

ERFC

POPULAR ANNUAL

2018

FINANCIAL REPORT

THE YEAR IN REVIEW



Eli Martinez, *Executive Director and Chief Investment Officer*

I am pleased to submit the Popular Annual Financial Report (PAFR) for the Educational

Employees' Supplementary Retirement System of Fairfax County (ERFC) for the fiscal year 2018. The ERFC management holds responsibility for the financial information presented in this report. I extend my sincere thanks to the Board of Trustees, the ERFC staff and all ERFC members for their continued support.

ADMINISTRATION UPDATES

Communication activities to increase the understanding and appreciation of the value of ERFC and the total retirement program continued to receive emphasis during the fiscal year. As part of its School Outreach program, ERFC staff visited 31 schools and administrative centers, explaining to members the provisions and importance of their retirement benefits.

The ERFC staff continued its efforts to implement technology innovations that will result in improved efficiencies, cost savings and reduced risk. As part of its goal to increase electronic security, ERFC implemented an annual training program for staff. ERFC continued to promote ERFC*Direct*, and over 25,000 active and retired members now use the online service, up from 23,000 a year ago.

STRATEGIC PLAN

ERFC staff successfully completed the remaining action items included in the 2015 Strategic Plan during the fiscal year. To improve communications with plan members, ERFC continued to expand the Ambassador Program—composed of member volunteers who distribute and guide other members to the appropriate ERFC resources. Staff conducted four

training sessions for those who volunteered for the program and the ambassadors now total 89, more than doubling volunteer participation since last year.

In May 2018, the Board of Trustees adopted a new Strategic Plan, which will guide the direction of ERFC for the next three years (2018-2021). The broad priorities for the 2018-2021 Strategic Plan include initiatives for sustainability, marketing, messaging and education.

PLAN FINANCIAL CONDITION

The ERFC Fund earned an 8.1 percent after-fees return on investments in fiscal year 2018, which exceeded the actuarial assumed return of 7.25 percent that ERFC uses to determine its employer contribution rate. For the year, ERFC also outperformed its policy index by 1.3 percent, driven by positive performance in all asset classes, with the exception of emerging market debt.

ERFC's independent actuary reported that the System's funding ratio increased slightly from 75.2 percent to 75.7 percent for the valuation period ending December 31, 2017. This increase is due to favorable investment performance in the prior 2017 calendar year, lower than anticipated pay increases and favorable demographic experience.

INVESTMENT ACTIVITY

The ERFC's return of 8.1 percent after fees for FY 2018 outperformed the benchmark index return of 6.8 percent, and outperformed the InvestorForce Public Defined Benefit (funds of \$1 billion to \$5 billion in assets) universe for the fiscal year with the median fund returning 7.6 percent. This peer system outperformance occurred due to higher than peer allocation to fixed income and real estate, which exceeded their respective benchmarks by 1.2 percent and 2.5 percent. The Fund's longer-term return remained strong with the 15-year return of 7.5 percent exceeding the policy index return of 7 percent.

AWARDS

The System proudly announces that the Government Finance Officers Association of the United States and Canada (GFOA) awarded ERFC the **Certificate of Achievement for Excellence in Financial Reporting** for its FY 2017 *Comprehensive Annual Financial Report (CAFR)*. This is the 21st consecutive year ERFC has earned the award. The GFOA certification remains valid for a period of one year and requires, at minimum, that each CAFR satisfy both generally accepted accounting principles and legal requirements. The Public Pension Coordinating Council also honored ERFC recently, granting the System the **Public Pension Standards' 2018 Award**. ERFC earned the award in recognition of meeting or exceeding professional standards for plan design and administration, as set forth in the Public Pension Standards.

PROFESSIONAL SERVICES

The ERFC Board of Trustees appoints professional services to provide aid in the efficient management of the System. New England Pension Consultants (NEPC), based in Boston, Massachusetts, provides investment consulting services, and Aon of Washington, D.C., provides actuarial services. In accordance with county code, the Fairfax County Board of Supervisors appointed Cherry Bekaert LLP, Certified Public Accountants, Richmond, Virginia, to audit the System's financial statements.

This PAFR presents an overview of the System's financial activity during the 2018 fiscal year. ERFC's *Comprehensive Annual Financial Report* for FY 2018, which was published in December 2018, provides additional information in greater detail. Copies of both publications are posted on the System's website at www.fcps.edu/erfc.



8.1%

FUND AFTER-FEES
RETURN ON INVESTMENTS



75.7%

FUNDED RATIO



\$2.4B

TOTAL FUND VALUE



38,329

ACTIVE AND RETIREE
MEMBERSHIP

ERFC OVERVIEW

MISSION STATEMENT

The mission of the Educational Employees' Supplementary Retirement System of Fairfax County (ERFC) is to enhance the financial security of our members through prudent financial stewardship of a defined benefit plan while providing outstanding retirement services and education.

BOARD OF TRUSTEES



DARYL RICHARDS
CHAIRPERSON/TRUSTEE
ELECTED MEMBER



KIMBERLY ADAMS
VICE CHAIRPERSON/
TRUSTEE
ELECTED MEMBER



LEIGH BURDEN
TREASURER/TRUSTEE
APPOINTED MEMBER



MICHAEL BURKE
INDIVIDUAL TRUSTEE
APPOINTED MEMBER



MARTY K. SMITH
TRUSTEE
APPOINTED MEMBER



KATHIE PFEFFER-HAHN
TRUSTEE
ELECTED MEMBER



R CHACE RAMEY
TRUSTEE
APPOINTED MEMBER



1973

**FCPS & FEA
ESTABLISHED ERFC**

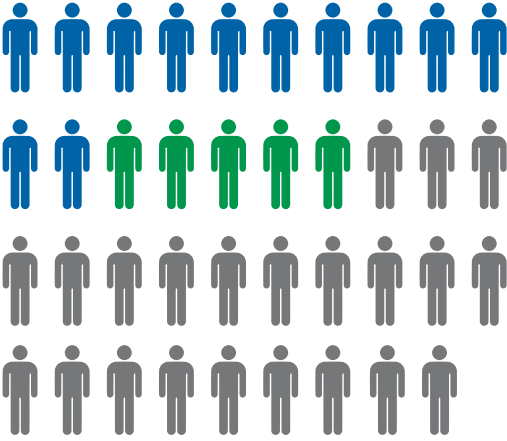
1988

**ALTERED PLAN:
RESPONSE TO VRS CHANGES**

2001

**ESTABLISHED ERFC 2001
TIER 1 PLAN**

TOTAL ERFC MEMBERSHIP
AS OF DECEMBER 31, 2017



11,729 Retirees and Beneficiaries
4,759 Deferred Vested Members
21,841 Active Members

3%

MEMBER
CONTRIBUTION
RATE

6.24%

FCPS EMPLOYER
CONTRIBUTION
RATE



10,657 Legacy Retirees

1,072 2001 Retirees

LEGACY PLAN RETIREMENT ELIGIBILITY

FULL SERVICE RETIREMENT	REDUCED SERVICE RETIREMENT
Age 55 with 25 years of service OR Age 65 with 5 years of service	Age 45 with 25 years of service OR Age 55 with 5 years of service

2001 PLAN RETIREMENT ELIGIBILITY

TIER 1 FULL SERVICE RETIREMENT	TIER 2 FULL SERVICE RETIREMENT
Any age with 30 years of service OR Age 60 with 5 years of service	When age + service = 90 (rule of 90) OR Full Social Security age with 5 years of service

2011

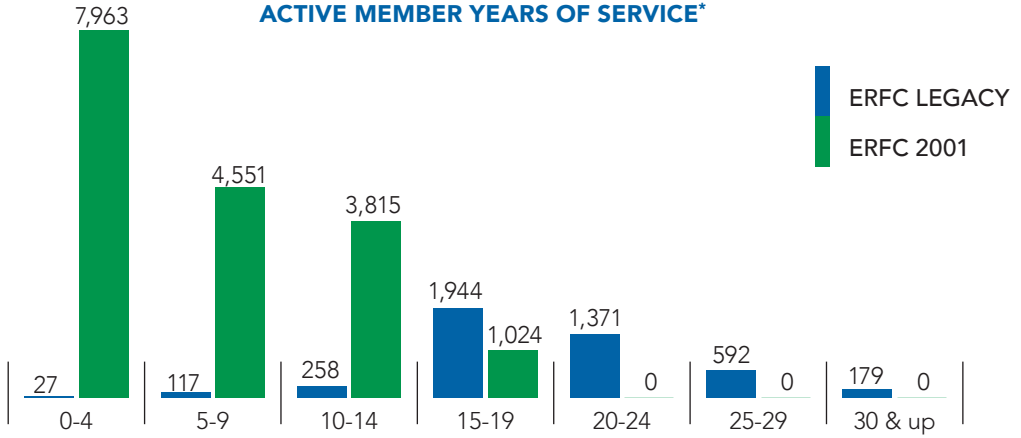
2017

**45
YEARS**

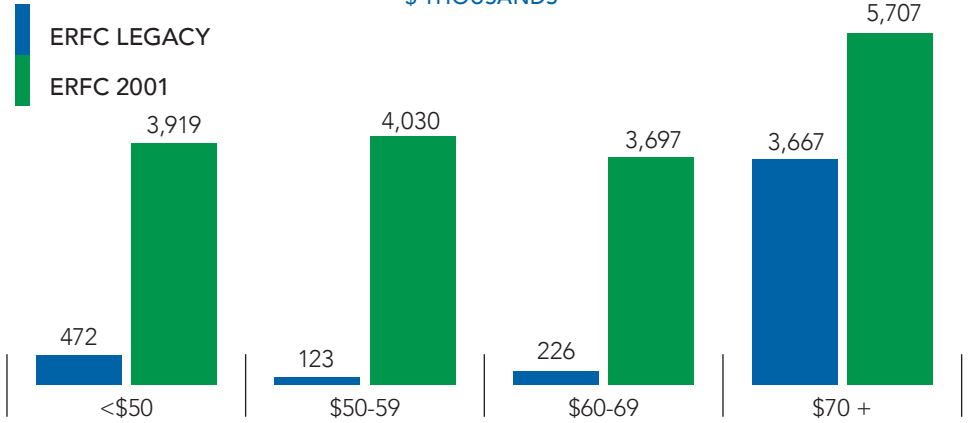
IMPLEMENTED
ERFC/DIRECT

ESTABLISHED ERFC 2001
TIER 2 PLAN

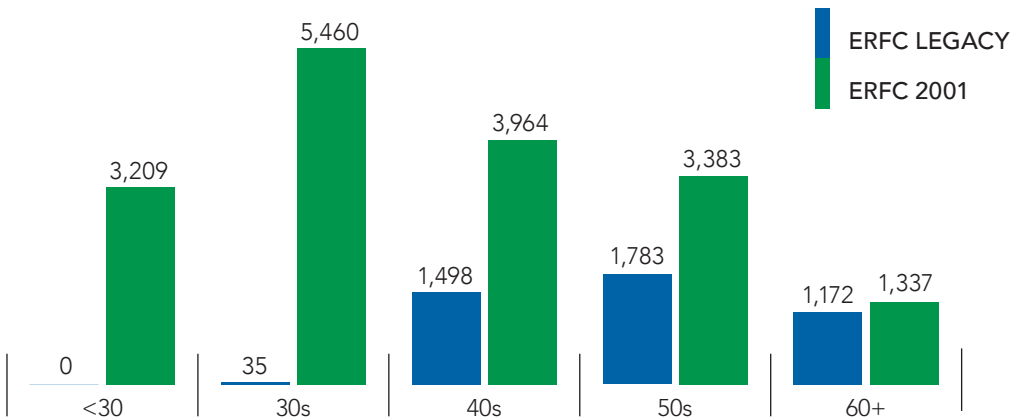
ACTIVE MEMBER YEARS OF SERVICE*



ACTIVE MEMBER SALARIES^ \$ THOUSANDS



ACTIVE MEMBER AGES#

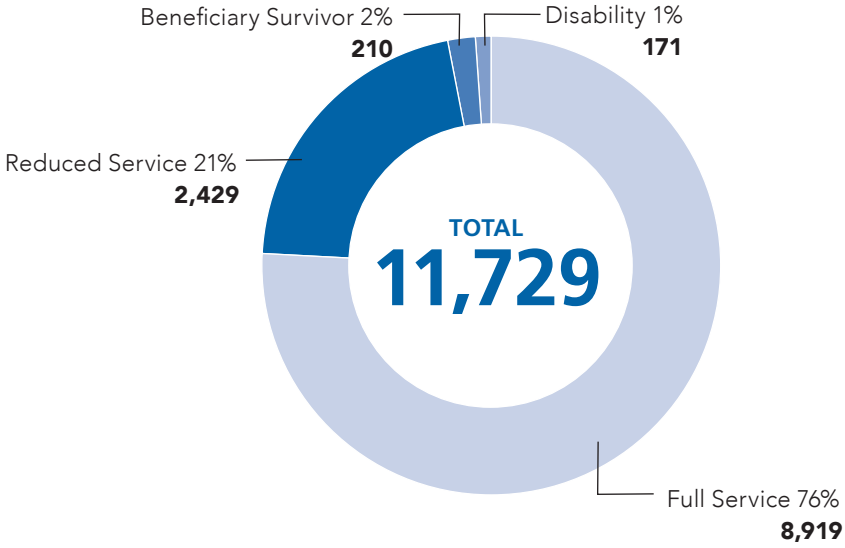


* Average Service = 9.4 years

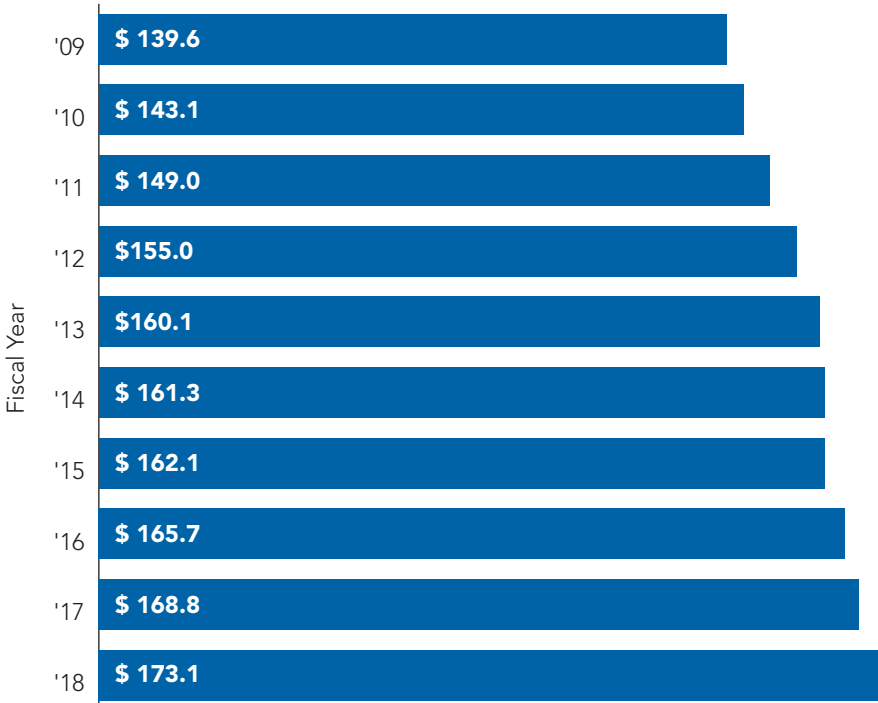
^ Average Annual Pay = \$67,554

Average Age = 43.9 years | Total Active Members = 21,841

**RETIRES AND BENEFICIARIES
BY TYPE OF BENEFIT BEING PAID**
AS OF DECEMBER 31, 2017

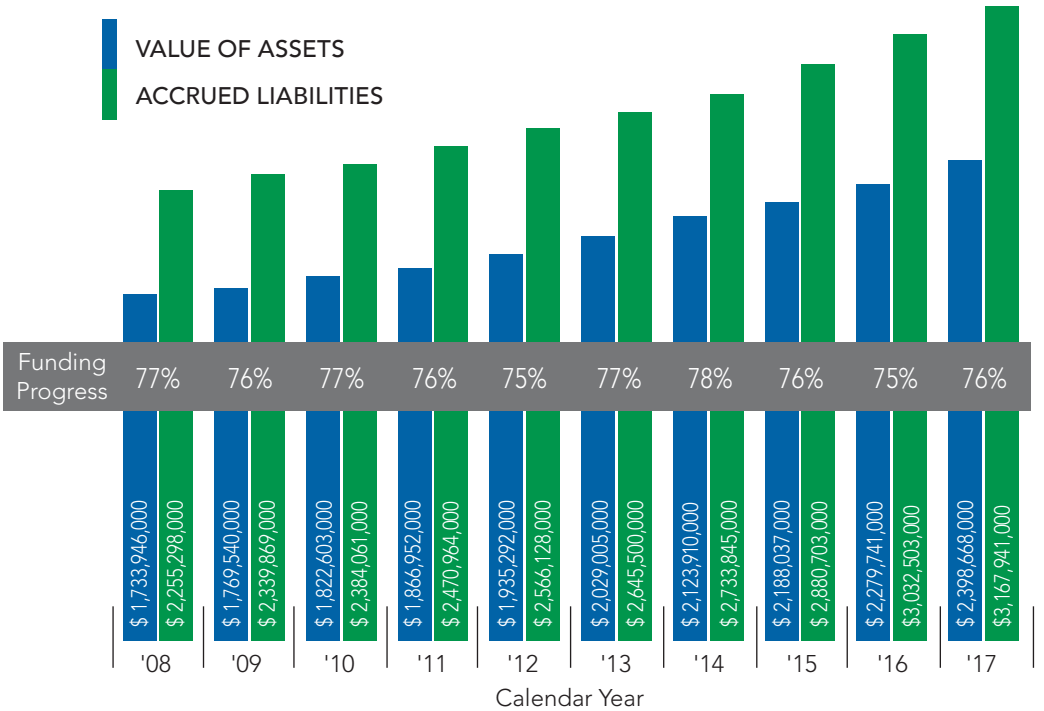


BENEFITS PAID
AS OF JUNE 30
\$ MILLIONS



FUNDING

FUNDING PROGRESS



ASSETS



Cash, stocks, bonds and equity are examples of financial assets.

ERFC practices prudent management to maintain adequate funding and ensure the financial integrity of the system.

ACCRUED LIABILITY



Measures, in today's dollars, the difference in the value of benefits and future normal costs to provide those

benefits. ERFC's commitment to excellence in funding has resulted in financial strength that provides a solid basis for the future.

DIVERSIFICATION



The process of spreading money among different securities, industries, sectors and strategies

within a number of asset classes. ERFC's goal is to achieve the highest possible investment return at the lowest possible risk.

FIDUCIARY



Acts solely in the interest of members and beneficiaries for the exclusive purpose of providing benefits to

them, and paying reasonable expenses to administer the system. ERFC operates with transparency and a commitment to think strategically while fulfilling its fiduciary obligations.

SUMMARY OF FIDUCIARY NET POSITION

AS OF JUNE 30

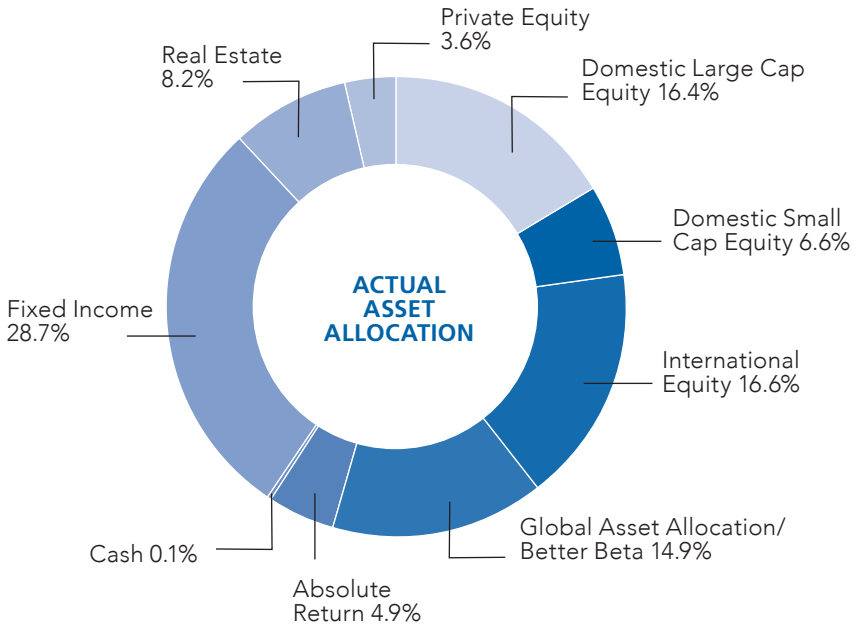
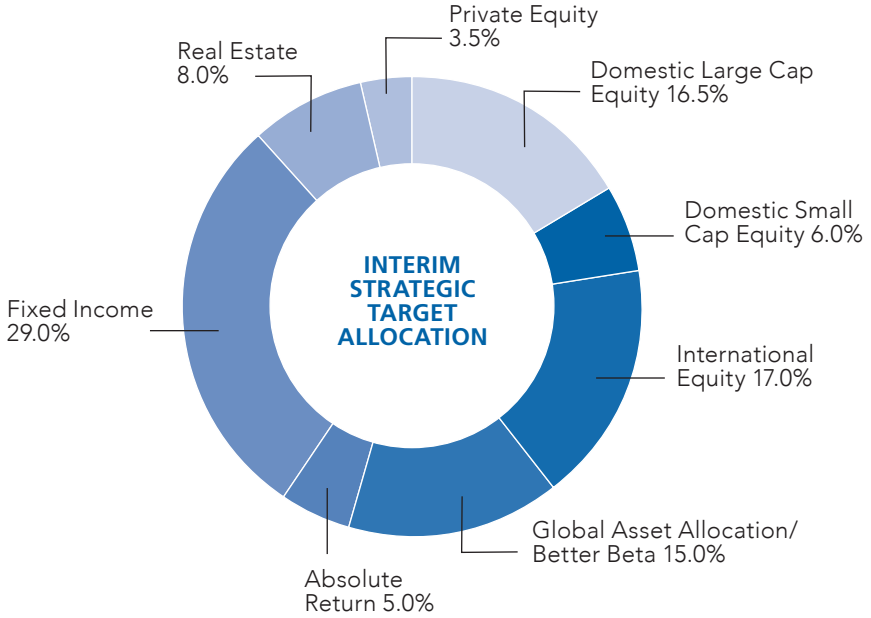
	2018	2017	DIFFERENCE
ASSETS			
Total cash and investments	\$ 2,579,998,120	\$ 2,476,319,109	\$ 103,679,011
Total receivables	5,972,204	9,695,130	(3,722,926)
Other assets	39,369	53,546	(14,177)
TOTAL ASSETS	2,586,009,693	2,486,067,785	99,941,908
LIABILITIES			
Capital leases	21,107	21,991	(884)
Accounts payable	1,992,441	1,990,307	2,134
Securities purchased	3,928,604	9,060,028	(5,131,424)
Securities lending collateral	133,787,644	170,713,805	(36,926,161)
TOTAL LIABILITIES	139,729,796	181,786,131	(42,056,335)
TOTAL NET POSITION RESTRICTED FOR PENSIONS	\$ 2,446,279,897	\$ 2,304,281,654	\$ 141,998,243

SUMMARY OF ADDITIONS AND DEDUCTIONS

AS OF JUNE 30

	2018	2017	DIFFERENCE
ADDITIONS			
Contributions			
Employer	\$ 91,704,877	\$ 80,094,538	\$ 11,610,339
Member	44,169,100	43,062,632	1,106,468
Net investment income	188,145,489	250,981,777	(62,836,288)
TOTAL ADDITIONS	324,019,466	374,138,947	(50,119,481)
DEDUCTIONS			
Benefits	173,052,461	168,783,718	4,268,743
Refunds	4,667,835	4,601,865	65,970
Admin. Expenses	4,300,927	4,059,408	241,519
TOTAL DEDUCTIONS	182,021,223	177,444,991	4,576,232
NET INCREASE IN NET POSITION	\$ 141,998,243	\$ 196,693,956	\$ (54,695,713)

HOW WE INVESTED



ASSET ALLOCATION



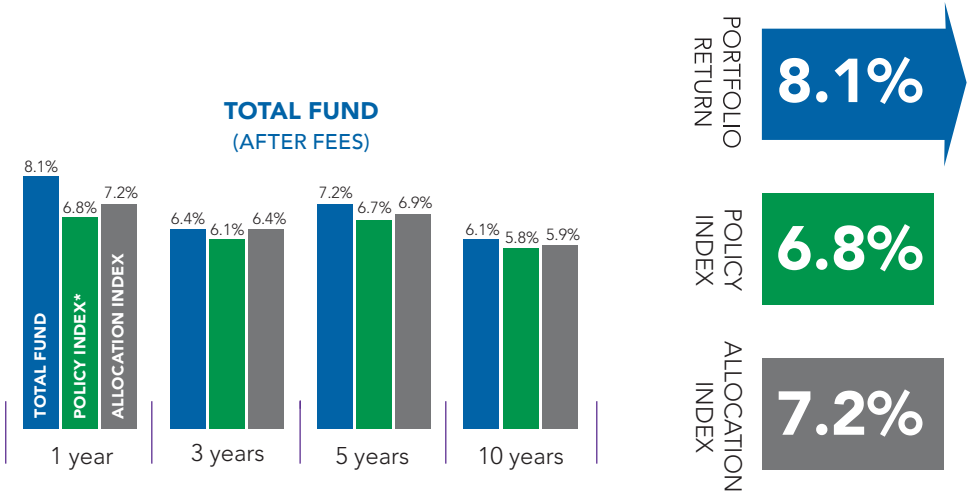
Assigning specific percentages of investments to different asset classes according to financial goals, risk tolerance and investment time horizon. ERFC enhances the financial security of its members through responsible financial stewardship.

BENCHMARK

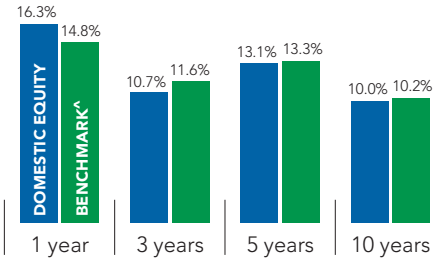


A standard against which the performance of an investment can be measured. Over the long term, ERFC has exceeded its policy benchmark.

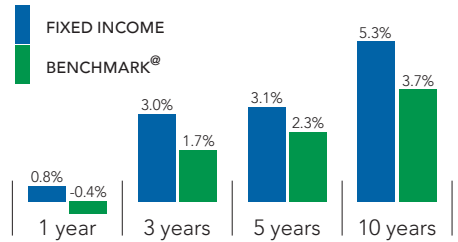
HOW WE PERFORMED



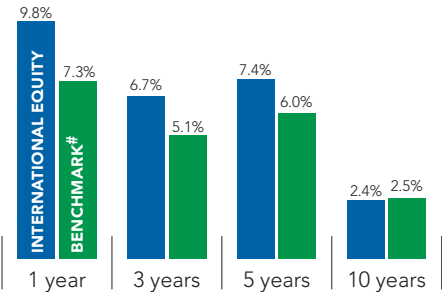
DOMESTIC EQUITY (AFTER FEES)



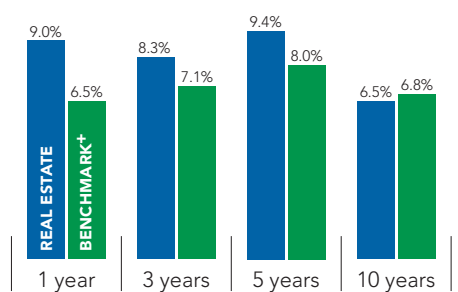
DOMESTIC FIXED INCOME (AFTER FEES)



INTERNATIONAL EQUITY (AFTER FEES)



REAL ESTATE (AFTER FEES)



* Policy Index is 16.5% Russell 1000, 6.0% Russell 2000, 14% MSCI ACWI Ex-US, 3.0% MSCI Emerging Markets, 4.0% FTSE EPRA/ NAREIT, 4.0% NCREIF, 18.0% BC Aggregate, 4.0% BC Credit, 4.0% BC Long Credit, 7.5% MSCI World, 7.5% CitiWorld Govt Bond, 5.0% HFRI FoF, 3.5% Cambridge PE, 3.0% JPM GBI EM

^ Benchmark: Russell 3000 Index

@ Bloomberg Barclays Aggregate Bond

Benchmark: MSCI/ACWI Ex-USA Index

+ Benchmark: 50% FTSE EPRA/ NAREIT; 50% NCREIF

THE 2018 POPULAR ANNUAL FINANCIAL REPORT FEATURES ERFC'S DEDICATED STAFF MEMBERS, WHO WORK EACH DAY TO DELIVER OUTSTANDING SERVICE TO ITS FCPS EMPLOYEE MEMBERS. **WE SERVE FCPS EDUCATORS AND THOSE WHO SUPPORT THE EDUCATION OF FAIRFAX COUNTY CHILDREN. IN DOING SO, WE HELP IMPROVE COLLECTIVE FUTURES.**

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www.fcps.edu/erfcdirect



For the Fiscal Year Ended June 30, 2018
The Educational Employees' Supplementary Retirement System of Fairfax County
A Component Unit of
Fairfax County Public Schools
Fairfax, Virginia



62.4

AVERAGE
RETIREMENT AGE



20.1

AVERAGE YEARS
OF SERVICE



31

SCHOOL & ADMIN
CENTER VISITS



89

ERFC VOLUNTEER
AMBASSADORS