

SDCERS Annual Meeting

www.sdcers.org

Friday Edition

October 20, 2017

Retirement System on Solid Footing



Member Services Director Cynthia Queen welcomes everyone to the SDCERS Annual Meeting on Friday, October 20, 2017 at the Balboa Park Club Ballroom.

SDCERS Vigilant With Security



SDCERS takes precautions to ensure your data and information is secure.

The Truth Behind the Headlines

SDCERS has been in the news recently. CEO Mark Hovey explains why the pension system made the headlines.



20-Year Investment Returns 7.7%



SDCERS long-term investment returns have been in the top 10% nationally. Returns for the year ending June 30, 2017 were 13.5%.

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Valentine Hoy
SDCERS Board President

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Cynthia Queen
Member Services Director

Let's Take a Poll!

- Step #1: With your phone, create a new text message to the number 22333
- Step #2: In the body of the message, enter "SDCERS"
- Step #3: Hit "send"

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Marcelle Voorhies Rossman
Chief Benefits Officer

Securing Member Data

SDCERS protects your data 24/7

- Security questions
- Limiting incoming documents
- Limited access to data
- Ongoing staff training
- Firewalls

Verifying Data Security

- Department of Homeland Security testing
- Information technology risk assessment audit
- Penetration test for system vulnerabilities

Disaster Recovery

- SDCERS prepares for emergencies
- Comprehensive disaster recovery plan for pension payroll
- Plan is documented, updated, drilled, repeated
- Live drill successfully paid pension payroll in March 2017

Retiree Health - SDCERS' Role

- Plan sponsors determine health benefits and reimbursement requirements
- Coordinate health insurance programs for:
 - City Risk Management
 - San Diego Public Employee Benefit Association (SDPEBA)
- Facilitate reimbursement of outside plan premiums for eligible City retirees
- Process health insurance deductions for eligible Airport and Port retirees

13th Check & Corbett



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Liza Crisafi

Chief Investment Officer

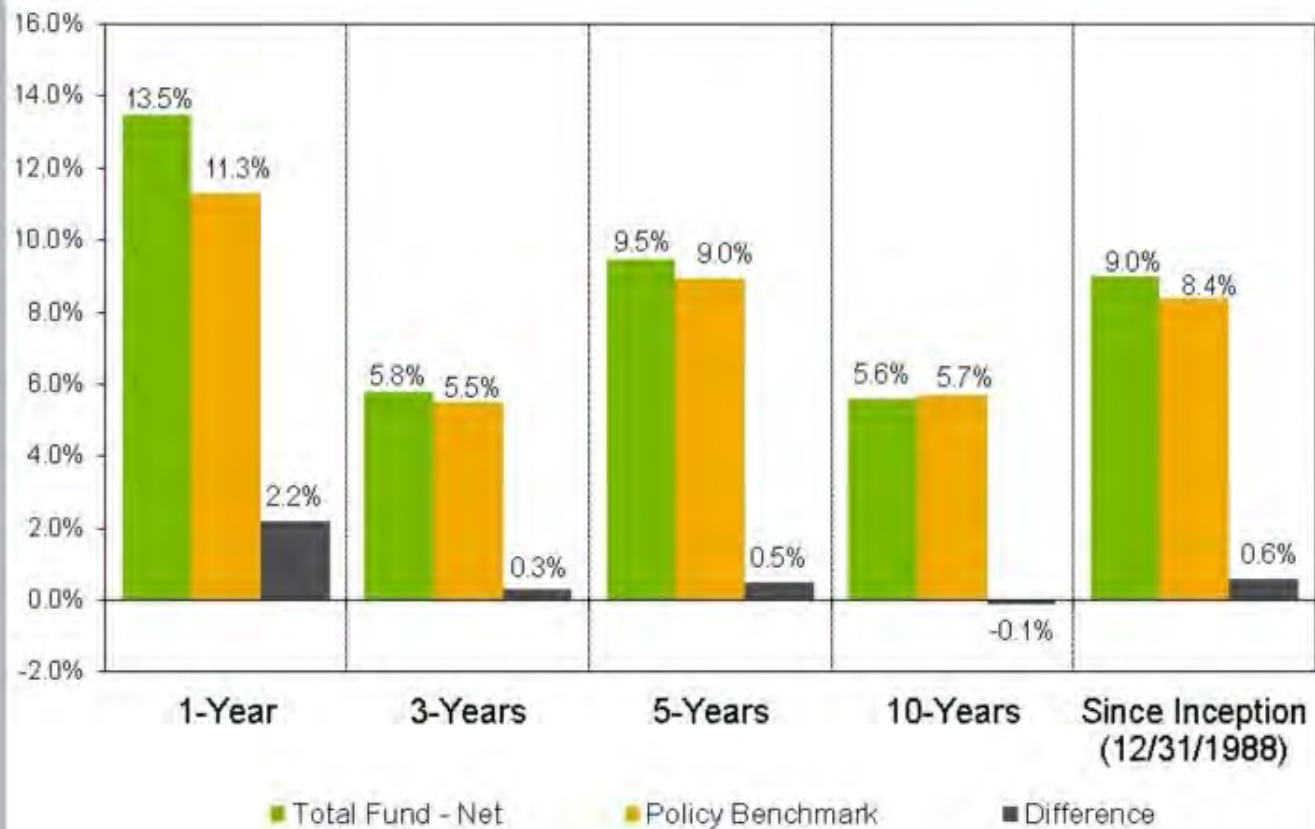
Fiscal Year 2017 Market Index Returns

One-Year Returns Ending June 30, 2017



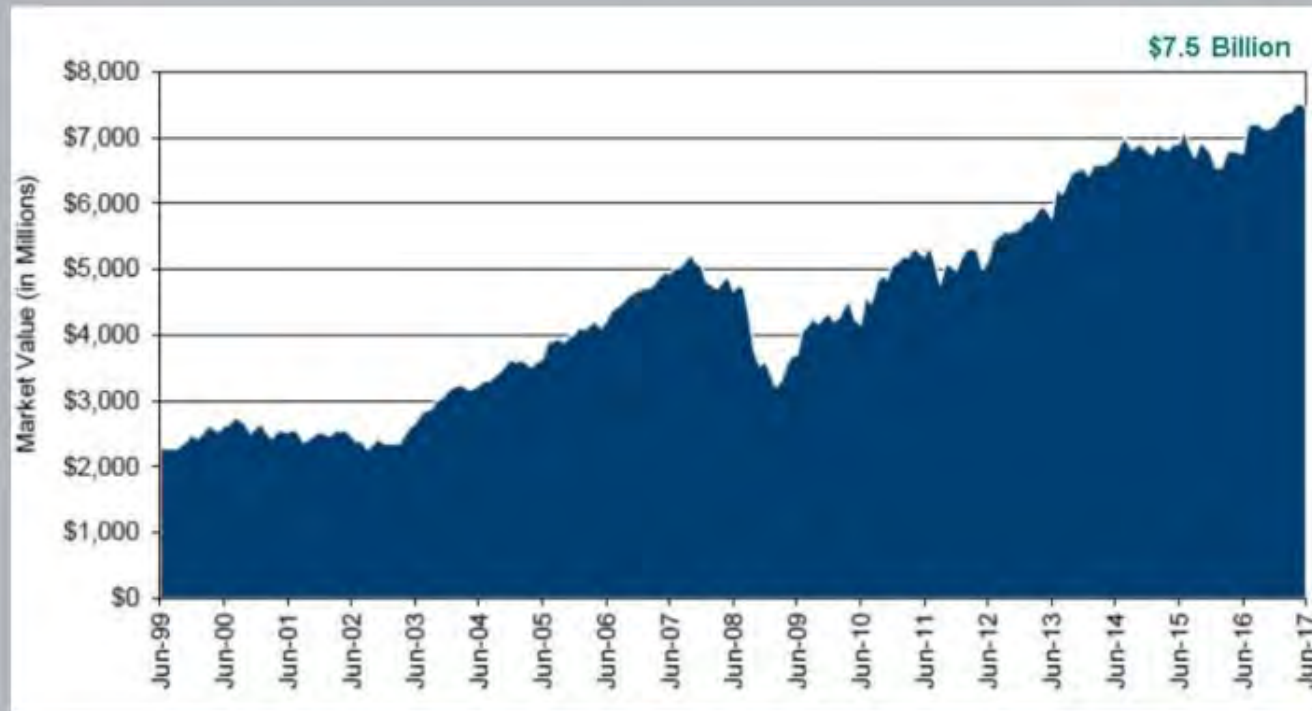
Investment Returns

As of June 30, 2017



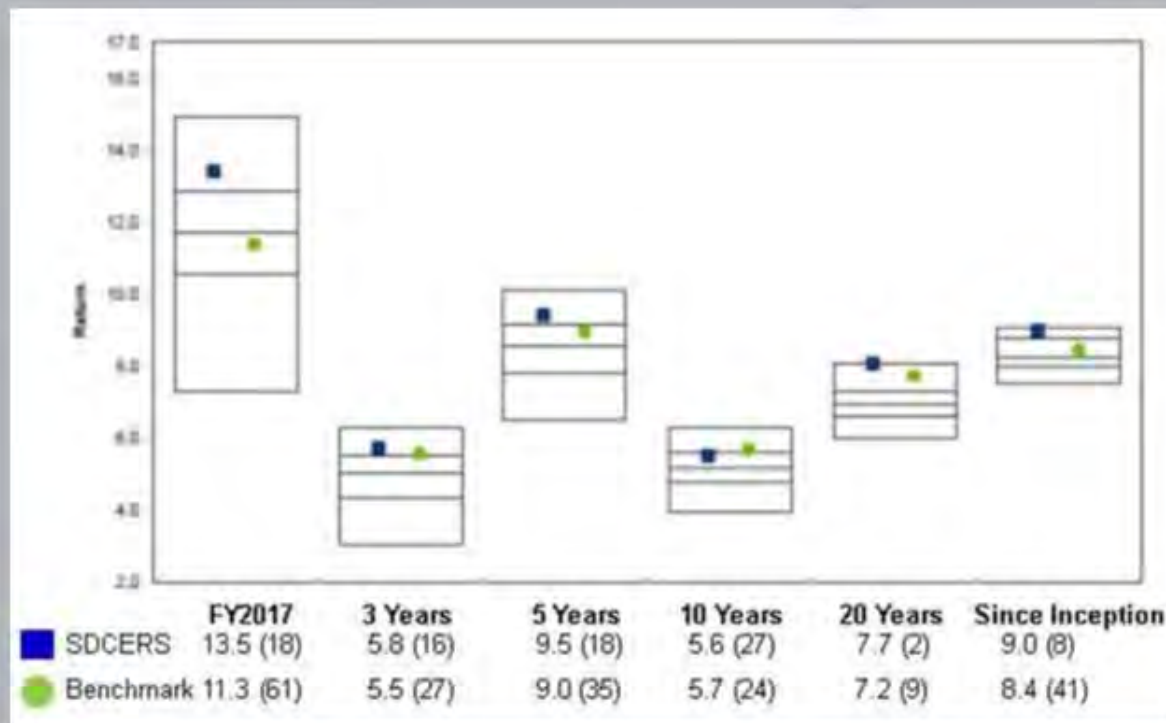
Historical Market Value

SDCERS Market Value History for Periods Ending 6/30/2017



Peer Universe

SDCERS Versus Peers for Periods Ending 6/30/2017



Fiscal Year Performance Highlights

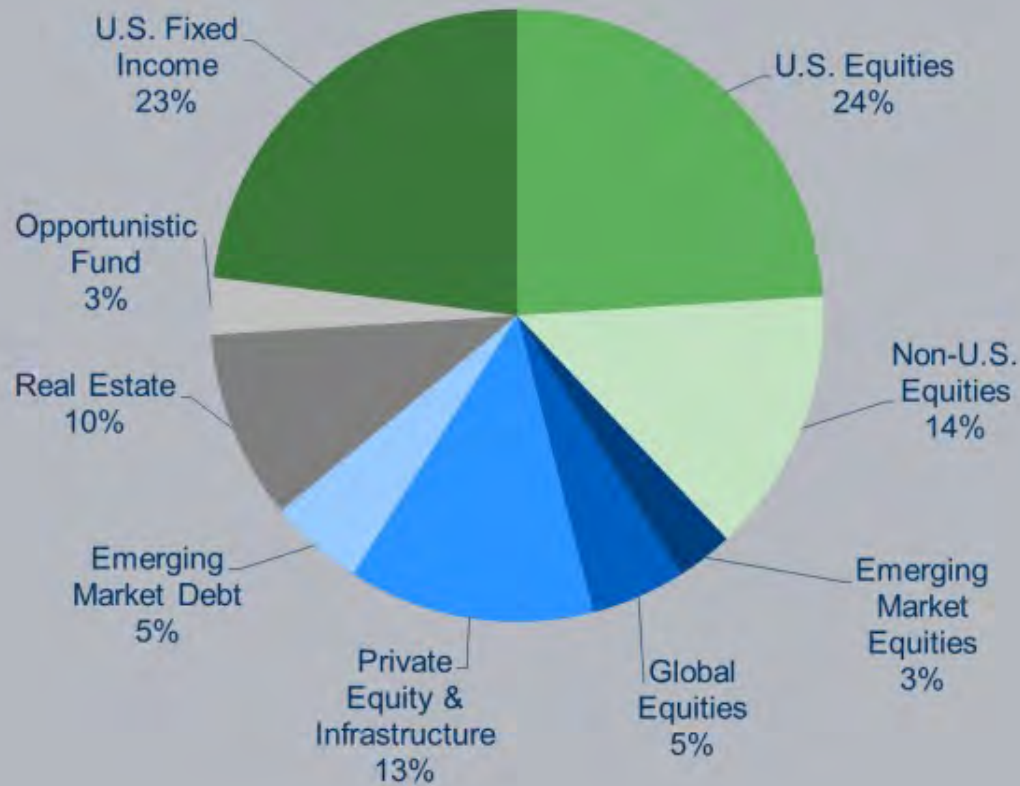
- Very strong year for stocks
- Fixed Income returns flat
- Solid Private Equity and Real Estate returns
- Outperformance versus benchmark driven by Private Equity and Active Equity

Fiscal Year Accomplishments

Completed the Following Action Plan Items:

- Review of custody fees and services
- Review of investment policies and procedures
- Real Estate consultation search
- Review of risk-adjusted returns

Asset Allocation as of June 30, 2017



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Mark Hovey

Chief Executive Officer

SDCERS on the Front Page!

San Diego Union-Tribune headline on September 8:

"San Diego putting off pain from new pension debt"

Our 20,000 members prefer we NOT be on the front page. What happened?

- Good things, not bad
- The facts

Board Action Taken September 8

- Lowered our investment return assumption from 7.0% to 6.5% over two years
 - The lowest and most conservative investment return assumption of any public pension plan in the state
- Enhances the security of the plan
- Increases the amount employees must contribute annually to their pensions

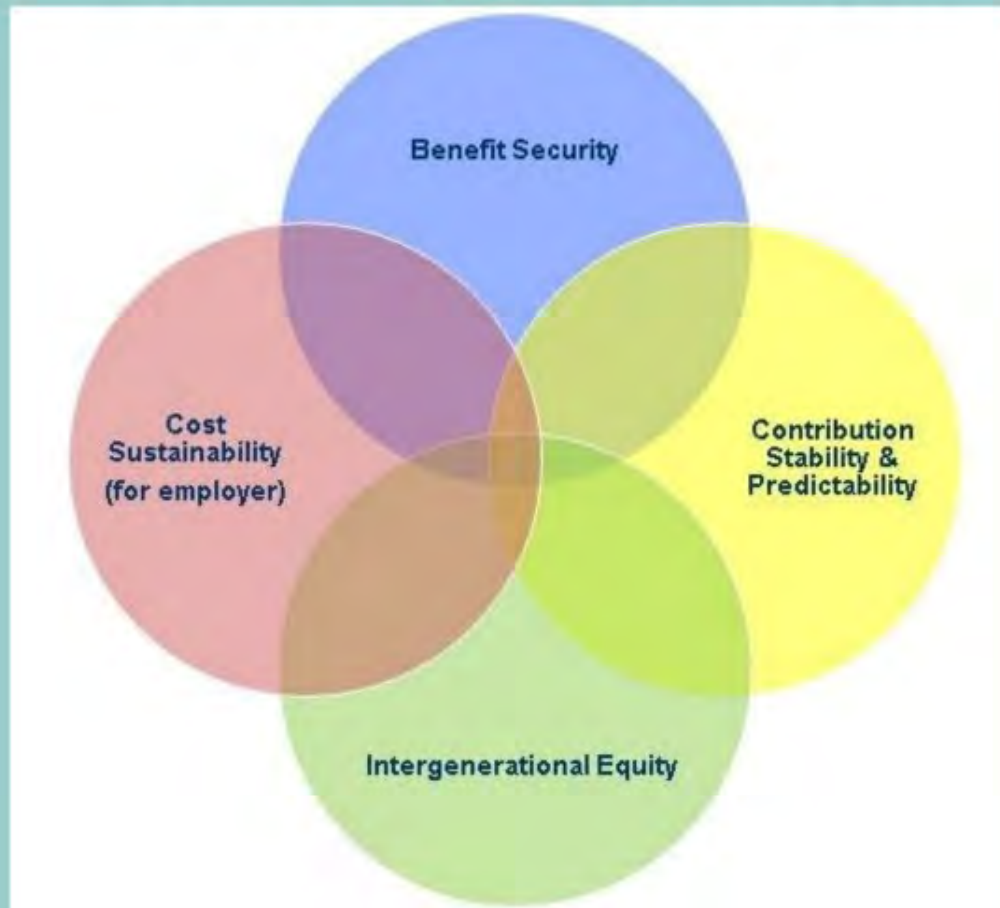
Board Action Taken September 8

- Modified the pension debt amortization schedule
 - Smoothing out future employer contributions
- Action supported by actuary, fiduciary counsel, and Chief Investment Officer
- Achieves more consistent inflows of cash
- Enhances the benefit security of the system's 20,000 members

Actions Support our Mission

The mission of the San Diego City Employees' Retirement System is to deliver accurate and timely benefits to its participants and ensure the Trust Fund's safety, integrity and growth.

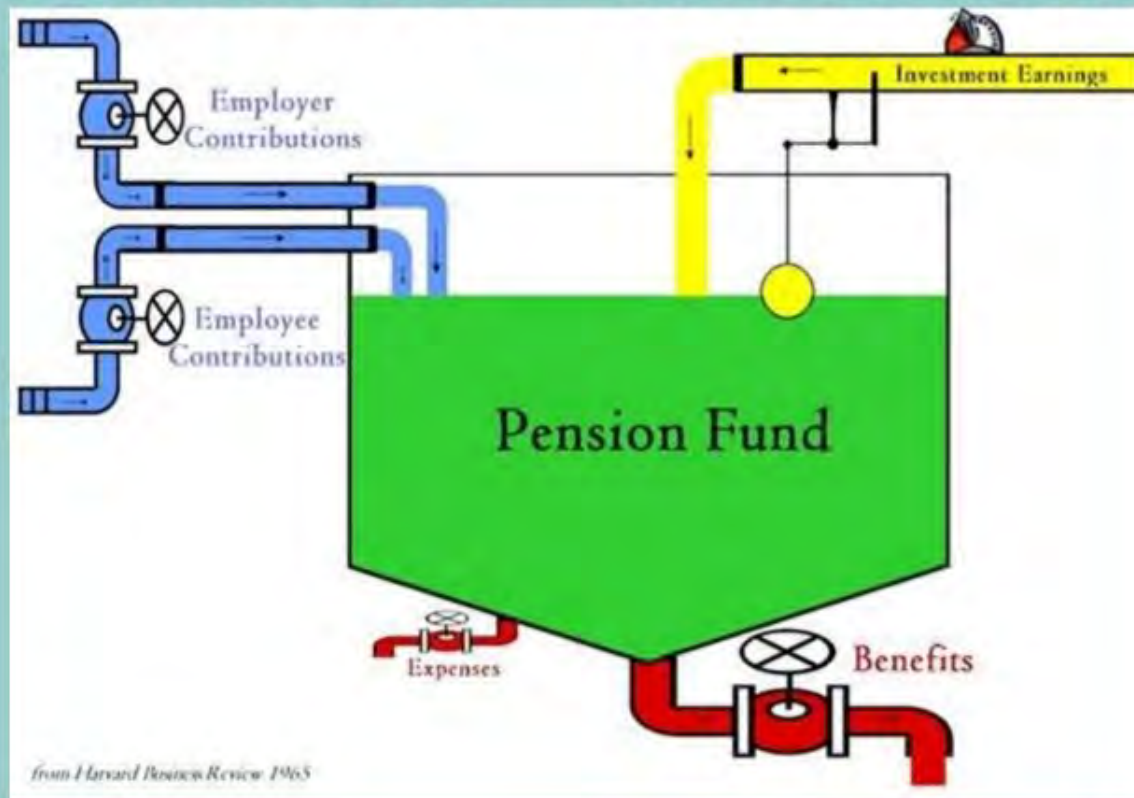
Balancing Objectives



Benefit Security

- The more plan assets, the more secure the benefits
- Best practices:
 - More conservative assumptions
 - Shorter asset smoothing periods
 - Shorter amortization periods
 - Higher contributions
- Constitutional protections provide a significant amount of benefit security, but...
- The plan sponsor has to be able to afford the contributions needed to pay the benefits

Contributions + Investments =

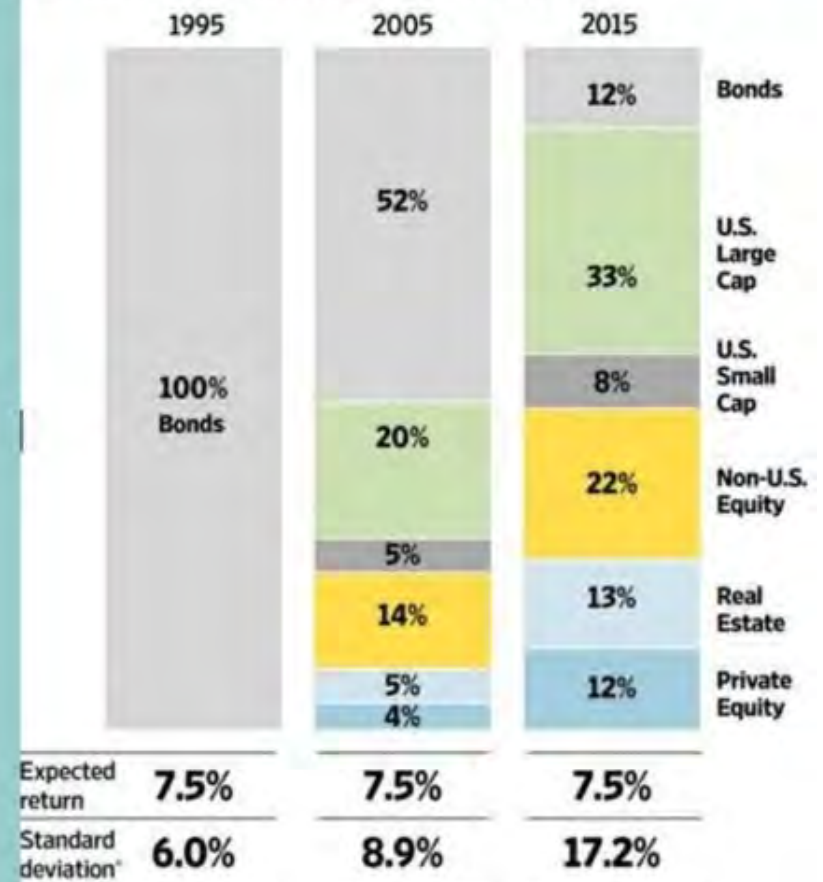


Expenses + Benefits

Investment Risk is Now Higher Than Before

- Interest rates have declined, resulting in U.S. pension plans taking more investment risk
- Old 60/40 stock/bond allocation doesn't work in 2017
- Risks are increasing as plans mature (negative cash flows)

Estimates of what investors needed to earn 7.5%



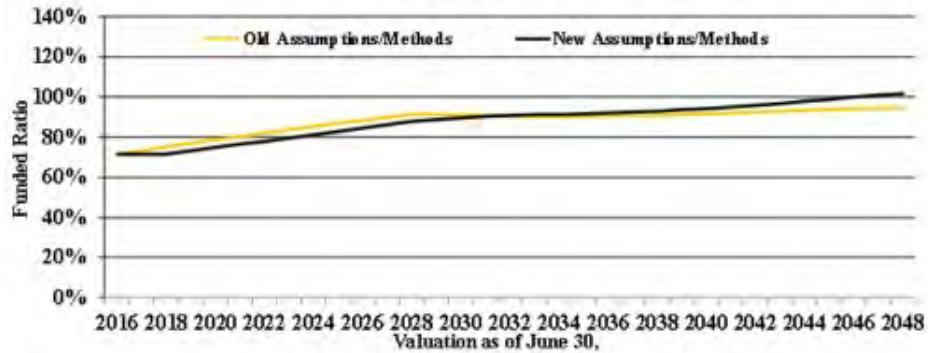
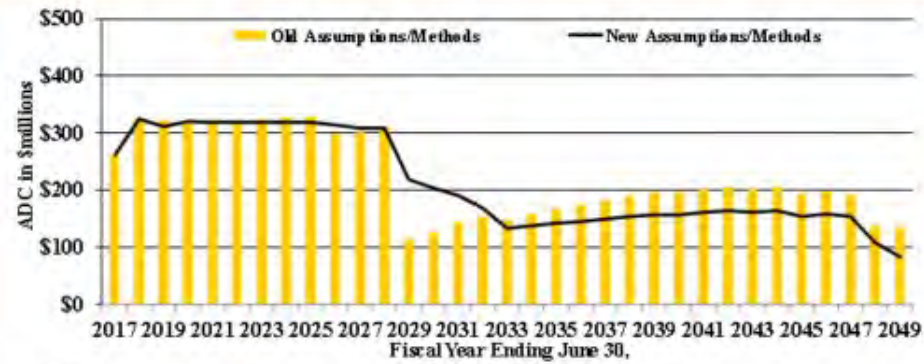
Expected Rate of Return Industry Trends

Distribution of Discount Rates, Cheiron Survey of California Systems

- The median assumption for California plans is now less than 7.50%
- California plans have lowered their discount rates faster than the national average



City - 6.75% (FY19) / 6.50% (FY20+) Discount Rate, 5-Year Layers
 (Return = 12% for FY17, AHIC Expected (6.64%) for FY18+)



Old Assumptions/Methods: 7.00% discount rate (all years)
 New Assumptions/Methods: 6.75% discount rate (FY19), 6.50% discount rate (FY20+), 5-year layers



Classic Values, Innovative Advice

Closing Thoughts

- Pension assets never been higher
- Long-term investment results top 10% in nation
- Balanced Board with effective leadership
- Plan sponsor (employer) relationships solid
- Retiree group relationships on good footing
- Operational staff experienced and stellar--we work for you, our members!

Thank you!

Serving you these past 10 years has been an honor... thank you!



Be Informed and Up To Date

- Create a Member Portal account at www.sdcers.org
 - View your monthly pension payment detail
 - Confirm and update beneficiaries
 - Apply to retire online
- Stay engaged
 - SDCERS does not send junk mail
 - Join retiree organizations
 - Ask questions

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