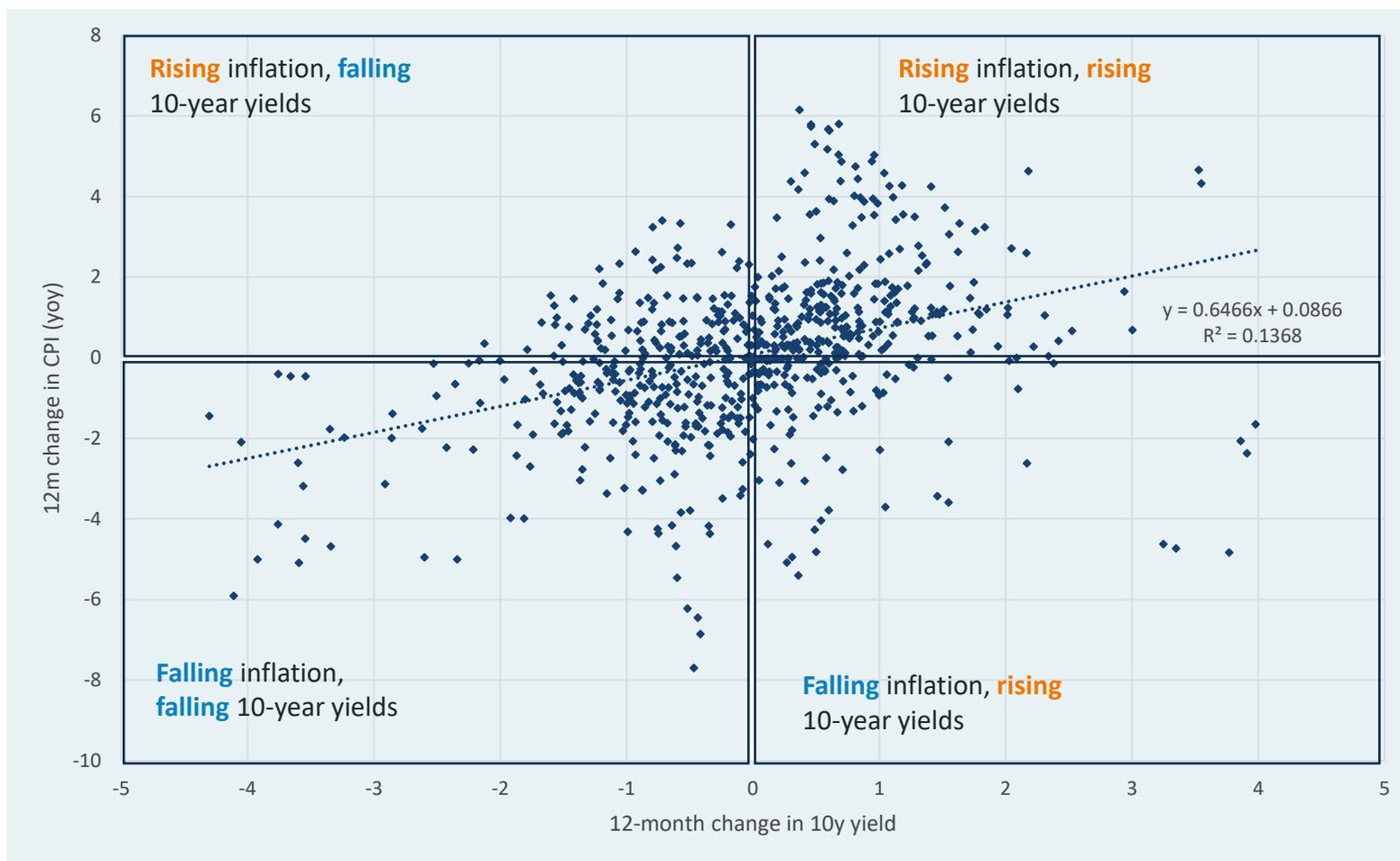
The average yield curve steepness has historically been 1.0%

Maximum steepness has been around 3.5%. **In other words, history suggests that rates cannot rise much unless the Fed is hiking**

Source: Verus, FRED

# How have long rates moved with inflation?

## INFLATION & THE 10-YEAR YIELD

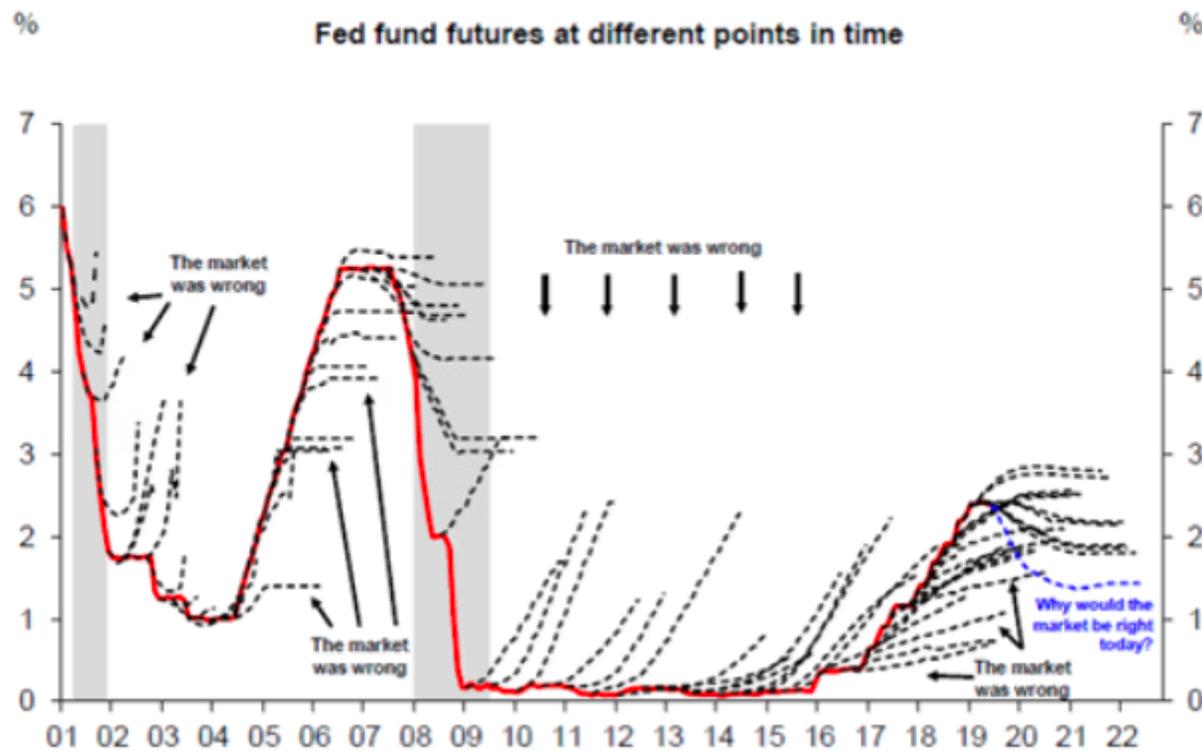


While yields and inflation do not necessarily move together, they have moved in the same direction more often than not, over history

Source: Bloomberg, as of 1/28/22

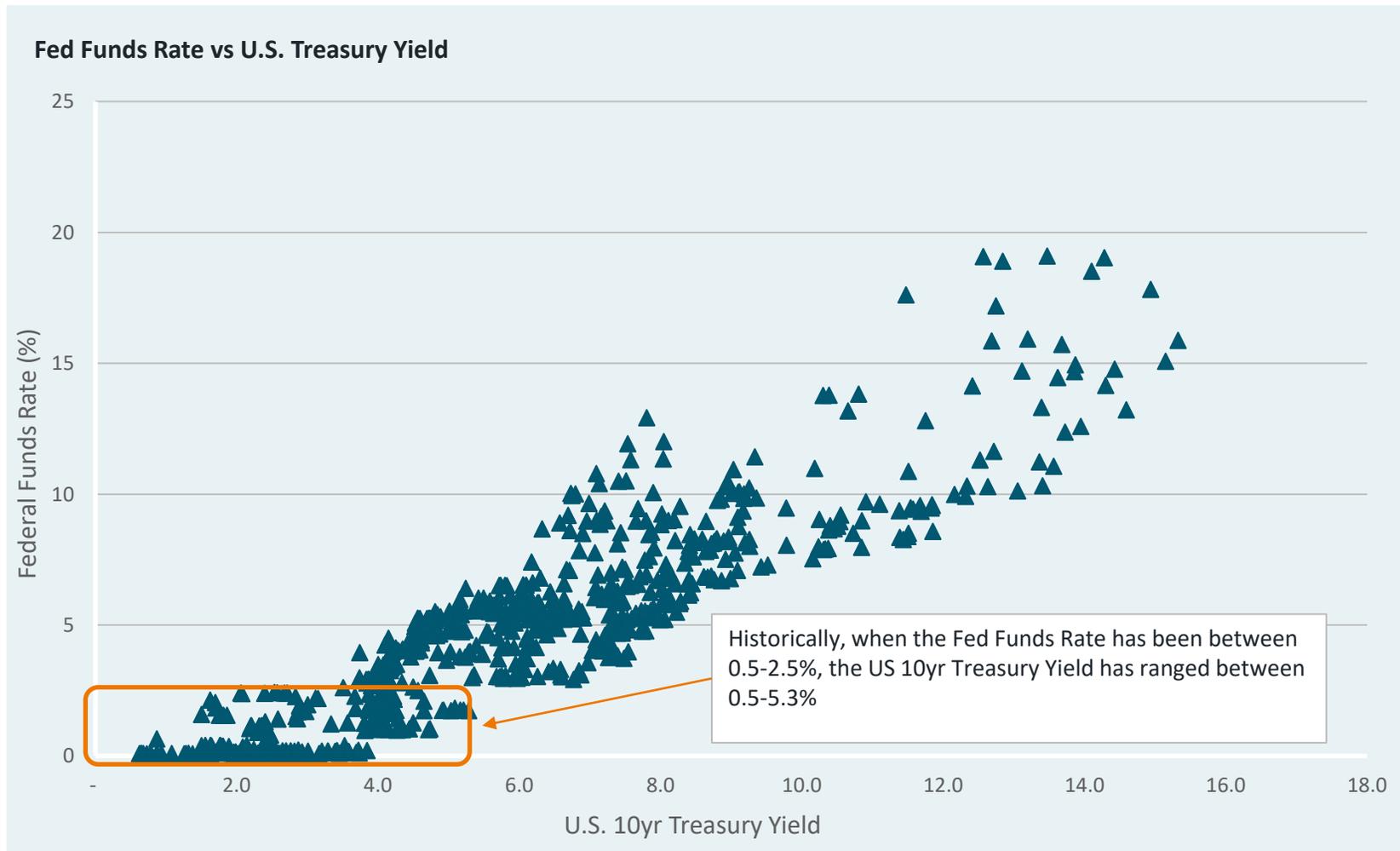
# ...though forecasts of rate hikes have not always been particularly accurate

The market is almost always wrong about what the Fed will do



Source: Deutsche Bank

# Historical relationship between Fed Funds Rate & 10yr U.S. Treasury yield



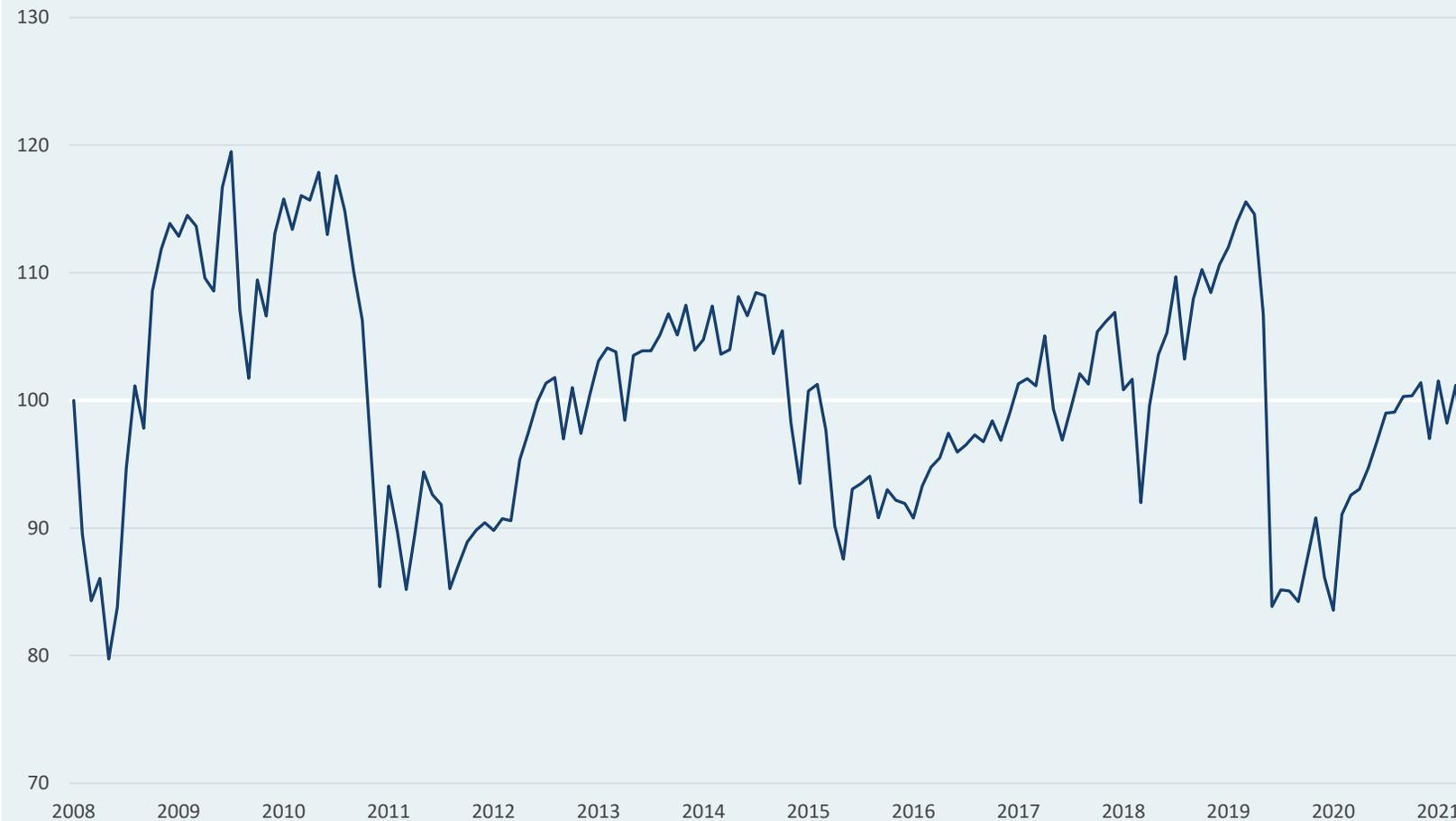
In all historical inflation environments examined, the U.S. 10yr Treasury yield followed the path of the Fed Funds Rate

This implies that, currently, the Fed Funds rate will determine interest rate levels

Source: Verus, FRED

# How balance sheet dynamics may affect inflation

ACWI / BIG FIVE CB BALANCE SHEETS, NORMALIZED TO QE1



Expansion of major central bank asset purchases has created some inflation in financial asset prices, but not so much goods and services prices.

The MSCI ACWI Index has traded mostly sideways since the GFC when accounting for balance sheet expansion.

Source: Bloomberg, MSCI, Federal Reserve, Bank of England, European Central Bank, People's Bank of China, Bank of Japan  
ACWI refers to MSCI ACWI IMI TR (USD), monthly.

# Limiting effect of foreign money flows

### SOVEREIGN 10YR TREASURY YIELDS



### US YIELD MINUS SOVEREIGN YIELD



U.S. interest rates have historically been anchored to the interest rate levels of other developed nations

This is intuitive, as foreign investors may pour funds into U.S. Treasuries if they offer higher relative yields, which pushes U.S. rates back down

# Notices & disclosures

**Past performance is no guarantee of future results.** This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security or pursue a particular investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other “forward-looking statements.” No assurance can be given that future results described or implied by any forward looking information will be achieved. Investing entails risks, including possible loss of principal. Additional information about Verus Advisory, Inc. is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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<p><u>Meeting Date</u> <b>04/27/2022</b> <u>Agenda Item</u> <b>#7</b></p>
---

## MEMORANDUM

Date: April 27, 2022  
To: CCCERA Board of Retirement  
From: Karen Levy, General Counsel  
Subject: Continuing teleconference meetings under Government Code section 54953 (e)

---

### Background

All meetings of the Board of Retirement are open to the general public, as required by the Ralph M. Brown Act, California Government Code sections 54950 *et seq.* Section 54953 (e) of the Brown Act authorizes conducting public meetings via teleconferencing during a state of emergency. The Board has approved conducting its meetings via teleconferencing under Section 54953 (e), finding that in-person meetings of the Board are open to the general public and would risk the health or safety of the public, staff, outside consultants and trustees attending public meetings, in light of the COVID-19 pandemic and related state of emergency. Under the law, if the Board wishes to continue using these special teleconferencing rules it must reconsider the circumstances of the state of emergency and make certain findings.

### Proclaimed State of Emergency and Health and Safety Guidance

Currently, the COVID-19 state of emergency proclaimed by the Governor is in effect. On April 15, 2022, the Contra Costa County Health Officer again issued recommendations for safely holding public meetings that included recommended measures to promote social distancing. (See Attachment A, Health Officer's Recommendations). The Health Officer has recommended as follows:

Online meetings (i.e. teleconferencing meetings) are encouraged as those meetings present the lowest risk of transmission of SARS-CoV-2, the virus that causes COVID-19. This is particularly important when community prevalence rates are high. Our current trends as of April 15, 2022 in Covid-19 case rate and Covid-19 hospitalizations have plateaued at this time, but wastewater surveillance data and COVID-19 test positivity has been increasing. In addition to this, the predominant variant of Covid-19 being identified continues to be the Omicron variant, the impact of which on the spread of Covid-19 has shown to dramatically increase COVID-19 transmission.

**Recommendation**

Consider and take possible action to authorize the Board and its committee(s) to continue to conduct teleconference meetings for the next 30 days under Government Code section 54953 (e) and make the following findings:

1. The Board has reconsidered the circumstances of the statewide state of emergency proclaimed by the Governor on March 4, 2020 and the countywide local emergency proclaimed by the Governor on March 10, 2020.
2. The following circumstances currently exist:
  - a. The statewide state of emergency and the countywide local emergency continue to directly impact the ability of the Board and its committee(s) to meet safely in person at meetings that are open to the general public because of the COVID-19 pandemic.
  - b. The County Health Officer's recommendations for safely holding public meetings, which encourage virtual meetings and other measures to promote social distancing, are still in effect.

# *Attachment*

**A**



### Recommendations for safely holding public meetings

Each local government agency is authorized to determine whether to hold public meetings in person, on-line (teleconferencing only), or via a combination of methods. The following are recommendations from the Contra Costa County Health Officer to minimize the risk of COVID 19 transmission during a public meeting.

1. Online meetings (i.e. teleconferencing meetings) are encouraged, where practical, as these meetings present the lowest risk of transmission of SARS CoV-2, the virus that causes COVID 19. This is particularly important when community prevalence rates are high. Our current trends as of April 15, 2022 in Covid-19 case rate and Covid-19 hospitalizations have plateaued at this time, but wastewater surveillance data and COVID-19 test positivity has been increasing. In addition to this, the predominant variant of Covid-19 being identified continues to be the Omicron variant, the impact of which on the spread of Covid-19 has shown to dramatically increase COVID-19 transmission.
2. If a local agency determines to hold in-person meetings, offering the public the opportunity to attend via a call-in option or an internet-based service option is recommended, when possible, to give those at higher risk of and/or higher concern about COVID-19 an alternative to participating in person.
3. A written safety protocol should be developed and followed. It is recommended that the protocol require social distancing, where feasible – i.e. six feet of separation between attendees; and consider requiring or strongly encouraging face masking of all attendees and encouraging attendees to be up-to-date on their COVID-19 vaccine.
4. Seating arrangements should allow for staff and members of the public to easily maintain at least six-foot distance from one another at all practicable times.
5. Consider holding public meetings outdoors. Increasing scientific consensus is that outdoor airflow reduces the risk of COVID-19 transmission compared to indoor spaces. Hosting events outdoors also may make it easier to space staff and members of the public at least 6 feet apart.
6. Current evidence is unclear as to the added benefit of temperature checks in addition to symptom checks. We encourage focus on symptom checks as they may screen out individuals with other Covid-19 symptoms besides fever and help reinforce the message to not go out in public if you are not feeling well.
7. Consider a voluntary attendance sheet with names and contact information to assist in contact tracing of any cases linked to a public meeting.

Revised 4-15-2022

*Sefanit Mekuria*

Sefanit Mekuria, MD, MPH  
Deputy Health Officer, Contra Costa County





<i>Meeting Date</i>
<b>04/27/2022</b>
<i>Agenda Item</i>
<b>#8</b>

**7. SACRS Audit Report – Action**

Steve Delaney, Orange CERS, SACRS Audit Committee Chair

- A. SACRS 2020-2021 Annual Audit



January 12, 2022

To the SACRS Executive Board,

The SACRS Audit Committee, assisted by Ms. Peterson, met virtually on Friday, December 3, 2021 with representatives of James Marta & Company to review their most recent audit report.

The draft report as presented to us gave an unqualified opinion stating that “the financial statement referred to above presents fairly and in all material respects, the cash receipts and disbursements of the State Association of County Retirement Systems for the years ended June 30, 2021 and 2020 in accordance with the cash basis of accounting...”

In the course of our review, the committee raised two questions which required further review by the audit firm:

1. Under the Cash Receipts columns, the audit reports \$61,108 in revenue for 2020 and \$8,518 for 2021. Similar in amount to an investment tax filing, the committee wanted it confirmed that these numbers were accurate.

Auditors' response: Those figures are correct.

2. On Page 7 of the draft audit, while listing cash receipts and disbursements for the fiscal year ended June 30, 2021, the Cash Disbursement column referenced the Fall of 2018 and Spring of 2019.

Auditor's response: That was a typo error. A corrected and revised version of the draft report was then forwarded.

Assuming those would be the responses, the committee directed Ms. Peterson to consider the audit report approved and ready for submission to the Board of Directors upon correction by and receipt from James Marta & Company.

The committee also suggested that the Board of Directors revisit its investment program. While not having a strong opinion, the committee questioned if the Cal Trust Medium Term Fund was the best vehicle for those monies.

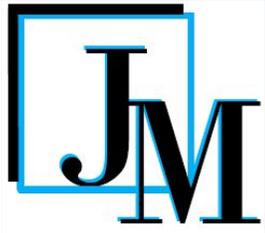
Respectfully submitted by,

*Steve Delaney*

Steve Delaney, CEO, Orange CERS  
SACRS Audit Committee Chair

CC: SACRS Audit Committee

SD/shp email 1/11/22



JAMES MARTA & COMPANY LLP  
CERTIFIED PUBLIC ACCOUNTANTS

**STATE ASSOCIATION OF  
COUNTY RETIREMENT SYSTEMS**

**FINANCIAL STATEMENT  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2021 AND 2020**

701 HOWE AVENUE, E3  
SACRAMENTO, CA 95825

(916) 993-9494  
(916) 993-9489 FAX  
[WWW.JPMCPA.COM](http://WWW.JPMCPA.COM)

STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS

JUNE 30, 2021

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**BOARD OF DIRECTORS**

**Vivian Gray**  
President

**Kathryn Cavness**  
Vice President

**Harry Hagen**  
Treasurer

**Thomas Garcia**  
Secretary

**Dan McAllister**  
Immediate Past President

**Vere Williams**  
Board Member

**David MacDonald**  
Board Member

**Scott Draper**  
Affiliate Chair

\* \* \* \*

**Sulema Peterson**  
Association Management

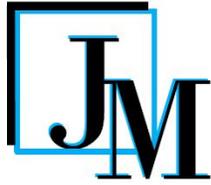
STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS

JUNE 30, 2021 AND 2020

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**James Marta & Company LLP**  
**Certified Public Accountants**

*Accounting Auditing Tax and Consulting*

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
State Association of County Retirement Systems  
Sacramento, California

***Report on the Financial Statement***

We have audited the accompanying statement of cash receipts and disbursements, of the State Association of County Retirement Systems (SACRS) for the fiscal years ended June 30, 2021 and 2020, and the related notes to the financial statement.

***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of the State Association of County Retirement Systems for the years ended June 30, 2021 and 2020, in accordance with the cash basis of accounting described in Note 1.

***Basis of Accounting***

We draw attention to Note 1 to the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Information***

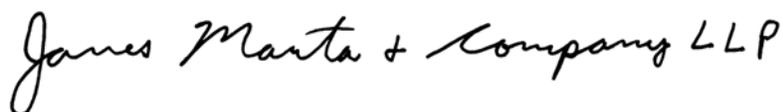
Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The Combining Statement of Cash Receipts and Disbursements, Graphical Presentation of Cash Receipts, Graphical Presentation of Cash Disbursements, and Conference Summary Report, on pages 7 to 12, are presented for purposes of additional analysis and are not a required part of the financial statement.

The Combining Statement of Cash Receipts and Disbursements, Graphical Presentation of Cash Receipts, and Graphical Presentation of Cash Disbursements, on pages 7 to 11, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statement of Cash Receipts and Disbursements, Graphical Presentation of Cash Receipts, and Graphical Presentation of Cash Disbursements, on pages 7 to 11 is fairly stated in all material respects in relation to the financial statement as a whole.

The Conference Summary Report, on page 12, has not been subjected to the auditing procedures applied in the audit of the basic financial statement, and accordingly, we do not express an opinion or provide any assurance on it.

***Restricted Use***

This report is intended solely for the information and use of management and the board of directors of State Association of County Retirement Systems and is not intended to be and should not be used by anyone other than these specified parties.



James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
January 13, 2022

## **FINANCIAL SECTION**

**STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS**

**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020**

	<u>2020-21</u>	<u>2019-20</u>
<b><u>Cash Receipts</u></b>		
Dues	\$ 422,500	\$ 364,000
Conference		
Fall	104,815	628,070
Spring	116,265	2,520
Seminars	73,000	35,000
Other admin receipts	59,900	2,340
Other conference receipts	350	2,450
Interest	8,519	61,108
Total cash receipts	<u>785,349</u>	<u>1,095,488</u>
<b><u>Cash Disbursements</u></b>		
Conference		
Fall - 2020 and 2019		
Hotel and meals	2,668	270,132
Audio and visual	46,888	56,477
Program materials	41,174	83,553
Spring - 2021 and 2020		
Hotel and meals	6,490	257,419
Audio and visual	39,097	12,121
Program materials	13,790	14,449
Seminars	196,257	231,947
Conference administration	22,826	50,808
Total conference disbursements	<u>369,190</u>	<u>976,906</u>
Administration	274,714	365,517
Lobbying	55,011	60,012
Newsletters	15,031	15,893
Committee meetings	2,033	49,944
Special projects	17,759	17,690
Total administration disbursements	<u>364,548</u>	<u>509,056</u>
Total Cash Disbursements	<u>733,738</u>	<u>1,485,962</u>
Excess (Deficit) of Cash Receipts over Cash Disbursements	51,611	(390,474)
Cash and Investments, Beginning	<u>1,981,948</u>	<u>2,372,422</u>
Cash and Investments, Ending	<u>\$ 2,033,559</u>	<u>\$ 1,981,948</u>
<i>Supplementary Information</i>		
<u>Cash and Investments at June 30,</u>	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,054,911	\$ 1,006,628
Non current portion of investments	978,648	975,320
Total Cash and Investments	<u>\$ 2,033,559</u>	<u>\$ 1,981,948</u>

The accompanying notes are an integral part of this financial statement.

# STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS

## NOTES TO THE FINANCIAL STATEMENT

### FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### A. ORGANIZATION

State Association of County Retirement Systems (SACRS) is a not-for-profit association of 20 California county retirement systems, enacted under the County Employees Retirement Law of 1937. SACRS was formed in the early 1970's to provide forums for disseminating knowledge of, and developing expertise in, the operation of county retirement systems existing under current law, as well as to foster and take an active role in the legislative process. To accomplish SACRS' mission of addressing issues of importance to members, SACRS, contracting with Sulema Peterson & Associates, provides a variety of association management services, including three magazines a year, membership directory, semi-annual conferences, and oversight of SACRS.org. The Association is supported primarily through membership dues and conference fees.

##### B. BASIS OF ACCOUNTING

The accompanying financial statement has been prepared on the cash receipts and disbursements basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Under that basis, the only assets recognized are cash and investments, and no liabilities are recognized. All transactions are recognized as either cash receipts or disbursements, and noncash transactions are not recognized. The cash basis differs from generally accepted accounting principles primarily because the effects of outstanding dues and obligations for assessments unpaid at the date of the financial statement are not included in the financial statement.

The Board of Directors has elected to use the cash basis of accounting for this entity given the nature of its receipts and disbursements: revenue is almost always received and earned in the same period (e.g. at the beginning of the year for annual memberships, and shortly prior to events for conference attendance) and most expenses are incurred evenly over the year, with the exception of the billing for the conference hotel expense. Financial results by conference are presented in the Conference Summary Report in the Supplementary Information section of this document.

##### C. INCOME TAXES

The Association is exempt from federal and state income taxes under Section 501(c)(4) of the Internal Revenue Code and Section 23701f of the California Revenue and Taxation Code.

##### D. CONTRACTUAL AGREEMENTS

The Association has entered into various contractual agreements for professional services. These agreements include compensation for services rendered to the Association.

##### E. COMPARATIVE DATA

Comparative data for the prior year have been presented in certain sections of the accompanying financial statement in order to provide an understanding of changes in the Association's financial position and operations.

**STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS**

**NOTES TO THE FINANCIAL STATEMENT**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. COMPARATIVE DATA (CONTINUED)**

Since SACRS uses the cash basis of accounting, the timing of events and the ultimate settlement of bills may vary from year to year. For example; the Spring conference costs could be settled by June (by year end) or be extended into the subsequent year. Also the timing of events could affect when payments are made from year to year. Payments after year end will be paid out of the surplus generated out of the prior year conference receipts. So the surplus cash at year end may have future demands for prior expenses. Management prepares a conference summary report that reconciles these payments when settled; this report is presented as supplementary information.

**2. CASH AND INVESTMENTS**

Cash and Cash Equivalents

SACRS considers short-term highly liquid investments to be cash equivalents provided that they are both readily convertible to cash and had an original maturity of three months or less when purchased. The balance in cash and cash equivalents at June 30 include:

	2021	2020
Bank accounts	\$ 255,570	\$ 208,515
Money market accounts	799,341	798,113
Total cash and cash equivalents	\$ 1,054,911	\$ 1,006,628

Cash in bank accounts at June 30, 2021 consisted of the following:

	First Foundation	Bank of America	Total
Per bank	\$ 257,855	\$ 16,883	\$ 274,738
Checks outstanding	(19,168)	-	(19,168)
Deposits in transit	-	-	-
Total bank accounts	\$ 238,687	16,883	\$ 255,570

Cash in bank accounts at June 30, 2020 consisted of the following:

	First Foundation	Bank of America	Total
Per bank	\$ 319,175	\$ 8,493	\$ 327,668
Checks outstanding	(126,442)	-	(126,442)
Deposits in transit	7,289	-	7,289
Total bank accounts	\$ 200,022	8,493	\$ 208,515

Cash balances on interest-bearing accounts held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). There was \$7,855 and \$69,175 in excess of FDIC coverage as of June 30, 2021 and 2020, respectively.

# STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS

## NOTES TO THE FINANCIAL STATEMENT

### FOR THE FISCAL YEARS ENDED JUNE 30, 2021 AND 2020

#### Investments

In March 2015, SACRS invested in the CalTRUST Medium-Term Fund (the “Fund”), depositing \$1,104,130. The fair value balance as of June 30, 2021 and 2020 presented in the financial statement is \$978,648 and \$975,320; respectively. This balance includes reinvested interest income totaling and \$3,329 and \$48,586, respectively. The current portion of the investment account represents underlying securities which are immediately redeemable (e.g. equities), or will mature within one year. The current portion of investments at June 30, 2021 and 2020 was \$0. The Fund is not rated or insured.

### 3. CONTRACTS

SACRS has entered into contracts with various hotels to reserve facilities and guest rooms for its upcoming conferences and events. Cancellation fees associated with these contracts vary by date of notice. All hotel contracts specify the total number of guest room nights reserved at a group rate. If guest nights attributed to the convention fall below a specified minimum, SACRS is obligated to pay a room attrition rate for every guest night below the contracted minimum; standard room rates exceed the attrition rate. The organization is also responsible for food and beverage minimums as specified below. Hotel contracts entered into as of the audit date are summarized here:

<b>Conference</b>	<b>Cancellation Fees</b>	<b>Food and Beverage Minimums</b>	<b>Guest Room Nights Reserved</b>	<b>Guest Room Nights Minimum</b>	<b>Rooms Attrition</b>
Fall 2021	\$334,779-\$430,430	\$165,000	1145	916	\$239 plus tax
Spring 2022	\$135,682-\$421,365	\$150,000	1185	948	\$229 plus tax
Fall 2022	\$136,762-\$288,524	\$150,000	1145	916	\$249 plus tax
Spring 2023	\$224,848-\$404,726	\$170,000	1145	916	\$247 plus tax
Fall 2023	\$123,832-\$397,665	\$150,000	1185	948	\$209 plus tax

### 4. DONATED SERVICES

Directors and officers have made a significant contribution of their time to develop the organization and its programs. No amounts have been recognized in the accompanying statement of cash receipts and disbursements as no cash changed hands as a result of the donated services.

### 5. SUBSEQUENT EVENTS

SACRS’ management has evaluated subsequent events through January 13, 2022, the date which the financial statement was issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statement.

**SUPPLEMENTARY INFORMATION**

**STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS**  
**COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

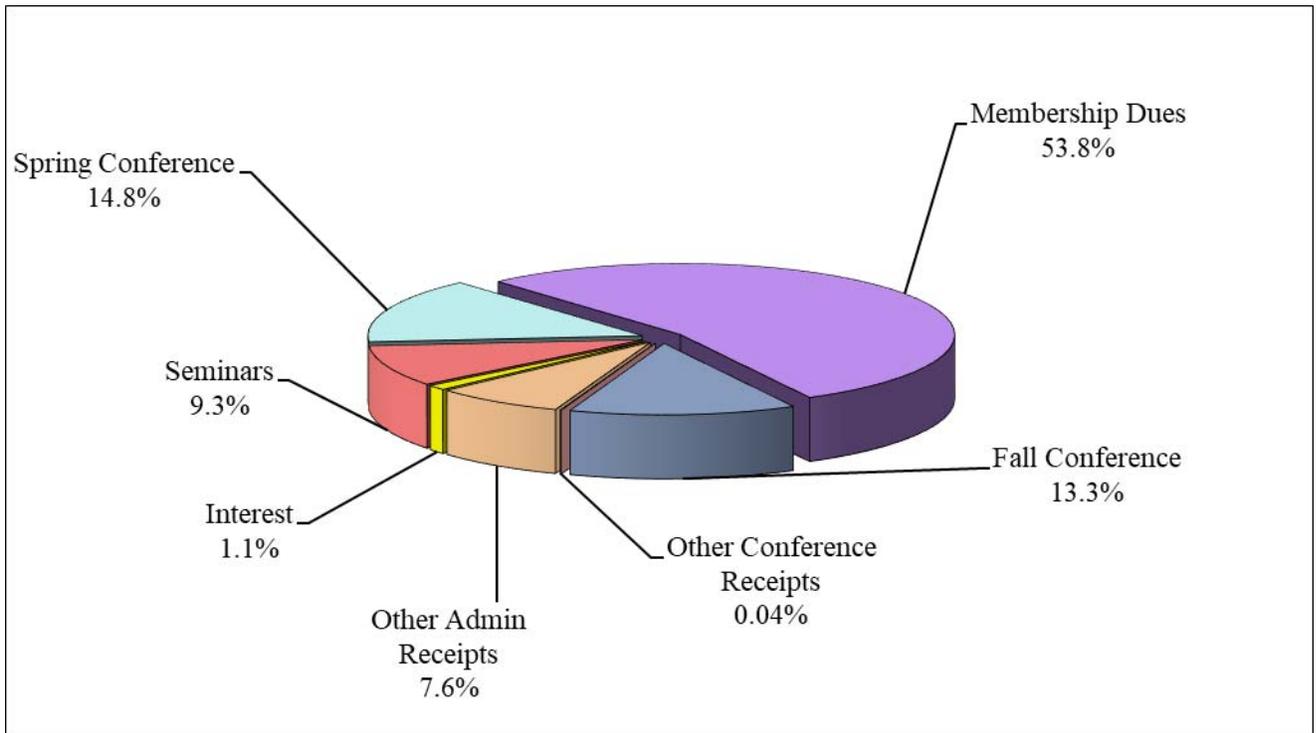
	<u>Conference</u>	<u>Administration</u>	<u>Total</u>
<b><u>Cash Receipts</u></b>			
Dues	\$ -	\$ 422,500	\$ 422,500
Conference			
Fall	104,815	-	104,815
Spring	116,115	-	116,115
Seminars	73,000		73,000
Other admin receipts	-	60,050	60,050
Other conference receipts	350	-	350
Interest	8,519	-	8,519
Total Cash Receipts	<u>302,799</u>	<u>482,550</u>	<u>785,349</u>
<b><u>Cash Disbursements</u></b>			
Conference			
Fall - 2020			
Hotel and meals	2,668	-	2,668
Audio and visual	46,888	-	46,888
Program materials	41,174	-	41,174
Spring - 2021			
Hotel and meals	6,490	-	6,490
Audio and visual	39,097	-	39,097
Program materials	13,790	-	13,790
Seminars	196,257	-	196,257
Conference Administration	22,826	-	22,826
Total conference disbursements	<u>369,190</u>	<u>-</u>	<u>369,190</u>
Administration	-	274,714	274,714
Lobbying	-	55,011	55,011
Newsletters	-	15,031	15,031
Committee meetings	-	2,033	2,033
Special projects	-	17,759	17,759
Total administration disbursements	<u>-</u>	<u>364,548</u>	<u>364,548</u>
Total Cash Disbursements	<u>369,190</u>	<u>364,548</u>	<u>733,738</u>
Excess (Deficit) of Cash Receipts over Cash Disbursements	(66,391)	118,002	51,611
Cash and Investments, Beginning	<u>3,073,226</u>	<u>(1,091,278)</u>	<u>1,981,948</u>
Cash and Investments, Ending	<u>\$ 3,006,835</u>	<u>\$ (973,276)</u>	<u>\$ 2,033,559</u>

STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS

GRAPHICAL PRESENTATION OF CASH RECEIPTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

CASH RECEIPTS BY SOURCE

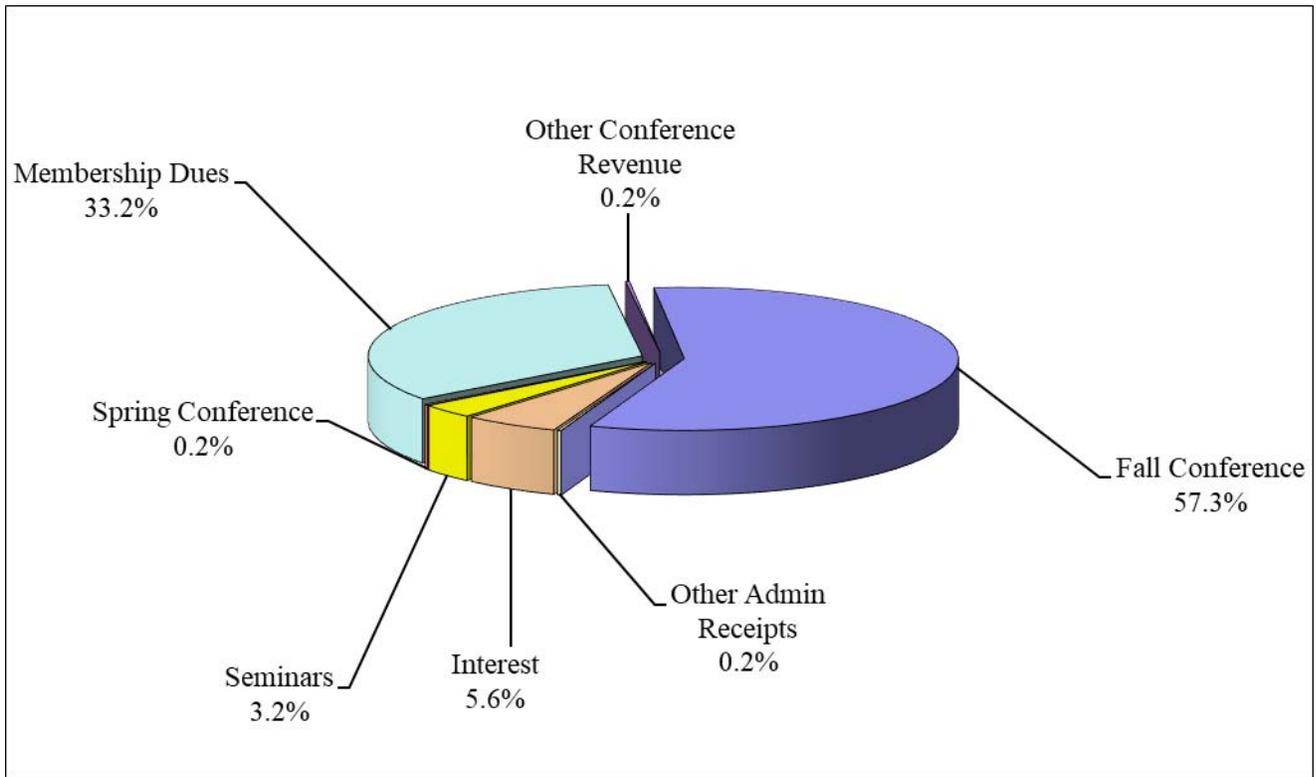


STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS

GRAPHICAL PRESENTATION OF CASH RECEIPTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

CASH RECEIPTS BY SOURCE



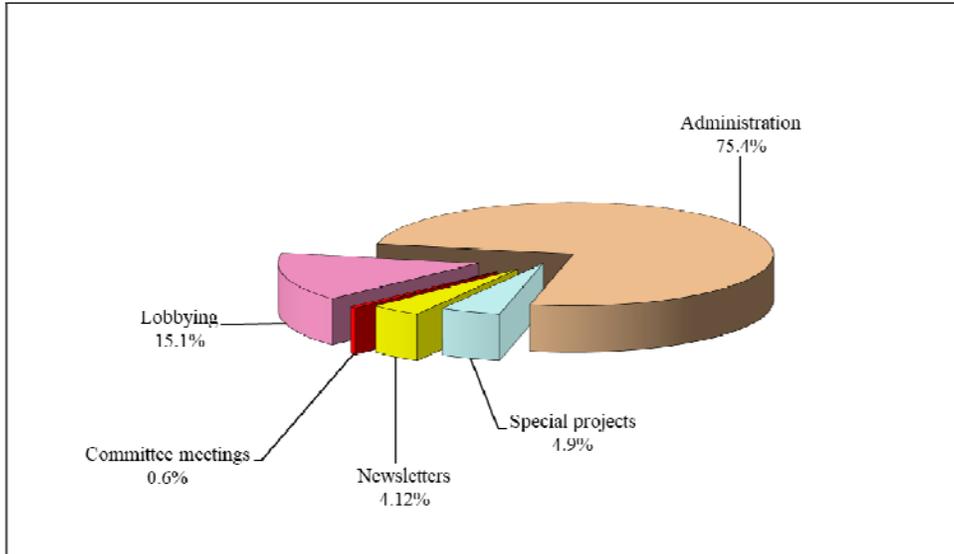
**STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS**

**GRAPHICAL PRESENTATION OF CASH DISBURSEMENTS**

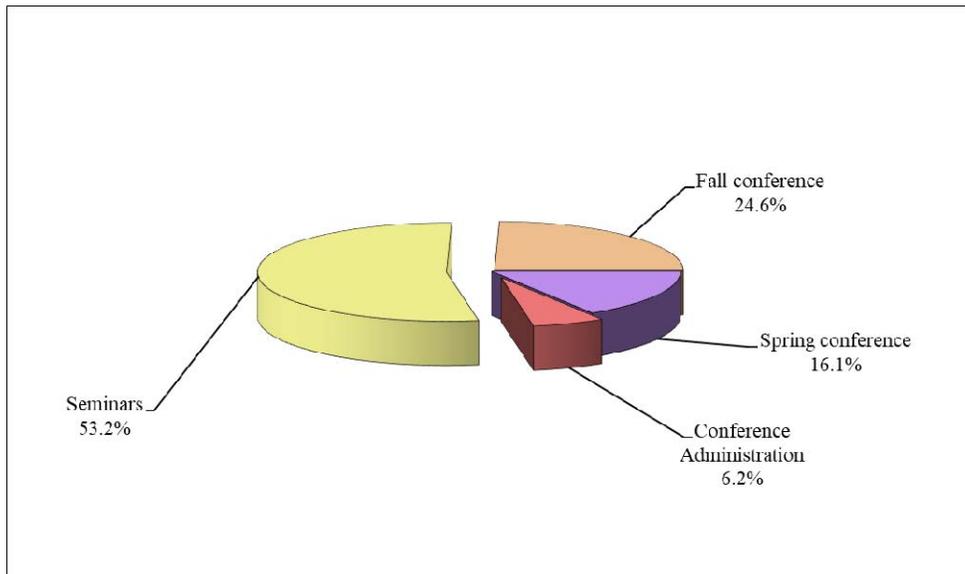
**FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

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**ADMINISTRATION CASH DISBURSEMENTS**



**CONFERENCE CASH DISBURSEMENTS**



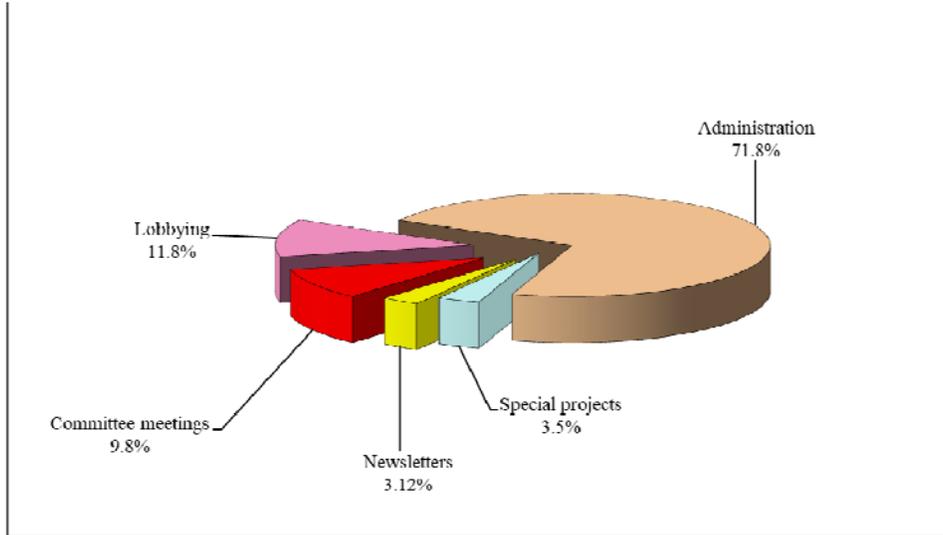
**STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS**

**GRAPHICAL PRESENTATION OF CASH DISBURSEMENTS**

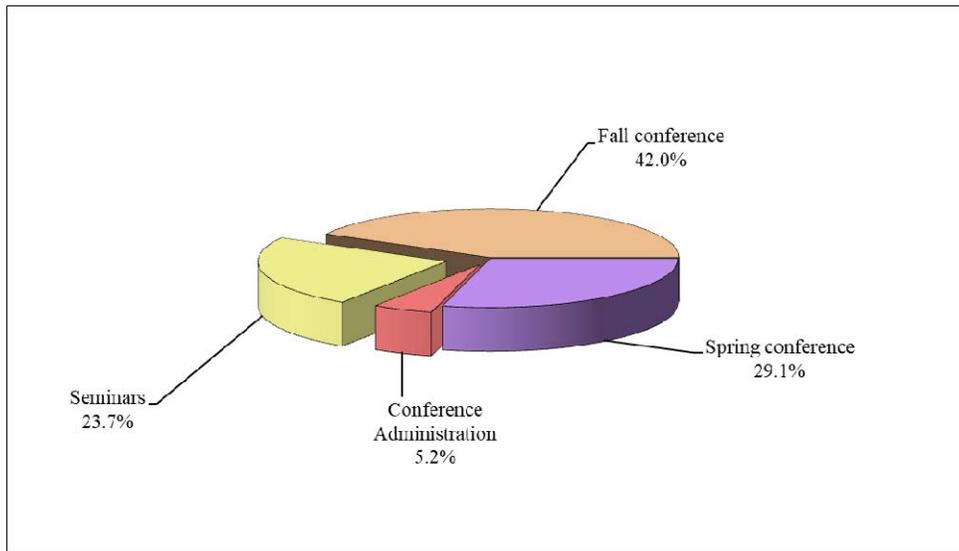
**FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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**ADMINISTRATION CASH DISBURSEMENTS**



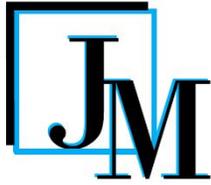
**CONFERENCE CASH DISBURSEMENTS**



**STATE ASSOCIATION OF COUNTY RETIREMENT SYSTEMS**

**CONFERENCE SUMMARY REPORT**

	<b>Spring 2021 Held Via Virtual Conference</b>	<b>Fall 2020 Held Via Virtual Conference</b>	<b>Spring 2020 Canceled/Held Via Webinar</b>	<b>Fall 2019 Monterey</b>	<b>Spring 2019 Lake Tahoe</b>	<b>Fall 2018 Indian Wells</b>
Cash receipts						
Conference	\$ 116,115	\$ 102,380	\$ -	\$ 639,270	\$ 592,590	\$ 591,530
Total cash receipts	<u>116,115</u>	<u>102,380</u>	<u>-</u>	<u>639,270</u>	<u>592,590</u>	<u>591,530</u>
Cash disbursements						
Hotel and meals	-	-	-	267,961	195,278	312,670
Audio and visual	38,975	46,888	-	56,477	57,731	52,180
Program materials	2,500	3,049	-	20,381	42,342	32,086
Program speakers	11,290	38,125	-	63,172	39,784	74,458
Conference administration	3,830	2,668	-	12,131	28,354	22,738
Total cash disbursements	<u>56,595</u>	<u>90,730</u>	<u>-</u>	<u>420,122</u>	<u>363,489</u>	<u>494,132</u>
Net cash provided by conference	<u>\$ 59,520</u>	<u>\$ 11,650</u>	<u>\$ -</u>	<u>\$ 219,148</u>	<u>\$ 229,101</u>	<u>\$ 97,398</u>
Total attendees	443	363	N/A	647	590	588



**James Marta & Company LLP**  
**Certified Public Accountants**

*Accounting Auditing Tax and Consulting*

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**COMMUNICATION WITH THOSE CHARGED  
WITH GOVERNANCE**

Board of Directors  
State Association of County Retirement Systems  
Sacramento, California

We have audited the financial statement of the State Association of County Retirement Systems (SACRS) for years ended June 30, 2021 and 2020, and have issued our report thereon dated January 13, 2022. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated June 4, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with the cash basis of accounting described in Note 1 to the financial statement. Our audit of the financial statement does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statement is free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of SACRS solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our report on internal control over financial reporting in a separate letter to you dated January 13, 2022.

**Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.

We follow the AICPA Ethics Standard Rule 201C, in conjunction with this, we annually review with all engagement staff potential conflicts and obtain a conflict certification. In addition, we inquire on each engagement about potential conflicts with staff. We have not identified any relationships or other matters that in the auditor's judgment may be reasonably thought to bear on independence.

### **Qualitative Aspects of the Entity's Significant Accounting Practices**

#### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by SACRS is included in Note 1 to the financial statement. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during fiscal year 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### *Significant Accounting Estimates*

Accounting estimates are typically an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. As the accounting of SACRS is prepared on a cash basis, no estimates are necessary for the preparation of the financial statement.

#### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. We are not aware of any sensitive disclosures affecting SACRS' financial statement.

### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statement as a whole and each applicable opinion unit. We did not identify any uncorrected misstatements as a result of our audit procedures.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. See Attachment I for adjustments provided by management.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to SACRS' financial statement or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated January 13, 2022.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with SACRS, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as SACRS' auditors.

We are contracted to prepare the fiscal year 2021 federal Return of Organization Exempt From Income Tax, and related state filings, as well as the calendar year Forms 1099-MISC for SACRS. These returns will be prepared using audited financial data, where applicable, but our preparation of these returns does not constitute an audit. No audit opinion will be issued on the tax returns referred to above.

***James Marta & Company LLP***  
***Certified Public Accountants***

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This report is intended solely for the information and use of the Board of Directors, and management of State Association of County Retirement Systems and is not intended to be and should not be used by anyone other than these specified parties.

*James Marta & Company LLP*

James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
January 13, 2022

**Adjusting Journal Entry JE # 1**

Book unrealized loss on investment for June 2021

3200	Retained Earnings	1.00	
4900	Interest Earned	953.00	
1100	CalTrust - Medium Term		954.00
<b>Total</b>		<b>954.00</b>	<b>954.00</b>

**Reclassifying Journal Entry JE # 2**

Reclass the Spring Conference & Hotel refund from exp acct 6024 to other admin revenue. Expenses were paid in FY2019/20 but due to COVID19, the hotels were

6024	Spring Conference -+ Hotel	60,000.00	
1405.1	Other Expenses - Refunds - Prior Year		60,000.00
<b>Total</b>		<b>60,000.00</b>	<b>60,000.00</b>



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## MANAGEMENT REPRESENTATION LETTER

January 13, 2022

James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California

This representation letter is provided in connection with your audit of the statement of cash receipts and disbursements of the State Association of County Retirement Systems (SACRS) for the fiscal years ended June 30, 2021 and 2020, and the related notes to the financial statement, for the purpose of expressing an opinion on whether the financial statement is presented fairly, in all material respects, in accordance with the cash basis of accounting described in Note 1 to the financial statement.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of January 13, 2022:

### Financial Statement

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated June 4, 2019, for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1 to the financial statement.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed.
- All events subsequent to the date of the financial statement which requires adjustment or disclosure have been adjusted or disclosed.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed.
- We have complied with all contractual agreements, grants, and donor restrictions.
- We have maintained an appropriate composition of assets in amounts needed to comply with all donor restrictions.
- We have accurately presented the entity's position regarding taxation and tax-exempt status.



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- The bases used for allocation of functional expenses are reasonable and appropriate.
- We have included in the financial statement all assets under the entity's control.
- We have designed, implemented, and maintained adequate internal controls over the receipt and recording of contributions.
- Methods and significant assumptions used by management to determine fair values, their consistency in application, and the completeness and adequacy of fair value information for financial statement measurement and disclosure purposes are appropriate.

#### Information Provided

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statement, such as records, documentation, and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statement in accordance with the cash basis of accounting described in Note 1 to the financial statement.
- We have disclosed to you the results of our assessment of the risk that the financial statement may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others when the fraud could have a material effect on the financial statement.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statement communicated by employees, former employees, analysts, regulators, or others.
- We have no knowledge of any noncompliance or suspected noncompliance with laws, regulations, contracts, and grant agreements whose effects should be considered when preparing financial statements.
- We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statement and we have not consulted legal counsel concerning litigation or claims.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

#### Supplementary Information in Relation to the Financial Statement as a Whole

With respect to the Combining Statement of Cash Receipts and Disbursements, Graphical Presentation of Cash Receipts, Graphical Presentation of Cash Disbursements, and Conference Summary Report accompanying the financial statement:

- We acknowledge our responsibility for the presentation of the Combining Statement of Cash Receipts and Disbursements, Graphical Presentation of Cash Receipts, and Graphical Presentation



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of Cash Disbursements in accordance with the cash basis accounting as described in Note 1 to the financial statement. We acknowledge our responsibility for the presentation of the Conference Summary Report which presents all cash receipts and expenses related to a specific regardless of timing of the underlying receipt or disbursement.

- We believe the Combining Statement of Cash Receipts and Disbursements, Graphical Presentation of Cash Receipts, and Graphical Presentation of Cash Disbursements, including its form and content, is fairly presented in accordance with the cash basis accounting as described in Note 1 to the financial statement. We believe the Conference Summary Report, including its form and content, is fairly presented and inclusive of all cash receipts and expenses related to a specific regardless of timing of the underlying receipt or disbursement.
- The methods of measurement or presentation have not changed from those used in the prior period.
- When the Combining Statement of Cash Receipts and Disbursements, Graphical Presentation of Cash Receipts, Graphical Presentation of Cash Disbursements, and Conference Summary Report are not presented with the audited financial statement, management will make the audited financial statement readily available to the intended users of the Combining Statement of Cash Receipts and Disbursements, Graphical Presentation of Cash Receipts, Graphical Presentation of Cash Disbursements, and Conference Summary Report no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.

#### Additional Representations

- We have reviewed, approved, and taken responsibility for the financial statement and related notes.
- We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statement.
- We have a process to track the status of audit findings and recommendations.
- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- All disbursements have been properly classified in the financial statement and allocations, if any, have been made on a reasonable basis.
- Deposit and investment risks have been properly and fully disclosed.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- We have disclosed to you all guarantees, whether written or oral, under which SACRS is contingently liable.
- SACRS has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have provided to you our views on reported audit findings, conclusions, and recommendations, as well as planned corrective actions.
- Regarding our tax filings prepared by James Marta & Company LLP:
  - We are responsible for complying with tax filing requirements with the Internal Revenue Service, Franchise Tax Board, and other agencies, as applicable.
  - We are responsible for establishing and maintaining effective internal control over compliance.



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- We have performed an evaluation of the Association's compliance with tax filing requirements and we are not aware of any instances of noncompliance.
- We have reviewed and approved the tax returns prepared by your office.
- We have made available to you all documentation related to compliance with specified requirements.
- We assume all management responsibilities in regards to the tax filings and have designated an individual in management who possesses suitable skill, knowledge and experience to oversee these services.
- We have performed an evaluation of the adequacy and results of the services performed and assume all management responsibilities.
- We accept responsibility for the results of the services.

*Sulema Peterson*

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Sulema Peterson, SACRS Executive Director



**James Marta & Company LLP**  
*Certified Public Accountants*

*Accounting, Auditing, Consulting, and Tax*

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
State Association of County Retirement Systems  
Sacramento, California

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of State Association of County Retirement Systems (SACRS), as of and for the years ended June 30, 2021 and 2020 the related notes to the financial statement, which collectively comprise the State Association of County Retirement Systems' basic financial statement, and have issued our report thereon dated January 13, 2022.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statement, we considered SACRS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

*James Marta & Company LLP*

James Marta & Company LLP  
Certified Public Accountants  
January 13, 2022

# BOARD MEETINGS 2022

Meeting Date  
**04/27/2022**  
Agenda Item  
**#9**

JANUARY						
Su	Mo	Tu	We	Th	Fr	Sa
						1
2	3	4	5	6	7	8
9	10	11	B	13	14	15
16	H	18	19	20	21	22
23	24	25	B	27	28	29
30	31					

1 - New Year's Day  
17 - Martin Luther King Jr. Day

FEBRUARY						
Su	Mo	Tu	We	Th	Fr	Sa
		1	2	3	4	5
6	7	8	B	10	11	12
13	14	15	16	17	18	19
20	H	22	B	24	25	26
27	28					

21 - Presidents' Day

MARCH						
Su	Mo	Tu	We	Th	Fr	Sa
		1	2	3	4	5
6	C	C	B	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

APRIL						
Su	Mo	Tu	We	Th	Fr	Sa
					1	2
3	4	5	6	7	8	9
10	11	12	B	14	15	16
17	18	19	20	21	22	23
24	25	26	B	28	29	30

MAY						
Su	Mo	Tu	We	Th	Fr	Sa
1	2	3	4	5	6	7
8	9	S	S	S	S	14
15	16	17	18	19	20	21
22	23	24	B	26	27	28
29	H	31				

30 - Memorial Day

JUNE						
Su	Mo	Tu	We	Th	Fr	Sa
			1	2	3	4
5	6	7	B	9	10	11
12	13	14	15	16	17	18
19	20	21	B	23	24	25
26	27	28	29	30		

JULY						
Su	Mo	Tu	We	Th	Fr	Sa
					1	2
3	H	5	6	7	8	9
10	11	12	B	14	15	16
17	18	19	20	21	22	23
24	25	26	B	28	29	30
31						

4 - Independence Day Observed

AUGUST						
Su	Mo	Tu	We	Th	Fr	Sa
	1	2	3	4	5	6
7	8	9	B	11	12	13
14	15	16	17	18	19	20
21	22	23	B	25	26	27
28	29	30	31			

SEPTEMBER						
Su	Mo	Tu	We	Th	Fr	Sa
				1	2	3
4	H	6	7	8	9	10
11	12	13	B	15	16	17
18	19	20	21	22	23	24
25	26	27	B	29	30	

5 - Labor Day

OCTOBER						
Su	Mo	Tu	We	Th	Fr	Sa
						1
2	3	4	5	6	7	8
9	10	11	B	13	14	15
16	17	18	19	20	21	22
23	24	25	B	27	28	29
30	31					

NOVEMBER						
Su	Mo	Tu	We	Th	Fr	Sa
		1	B	3	4	5
6	7	S	S	S	S	12
13	14	15	16	17	18	19
20	21	22	23	H	H	26
27	28	29	B			

11 - Veterans Day  
24 and 25 - Thanksgiving

DECEMBER						
Su	Mo	Tu	We	Th	Fr	Sa
				1	2	3
4	5	6	7	8	9	10
11	12	13	B	15	16	17
18	19	20	21	22	23	24
25	H	27	28	29	30	31

26 - Christmas Day Observed

**B** Board Meeting

**S** SACRS

**C** CALAPRS - General Assembly