



SDCERS

SOARING TO NEW HEIGHTS

SAN DIEGO CITY EMPLOYEES' RETIREMENT SYSTEM
POPULAR ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

A defined benefit pension plan trust for employees of the City of San Diego, the San Diego Unified Port District and the San Diego County Regional Airport Authority.
A fiduciary component unit of the City of San Diego

SDCERS is pleased to present the fiscal year 2017 Popular Annual Financial Report (PAFR) to members of our three plan sponsors – the City of San Diego, the San Diego Unified Port District and the San Diego County Regional Airport Authority.

The information provided in this PAFR is a snapshot of the detailed information contained in the Comprehensive Annual Financial Report (CAFR). The PAFR provides a summary of SDCERS' financial health, investment performance and key accomplishments throughout the fiscal year. For more in-depth information, we encourage you to read the CAFR by visiting www.sdcers.org and clicking on the Publications tab.

SDCERS' FY 2017 investment return (net of fees) was 13.5%, which exceeded our 7.0% actuarially assumed return and was 2.0% above our benchmark return. Returns have averaged 5.8%, 9.5%, and 5.6% over the past three, five, and ten years, respectively. Over the past 20 years, SDCERS' investment returns averaged 7.7%, which is in the top 2% for public pension plans. As explained to our members many times, this longer term investment performance is more important than returns from any single year. Our goal is to ensure we continue to have sufficient assets to pay benefits not only for our current retirees, but for our active members as well when they retire.

The SDCERS Board voted in September 2017 to lower our long-term earnings assumption to 6.5% over the next two years. This action aligns our actuarial earnings assumption with future capital market projections from our investment consultants, and will require additional contributions from our plan sponsors and active members to ensure adequate funding of future benefits.

SDCERS engages an independent actuary to conduct annual actuarial valuations. The June 30, 2016 actuarial valuations, the most recent available, show that the City's plan is 71.6% funded, the Unified Port District's plan is 74.4% funded and the

Airport Authority's plan is 89.4% funded. All three plan sponsors paid 100% of their Actuarially Determined Contributions in FY 2017, continuing their strong commitment to adequately funding plan benefits.

Approved by the City of San Diego voters in 2012, Proposition B closed the defined benefit retirement plan to City employees hired after the effective date, other than for sworn police officers. In December 2015, the California Public Employment Relations Board issued a ruling finding the City failed to meet and confer with unions before the Prop B ballot measure went to the voters. In April 2017, however, the Court of Appeal found the City did not violate unfair labor practices. In July 2017, the California Supreme Court announced they will review the Court of Appeal ruling, though the date and outcome of that review is uncertain at this time. SDCERS will continue to monitor developments on Prop B and work with the parties involved on the outcome of any further court proceedings.

I would like to express my thanks to the Board of Administration, Audit Committee and SDCERS staff who work steadfastly in the best interest of our plan sponsors and members. This year's accomplishments would not be possible without their commitment and leadership. Their dedication ensures our plan sponsors, members and the citizens of San Diego are well-served.

SDCERS looks forward to continuing its mission to deliver accurate and timely retirement benefits to its members based on a disciplined investment strategy in the coming year.



Sincerely,

A handwritten signature in black ink that reads "Mark A. Hovey".

Mark A. Hovey
Chief Executive Officer

INVESTMENTS

During the fiscal year, SDCERS' Investment Counsel, K&L Gates conducted an independent review of SDCERS' Investment Division policies. This marks the first time such a review was done. K & L Gates made recommendations based upon fiduciary principles and best governance practices. These recommendations and two new policies, an Insider & Personal Trading Policy and an updated Conflict of Interest Policy were approved by the Board in May 2017.

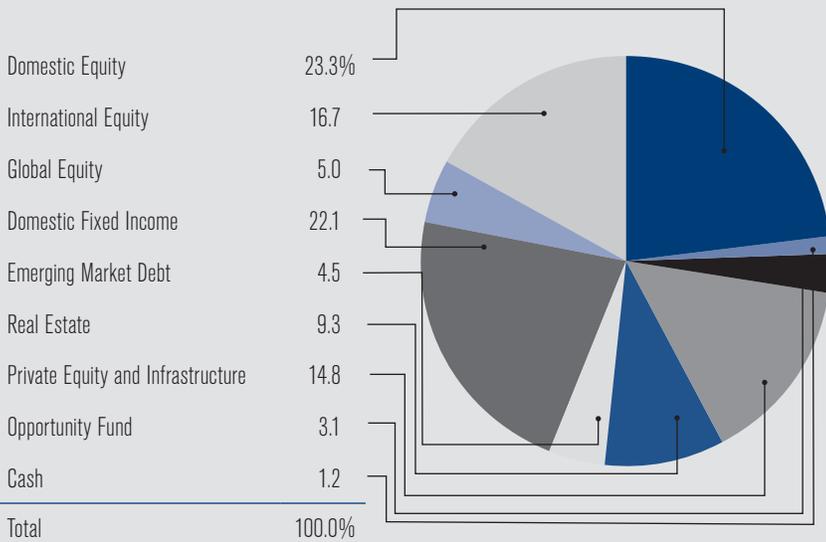
An analysis of SDCERS' custodial bank fee schedule was conducted by an independent third party firm, Amaces.

Amaces analyzed various metrics using SDCERS' actual asset allocation, transaction volumes, and number/type of reports versus a peer group. The analysis verified that SDCERS pays fees that are below or well below the peer average.

Investment staff and the General Investment Consultant Aon Hewitt undertook a review of SDCERS' risk-adjusted returns to compare against peers, appropriate benchmarks, and to identify opportunities for improvement going forward. On a historical basis, SDCERS' strategic asset allocation had a higher risk-adjusted return than its peer universe over three, five, and

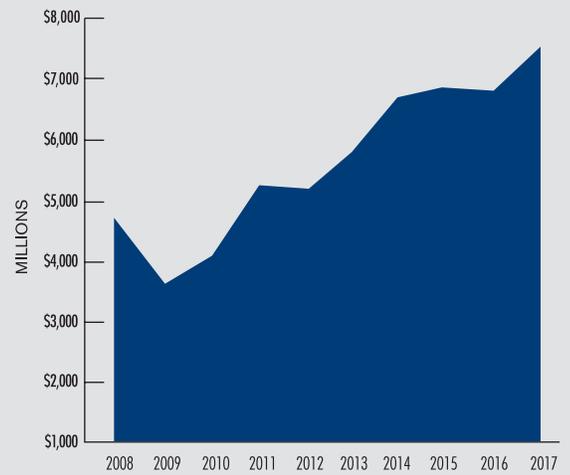
ten year periods. On a forward looking basis, SDCERS is well positioned compared to peers due to greater allocations to real estate, infrastructure, and emerging market debt. The analysis of returns compared to benchmarks identified several issues that had dampened performance such as the small cap bias in US stocks and the Non-US exposure. These issues were addressed by the Board over the last few years and have helped more recent performance. Staff and Aon Hewitt continue to look for opportunities to add return seeking strategies on a risk-adjusted basis.

ACTUAL ASSET ALLOCATION As of June 30, 2017

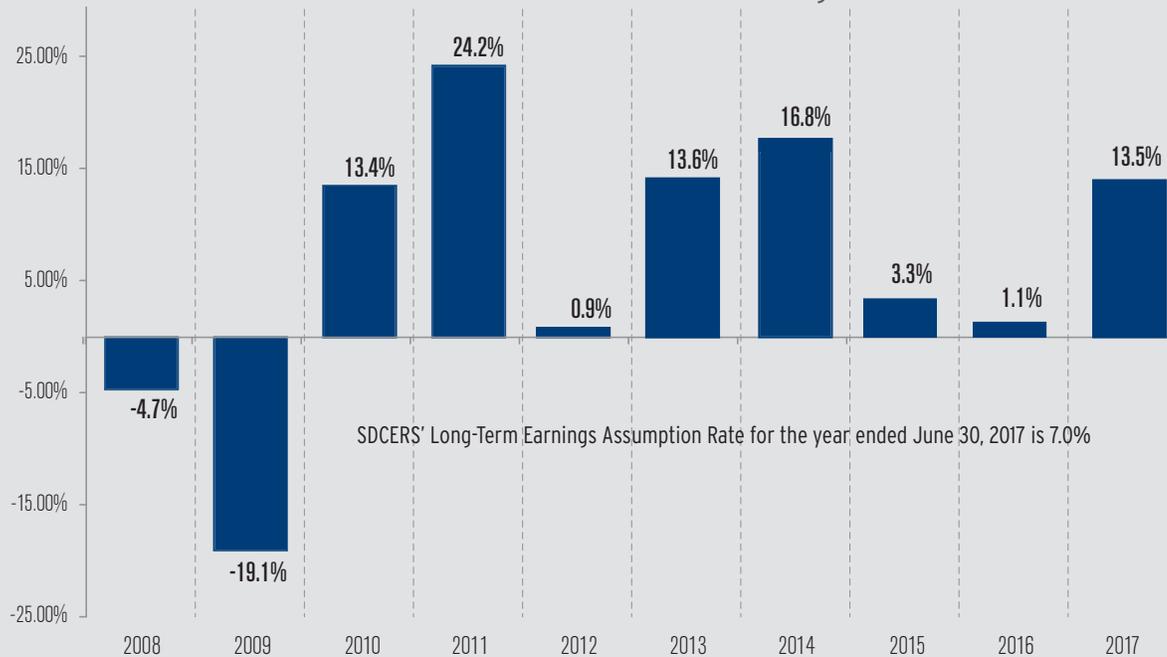


GROWTH OF INVESTMENTS, AT FAIR VALUE

Periods Ending June 30



HISTORICAL INVESTMENT PERFORMANCE Periods Ending June 30



*Total Fund returns are shown net of investment management fees beginning FY2011. Returns prior to FY 2011 are gross of investment management fees.

FINANCIALS

FUNDED RATIO AND UNFUNDED ACTUARIAL LIABILITY (UAL) As of June 30

Plan Sponsor		2016	2015	2014	2013	2012
City of San Diego	Funded Ratio	71.6%	75.6%	74.2%	70.4%	68.6%
	UAL (billions)	\$2.6	\$2.0	\$2.0	\$2.2	\$2.3
Unified Port District	Funded Ratio	74.4%	78.8%	76.9%	73.7%	72.7%
	UAL (millions)	\$129.5	\$96.2	\$100.0	\$107.7	\$104.2
Airport Authority	Funded Ratio	89.4%	97.2%	95.9%	93.4%	98.5%
	UAL (millions)	\$17.6	\$3.9	\$5.3	\$7.6	\$1.4

The chart summarizes key information from the most current independent actuarial valuation performed for SDCERS. The Funded Ratio is the relative percentage of actuarial assets to actuarial liabilities. The UAL (Unfunded Actuarial Liability) is the difference in dollars between actuarial assets and actuarial liabilities. Data for FY 2016 is the most recent available from SDCERS' actuary.

Agency funds that do not represent the assets of SDCERS are excluded from the financial summary.

FINANCIALS (Continued)

STATEMENT OF PLAN NET POSITION As of June 30 (Dollars in Thousands)

	2017				2016	2015
	City of San Diego	Unified Port District	Airport Authority	Total	Total	Total
Cash & Cash Equivalents	\$90,897	\$20,059	\$31,409	\$142,365	\$156,024	\$140,752
Receivables	265,330	15,541	5,595	286,466	205,300	154,852
Investments, at Fair Value	7,045,912	400,782	138,021	7,584,715	6,823,993	6,923,351
Securities Lending Collateral	78,710	4,662	1,835	85,207	184,192	207,945
Capital Assets plus Prepaid Expenses	5,418	320	109	5,847	6,405	6,927
TOTAL ASSETS	\$7,486,267	\$441,364	\$176,969	\$8,104,600	\$7,375,914	\$7,433,827
Current Liabilities	407,325	23,292	8,292	438,909	371,976	329,155
Supplemental Benefits Payable	11,385	285	46	11,716	11,616	11,404
Securities Lending Obligations	78,723	4,661	1,833	85,217	184,420	208,245
TOTAL LIABILITIES	\$497,433	\$28,238	\$10,171	\$535,842	\$568,012	\$548,804
PLAN NET POSITION	\$6,988,834	\$413,126	\$166,798	\$7,568,758	\$6,807,902	\$6,885,023

This table depicts a summary presentation of the assets and liabilities of SDCERS and reflects the resources available to pay benefits to members and beneficiaries at the end of the fiscal year. The Statement of Plan Net Position is presented with a more detailed analysis in SDCERS' Comprehensive Annual Financial Report (CAFR).

STATEMENT OF CHANGES IN PLAN NET POSITION For the years ended June 30 (Dollars in Thousands)

	2017				2016	2015
	City of San Diego	Unified Port District	Airport Authority	Total	Total	Total
Plan Sponsor Contributions	\$263,000	\$14,618	\$5,421	\$283,039	\$275,343	\$283,804
Member Contributions and Other Contributions	54,478	3,456	2,930	60,864	63,284	63,103
DROP Contributions	5,145	258	120	5,523	5,407	5,130
Net Investment Earnings	857,922	50,594	19,481	927,997	69,667	224,107
TOTAL ADDITIONS	\$1,180,545	\$68,926	\$27,952	\$1,277,423	\$413,701	\$576,144
Benefit Payments	448,136	22,474	4,490	475,100	449,268	425,755
Refunds of Member Contributions	6,109	131	131	6,371	6,479	4,725
Administrative Expenses	10,778	666	324	11,768	11,907	9,716
DROP Interest Expense	22,794	485	49	23,328	23,168	23,017
TOTAL DEDUCTIONS	\$487,817	\$23,756	\$4,994	\$516,567	\$490,822	\$463,213
CHANGES IN PLAN NET POSITION	692,728	45,170	22,958	760,856	(77,121)	112,931
NET POSITION AT JULY 1	6,296,106	367,956	143,840	6,807,902	6,885,023	6,772,092
NET POSITION AT JUNE 30	\$6,988,834	\$413,126	\$166,798	\$7,568,758	\$6,807,902	\$6,885,023

This table reflects the financial activity of SDCERS for the fiscal year and presents information to illustrate how SDCERS' fiduciary net position changes as a result of this activity. Contributions from both Sponsors and Members, and Net Investment Earnings are the main additions to the pension system. The payment of retirement benefits accounts for the majority of deductions from the trust funds. This is a summarized version of the data presented and analyzed in SDCERS' CAFR.

SELECTED ACCOMPLISHMENTS

Integrated Online Application Process

Two years in the making, the online application program went live on June 30, 2017. This electronic option transforms the retirement process, adding efficiency, accuracy and cost savings. Offered on the Member Portal, the retirement, Deferred Retirement Option Plan (DROP) entry, and DROP retirement applications become available to members when they are within six months of eligibility. Previously, members filled out an eight-page paper application, handwriting their name, address and other basic information already available in the SDCERS operating system. The online applications are pre-populated with the system information, and direct the member through the steps of adding beneficiaries, direct deposit and tax withholding information. Upon submission, the member is contacted to arrange a personal counseling session that focuses on their retirement benefit selection. One of the key results of this implementation is the elimination of paper applications. Members who choose not to submit their application online will utilize the same electronic process when they attend their personal counseling session. This removes the duplicative step of staff entering the information from the paper application, and reduces the chance of error. Every member is provided with a printed summary sheet in the counseling session, which they review and confirm for accuracy before signing and submitting.

Successfully Implemented Disaster Recovery Process

SDCERS' Information Technology department led the execution of a simulated disaster event to test the Business Continuity Plan (BCP). The BCP defines the protocol and steps to be taken by staff based on the severity of the event. The disaster event scenario assumed SDCERS' facilities and systems were unavailable to execute a retiree payroll. Retiree payroll was executed connecting to a remote disaster recovery site in Denver,

Colorado. Simultaneously, the Finance payroll team ran retiree payroll in-house. The remote site payroll and the in-house payroll reconciled correctly. The entire process was run start-to-end with payroll files being transferred from Denver to Wells Fargo to produce retiree paychecks in March 2017.

Verified and Updated Member Demographic Information

SDCERS' staff completed a multi-year project focused on verifying and updating member demographic information. Much of the review was a direct result of potential issues identified during the implementation of the new pension database. This included a review and correction of contribution age rates, reciprocity information, and member contribution history. SDCERS member data is now the most accurate it has ever been, and safeguards implemented within the pension database will continue to keep the data correct.

Distinguished Service

SDCERS' Chief Executive Officer Mark Hovey served as President of the California Association of Public Retirement Systems (CALAPRS) Board. CALAPRS sponsors educational forums for sharing information and exchanging ideas among trustees and staff of California public retirement systems to enhance their ability to administer public pension plan benefits and manage investments consistent with their fiduciary responsibility.

By The Numbers

SDCERS' Call Center answered **31,500** calls, and the members waited an average of less than **20** seconds to speak to a helpful representative. **60%** of routine member transactions for address updates, tax withholding changes, and beneficiary updates are handled on the site, a more efficient and faster process than submitting paper forms.



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego City Employees' Retirement System California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

Jeffrey R. Emery
Executive Director/CEO

SDCERS MEMBERSHIP

as of June 30, 2017

CITY OF SAN DIEGO

Active & Inactive Members: **9,239**

Retired Members & DROP Participants: **9,768**

UNIFIED PORT DISTRICT

Active & Inactive Members: **641**

Retired Members & DROP Participants: **577**

AIRPORT AUTHORITY

Active & Inactive Members: **513**

Retired Members & DROP Participants: **107**

TOTAL SDCERS MEMBERSHIP 20,845

SDCERS



San Diego City Employees' Retirement System

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San Diego, CA 92101

This Popular Annual Financial Report (PAFR) is a summary depiction of SDCERS' audited financial statements and other information contained in SDCERS' Comprehensive Annual Financial Report (CAFR). The complete audited financial statements and pertinent notes to the financial statements can be found in SDCERS' 2017 CAFR. SDCERS' PAFR provides summary financial information and does not conform to Generally Accepted Accounting Principles (GAAP); the SDCERS' CAFR conforms to GAAP and provides a comprehensive overview of the System's financial and operating results.

SDCERS' CAFR is available for review at www.sdcers.org within the "Publications" section or at the SDCERS office.

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