



ALLEGHENY COUNTY
EMPLOYEES' RETIREMENT SYSTEM

Financial and Actuarial Report

for the Fiscal Years Ended
December 31, 2019 & 2018

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Letter from the Board President

To the Members, Survivors and Beneficiaries of the Plan:

I would like to offer you a recap of some of the exciting news that the Retirement Board has been working on over the last year:

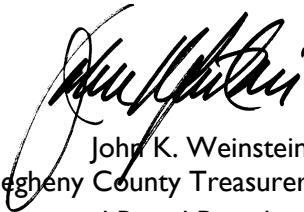
On June 14, 2019 the Retirement Board hosted the 2019 pension summit. It was attended by fiduciaries of defined benefit and other public pension plans from Allegheny and surrounding counties, including labor unions and the City of Pittsburgh. The event was Emceed by Allegheny Conference on Community Development's Chief Corporate Relations Officer and host of "Our Region's Business", Bill Flanagan. Opening Remarks were given by Allegheny County Treasurer and RBAC President, John K. Weinstein and PA State Treasurer, Joe Torsella. Topics discussed by various experts throughout the day included the Current State of Public Pensions; Education on Procedures for Updating Pension Plans; Market Cycles; Managing Risk from an Actuarial Perspective; and Trustee Education.

The Retirement Office along with Duncan Financial, hosted two off site Saturday seminars at the CCAC North and Monroeville Campuses. The presentations that are given once a quarter in hour intervals were made into a half day session that included information on completing your pension paperwork; Social Security benefits; and Medicare. The Retirement Office Staff were onsite with our mobile office to run estimates; help with paperwork; and answer any questions upcoming retirees had. We received a lot of positive feedback on these seminars and plan on holding more of them.

I would like to express my appreciation to the staff of the Retirement, County Executive, Treasurer and Controller's Offices. Their continued support and the relationships that have been forged are crucial to the Plan and its fiscal soundness.



On behalf of the trustees of this Board, it is my honor to serve you as President/Treasurer.


John K. Weinstein
Allegheny County Treasurer
and Board President

Report of Independent Auditors

We have audited the accompanying financial statements of the Allegheny County Employees' Retirement System (Retirement System) as of December 31, 2019 and 2018, and for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion of these financial statements 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 statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Allegheny County Employees' Retirement System as of December 31, 2019 and 2018, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed more fully in the disclosure about the discount rate in Note 6 to the financial statements, the Allegheny County Employees' Retirement System is projected to reach a depletion date of 2043. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the schedule of changes in net pension liability, the schedule of employer contributions, and the schedule of annual money-weighted rate of return on pages 18 through 21 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Audited Financial Results

STATEMENTS OF FIDUCIARY NET POSITION DECEMBER 31,

ASSETS

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 15,093,687	\$ 19,982,905
Investments (at fair value):		
Equity:		
U.S. Common and Preferred Stock	112,604,383	113,362,368
American Depositary Receipts	1,316,876	2,250,658
S&P 500 Index Fund	93,250,540	76,574,960
Non-U.S. Stocks and Equity Mutual Funds	141,726,984	120,866,664
Bonds and Notes:		
Corporate Certificates of Deposit	2,591,803	3,194,843
U.S. Government and Related Agency Debt	28,483,569	21,843,589
Fannie Mae and Freddie Mac Debt	13,335,730	9,912,244
Fixed Income Mutual Funds	204,069,310	137,450,881
U.S. Corporate Debt Instruments	27,797,978	63,506,049
Non-U.S. Government and Corporate Debt	10,928,890	17,945,500
Other Investments:		
Hedge Funds	798,011	1,265,826
Real Estate Investment Trusts	101,781,586	97,819,299
Commodities Funds	-	-
Venture Capital / Private Equity	209,925,495	187,068,404
Receivables:		
Amounts Due from Brokers for Sold Investments	3,463,546	2,443,512
Accrued Interest and Dividends	994,960	1,656,684
Accrued Employer Contributions	1,313,634	967,933
Accrued Employee Contributions	1,313,634	967,933
Other Assets	<u>59,061</u>	<u>2,569</u>
Total Assets	<u>\$ 970,849,677</u>	<u>\$ 879,082,821</u>

LIABILITIES

Liabilities:		
Vouchers Payable	\$ 17,244	\$ 63,452
Accrued Payroll	5,177	5,179
Payroll Withholdings	1,358	2,697
Accrued Liabilities	1,692,417	1,977,830
Amounts Due to Brokers for Purchased Investments	503,072	1,493,885
Other Liabilities	<u>21,615</u>	<u>25,916</u>
Total Liabilities	<u>\$ 2,240,883</u>	<u>\$ 3,568,959</u>

FIDUCIARY NET POSITION

Net Position Restricted for Pensions:	<u>\$ 968,608,794</u>	<u>\$ 875,513,862</u>
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Audited Financial Results

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION DECEMBER 31,

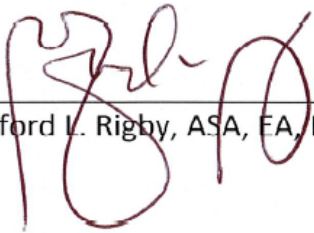
	<u>2019</u>	<u>2018</u>
Additions:		
Contributions:		
Employee	\$ 40,950,512	\$ 38,344,289
Employer	<u>40,755,809</u>	<u>38,142,513</u>
Total Contributions	<u>81,706,321</u>	<u>76,486,802</u>
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	108,868,087	(43,343,857)
Interest	5,316,961	5,367,873
Dividends	14,715,253	7,120,811
Partnership Income	4,969,058	3,333,354
Stock Loan Income	<u>34,491</u>	<u>49,179</u>
	133,903,850	(27,472,640)
Less: Investment Management Fees	<u>6,055,589</u>	<u>5,580,439</u>
Total Investment Income - net	127,848,261	(33,053,079)
Miscellaneous Income	<u>58,244</u>	<u>36,890</u>
Total Additions - Net	<u>209,612,826</u>	<u>43,470,613</u>
Deductions:		
Benefit Payments	109,370,751	101,701,023
Refunds of Employee Contributions	5,574,141	5,305,324
Salaries, Wages and Related Expenses	277,553	298,845
Administrative & Miscellaneous Expenses	<u>1,295,449</u>	<u>1,306,400</u>
Total Deductions	<u>116,517,894</u>	<u>108,611,592</u>
Net Increase (Decrease) in Net Position	93,094,932	(65,140,979)
Net Position Restricted for Pensions at Beginning of Year	<u>875,513,862</u>	<u>940,654,841</u>
Net Position Restricted for Pensions at End of Year	<u>\$ 968,608,794</u>	<u>\$ 875,513,862</u>

Source: Allegheny County Employees' Retirement System December 31, 2019 Audit performed by Case Sabatini. Full Audit can be viewed at www.alleghenycounty.us/retirement/reports/reports.aspx or pdf by request

Actuarial Certification

I certify that I have performed an actuarial valuation of the above plan as of January 1, 2019 in accordance with generally accepted actuarial principle applied consistently with the preceding valuation. I meet the Qualification Standards of the American Academy of Actuaries to render this actuarial opinion.

I certify that the information in this Executive summary is consistent with the formal report of the valuation.



Bradford L. Rigby, ASA, EA, MAAA

11/12/2019

Date



Frank Canonico, EA, MAAA

11/12/2019

Date



Paul D. Halliwell, Project Coordinator

11-12-2019

Date

Summary of Principal Actuarial Results

	January 1, 2019	January 1, 2018
Demographics		
Active Participants		
Number	7,181	7,200
Average Age	46.8	47.1
Average Age at Hire	34.5	34.6
Average Past Service	12.3	12.5
Total Payroll (prior year)	\$389,569	\$378,782
Covered Payroll*	403,588	392,350
Average Pay	54,250	52,609
Median Pay	49,030	47,412
Inactive Participants		
Number in Pay Status	4,955	4,830
Average Age in Pay Status	73.7	73.6
Average Monthly Benefit	\$1,761	\$1,693
Median Monthly Benefit	1,459	1,402
Police/Fire	3,548	3,168
Sheriffs/Guards/POs	2,992	2,830
Non-uniformed	1,298	1,259
Number of Terminated Vested	237	268
Average Age of Terminated Vested	50.0	49.5
Average Monthly Benefit	\$1,226	\$1,222
Median Monthly Benefit	952	908
Police/Fire	2,875	2,875
Sheriffs/Guards/POs	957	1,276
Non-uniformed	948	881
Total Participants	12,373	12,298
Total Active Member and Employer Contributions		
Dollars (actual)		\$76,487
Dollars (expected)	\$80,718	
Percentage of Payroll	20%	19%

*Projected to next year using salary increase assumption.

Summary of Principal Actuarial Results

	January 1, 2019	January 1, 2018
	(\$ Amounts in 000s)	(\$ Amounts in 000s)
Interest Rate	<u>7.75%</u>	<u>7.75%</u>
Accrued Benefit Funded Status		
Accrued Benefit Liability	<u>\$1,476,736</u>	<u>\$1,412,062</u>
Market Value of Assets	<u>875,514</u>	<u>940,655</u>
Accrued Benefit Funded Ratio	<u>59.3%</u>	<u>66.6%</u>
Accrued Liability Funded Status		
Actuarial Liability	<u>\$1,689,190</u>	<u>\$1,618,336</u>
Actuarial Value of Assets	<u>875,514</u>	<u>940,655</u>
Funded Ratio	<u>51.8%</u>	<u>58.1%</u>
Total Funded Status		
Value of Total Liabilities	<u>\$1,944,823</u>	<u>\$1,866,690</u>
Value of Total Assets		
(Market Value of Existing Assets and Present		
Value of Future Contributions)	<u>1,423,788</u>	<u>1,443,587</u>
Total Ratio	<u>73.2%</u>	<u>77.3%</u>
Total Normal Cost		
Dollar	<u>\$34,890</u>	<u>\$34,313</u>
% of Payroll	<u>8.64%</u>	<u>8.75%</u>

Source: Allegheny County Employees' Retirement System Actuarial Report January 1, 2019 performed by Cowden. Full Report can be viewed at <http://www.alleghenycounty.us/retirement/reports/reports.aspx> or pdf by request.

Consultant Reports

Wilshire Associates Incorporated

Economy & Markets

The U.S. economy continued to grow in 2019, with Real GDP growth of 2.3% but slowed from the 2018 rate of 2.9%. Most components of GDP were additive to growth for the year, while the slowdown from the year prior was due to lower growth of personal consumption expenditure and nonresidential fixed investment. Similar to GDP growth, job growth continued at a healthy albeit slowing rate in 2019, with total nonfarm employment increasing at an average of 178,000 jobs per month, while the unemployment rate further declined to multi-decade lows and ended the year at 3.5%.

Bouncing back from negative returns in 2018, the U.S. stock market (Wilshire 5000 Index) was up 31.0% in 2019. This marked the strongest year for U.S. equities since 2013. Stocks started strongly, as the market bounced back from the late-2018 selloff, with a 14.1% gain for the first quarter of 2019, marking the strongest quarter for U.S. equities since 2009. Concerns about global growth were dwarfed by the Fed's updated forecast for no rate increases in 2019 and a looser stance on unwinding quantitative easing enacted during the recovery. U.S. equities also ended the year strongly, up 9.1% in Q4 as the U.S. and China agreed to terms on a "Phase One" trade deal that is reported to reduce U.S. tariffs and increase Chinese purchases of some U.S. products. Growth continued to outperform value, just as large-cap continued to outpace small-cap stocks.

Equity markets outside of the U.S. produced very strong results in 2019, although they generally underperformed the U.S. equity market. News out of Britain was mixed with notable economic weakness in the manufacturing and services sectors, but consumer sentiment surveys improved after a fourth-quarter election resulted in strong support for a pro-Brexit government. Conditions in Germany were quite similar with signs of economic weakness but improving sentiment. Japan experienced four consecutive quarters of expansion during 2019, while also beating forecasts, due mostly to capital expenditures and private consumption. Emerging Markets were up, but generally trailed developed markets for the year. China benefitted from good news on the trade front although the country's economic growth had cooled to near 30-year lows.

Within fixed income, yields fell across the board but slightly more at the short end resulting in a minor steepening of the curve. The 10-year Treasury finished 2019 at 1.92% after starting the year at 2.69%. The Fed pivoted its rhetoric with a rather abrupt about-face in early 2019, as Fed Chairman Jerome Powell very clearly retreated from messaging around methodical tightening towards an undisclosed "neutral" rate back to a more benign, data-dependent approach. Contrary to the Fed's late-2018 projections for 50 basis points of tightening in 2019, the FOMC followed through on Powell's renewed accommodative tone by instead cutting rates three times in 2019 to a 1.50% - 1.75% target range.

RBAC Total Fund

The Retirement Board of Allegheny County (RBAC) Pension Fund ended 2019 with a total asset value of \$968.6 million, up \$93.1 million for the year. Additionally, RBAC paid out nearly \$110 million in benefit payments during 2019.

The RBAC Total Fund outperformed its benchmark in 2019, returning 15.2% vs. the benchmark which returned 14.2%. Relative to an institutional fund peer universe, however, RBAC underperformed the median plan in the Investment Metrics All Public Plans Total Fund Universe for the year. The Fund's underperformance was primarily driven by its relatively low allocation to public equities (40% compared to 55% peer median). The plan ranks in the top half of the peer group over the past five years despite this underweight position in equities. Public equities were the largest driver of performance in 2019, on an absolute and relative basis.

The U.S. Equity Composite was in line with the Wilshire 5000 Index during 2019, returning 31.0%. Active management in the U.S. Equity composite was mixed and largely netted out for the year. Over the trailing one-, three-, five-year periods, the composite ranked in the top half of a peer group universe of U.S. equity portfolios.

Consultant Reports (Cont.)

Wilshire Associates Incorporated (Cont.)

The Non-U.S. Equity Composite outperformed in 2019, returning 26.2% while the index gained 21.6%. Baillie Gifford was the largest contributor to relative performance, outperforming its benchmark by 10.7% for the year after lagging in 2018. Since being added to the portfolio in August 2009, Baillie Gifford has outperformed by 3.5% annualized.

Within Fixed Income, the Core Fixed Income Composite outperformed its benchmark in 2019, returning 8.9% while the Bloomberg Barclays U.S. Aggregate Index gained 8.7%. Outperformance from CS McKee and Federated, which represent nearly 70% of the composite, offset the components of the portfolio with lower duration than the benchmark, which lagged as interest rates fell. The High Yield Composite underperformed its benchmark in 2019 but provided solid returns gaining 12.8% for the year.

Real Assets generated positive returns in 2019 despite persistently low inflation. TIPS gained 8.4% thanks to falling interest rates, while Real Estate returned 5.2% coming off a very strong 2018. The MLP composite returned 14.5% compared to an index return of only 6.6%, as Harvest and Salient each produced double-digit returns.

Asset Strategy Consultants

The Retirement Board of Allegheny County (RBAC) portfolio continues to monitor the amount invested in Alternative Investment partnerships. We are generally pleased with the reports and updates we receive from the General Partners for these investments.

The Alternative portfolio is approaching the asset allocation target. As a result, the number of new investments have paused until we get better visibility on the partnership companies to be sold this year. These Investments are having a positive impact on the total portfolio performance. The Partnerships own a small interest in many companies and economic sectors.

The RBAC approved a few new allocations to General Partners in 2019. If distributions pick up, we will add new funds opportunistically to get to our target allocation. We expect to make few allocations to new partnerships as we move into late 2020 and we receive distributions or as some partnerships wind down or close.

The existing investments are continually monitored for liquidity, potential risks, and the stability of the investment team. The roster of Alternative Investments creates a well-diversified pool for the Pension Plan. We hope 2020 will build on the success of 2019.

PFM Asset Management

EMERGING PROGRAM

As of December 31, 2019, local, emerging and minority manager assets totaled \$54.8 million, or 5.7% of total plan assets. The County has approximately \$17.5 million of capital left to allocate to local/emerging/minority managers in order to reach the program's goal of representing 7.5% of total plan assets. During this year, we added a hedge fund manager to the program. Maplewood Global was funded in May 2019.

BROKERAGE PROGRAM

The Retirement Board of Allegheny County requires that investment managers direct 25% of their trades to Local, Minority, and Women-owned brokerage firms. For the calendar year 2019, 18.15% of the total commission dollars were directed to approved brokers, representing \$14,793 paid to local or minority-owned firms.

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**Solicitor:
CAMPBELL DURRANT BEATTY
PALOMBO & MILLER, P.C.**

**Actuary:
COWDEN**

**Financial Consultants:
WILSHIRE ASSOCIATES INC
ASSET STRATEGY CONSULTANTS
PFM ASSET MANAGEMENT**

**Auditor:
CASE SABATINI**

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Retirement Board of Allegheny County



County Treasurer **JOHN WEINSTEIN**.....*President, Treasurer*
TED PUZAK.....*Vice President, Elected Member*
County Controller **CHELSA WAGNER**.....*Secretary*
County Executive **RICH FITZGERALD**.....*Member*
FRANK DICRISTOFARO..... *Elected Member*
County Chief of Staff **JENNIFER LIPTAK**.....*Executive Appointee*
Council Budget Manager **SARAH ROKA**.....*Council Appointee*