

POPULAR ANNUAL FINANCIAL REPORT

A large, stylized graphic of a hand in shades of orange and red, reaching upwards. It is set against a yellow background that transitions into a green and blue background at the bottom. The hand is positioned on the left side of the page.

ERFC

*Offering Support
Through the Seasons
of Your Career*

FOR THE FISCAL YEAR ENDED JUNE 30, 2021

A COMPONENT UNIT
OF FAIRFAX COUNTY PUBLIC SCHOOLS

FAIRFAX, VIRGINIA

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 2021. 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

ERFC continued implementation of process enhancements that will result in improved efficiencies, cost savings, and member service. ERFC remained focused on improving operational excellence by adopting a Lean Six Sigma mindset—which gives our staff the framework to continue to pursue peer leadership in providing professional and personalized service to our members. Quality and efficiency improvements over the next decade will allow us to continue to focus on servicing and educating all segments of our population.

Communication activities successfully adapted to respond to the challenges of working remotely. Thanks to new technologies, we offered 17 live online retirement information sessions and created a new set of paperwork tutorials and a video about Health Benefits in Retirement in collaboration with FCPS Human Resources. We also completed a redesign of the ERFC intranet.

ERFC continued to promote *ERFCDirect*, and 30,772 active and retired members now use the online service, up from 28,963 a year ago.

The Fund completed its search for a discretionary private markets consultant, which will ultimately lead to an estimated \$23 million in net present value (NPV) savings through restructuring of the private markets program.

STRATEGIC PLAN AND OPERATIONAL UPDATES

ERFC concluded its 2018-2021 Strategic Plan, which focused on sustainability, marketing, messaging, and education. Over that three-year period ERFC improved its sustainability by increasing its funding ratio, achieving top quartile one-year returns while reducing risks, and reducing investment management and administrative costs to the Plan. On the marketing front, we created a plan to help raise awareness and educate our membership—which will be implemented over the course of the next three years. Messaging to our membership also improved via our progress in simplifying communications and creating media content that is available 24/7 to our members. Despite the national pandemic, ERFC was able to effectively reach, educate, and improve services to its membership. With the conclusion of the 2018-2021 Strategic Plan, the Board adopted the 2022-2024 Strategic Plan that revolves around sustainability, engagement, education, and operational excellence.

PLAN FINANCIAL CONDITION

There's no doubt that 2020 was a challenging and historic year, nonetheless, the ERFC Fund earned a 26.8% net of fees return on investments in fiscal year 2021—placing the fund in the top 48th percentile of public pension funds within



26.8%

FUND AFTER-FEES
RETURN ON INVESTMENTS



76.6%

FUNDED RATIO

the Investment Metrics Public Plan Universe >\$1B in assets. For the fiscal year, ERFC outperformed its policy index by 4.8%, largely driven by outperformance in international and emerging market equities. Investments in fixed income, multi-asset class solutions (MACS) and private markets were also additive.

ERFC's independent actuary reported that the System's funding ratio increased from 74.5% to 76.6% for the valuation period ending December 31, 2020. This increase is due to favorable investment performance in 2020 and favorable demographic experience. The recommended employer contribution rate was 6.44% of payroll, unchanged from fiscal year 2020. For fiscal year 2022, the contribution rate will increase to 6.70%.

The presentation of the PAFR is consistent with GAAP. To obtain additional detail regarding the fund, please refer to the 2021 Annual Comprehensive Financial Report (ACFR) at <https://www.fcps.edu/sites/default/files/media/forms/ERFC-Annual-Report-ACFR-2021.pdf>.

INVESTMENT ACTIVITY

ERFC's return of 26.8% net of fees for FY 2021 outperformed the benchmark index return of 22%, and the Investment Metrics Public Plan Universe >\$1B in assets universe for the fiscal year with the median fund returning 26.5%. On an intermediate basis, the Fund ranked in the top 24th percentile of public pension funds within the Investment Metrics Public Plan Universe >\$1B in assets over the last 3-year period ending FY 2021. The Fund's longer-term performance remained strong as well; the 10-year return of 8.1% exceeded the policy index

return of 7.6% and exceeded the Fund's long-term target return of 7.25%.

AWARDS

The System proudly announces that the GFOA of the United States and Canada awarded ERFC the Certificate of Achievement for Excellence in Financial Reporting for its FY 2020 ACFR. This is the 24th consecutive year ERFC has earned the award. The GFOA certification remains valid for a period of one year and requires, at minimum, that each ACFR satisfy both generally accepted accounting principles and legal requirements. The GFOA also recognized ERFC with an Award for Outstanding Achievement in Popular Financial Reporting for its FY2020 Popular Annual Financial Report (PAFR). This is the second year ERFC has earned the award. The Public Pension Coordinating Council also honored ERFC recently, granting the System the Public Pension Standards' 2021 Award. ERFC earned the award in recognition for 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. Segal Marco Advisors provides general investment consulting services, Meketa Investment Group provides discretionary private markets consulting services, and AON/Retirement and Investment 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.



\$3.3B

TOTAL FUND VALUE



40,617

ACTIVE AND RETIREE
MEMBERSHIP

ERFC MISSION AND PRINCIPLES

MISSION

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.

VISION

To be the leader among peers providing professional and personalized service to our members and beneficiaries to support their efforts to achieve financial independence.

VALUES

ACCOUNTABILITY

We always operate with transparency and a commitment to think strategically while fulfilling fiduciary obligations.

CUSTOMER SERVICE

We always respond promptly with quality as we strive to exceed the expectations of our members and their beneficiaries.

OPEN COMMUNICATION

We always provide timely and pertinent information that improves processes, removes barriers and establishes accountabilities.

INTEGRITY

We conduct operations by adhering to the highest standards of ethical conduct, striving for accuracy, efficiency and effectiveness.

CONTINUOUS EDUCATION

Through ongoing education efforts, we enable ERFC employees to continuously improve the service and value they provide to our members; Board of Trustees to more effectively guide and inform ERFC strategy; and our members to better understand and make the most of their ERFC benefits.

BOARD MEMBERS



KIMBERLY ADAMS
CHAIRPERSON/TRUSTEE
ELECTED MEMBER



KATHIE PFEFFER-HAHN
VICE CHAIRPERSON/TRUSTEE
ELECTED MEMBER



LEIGH BURDEN
TREASURER/TRUSTEE
APPOINTED MEMBER



MARTY K. SMITH
TRUSTEE
APPOINTED MEMBER



ERIC EICHELBERGER
TRUSTEE
ELECTED MEMBER



ADAM MCCONAGHA
TRUSTEE
APPOINTED MEMBER

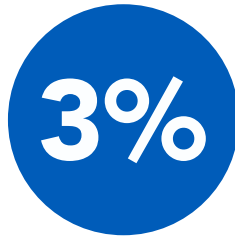


SCAN THE QR
CODE TO ACCESS
ERFC'S ANNUAL
COMPREHENSIVE
FINANCIAL
REPORT (ACFR)

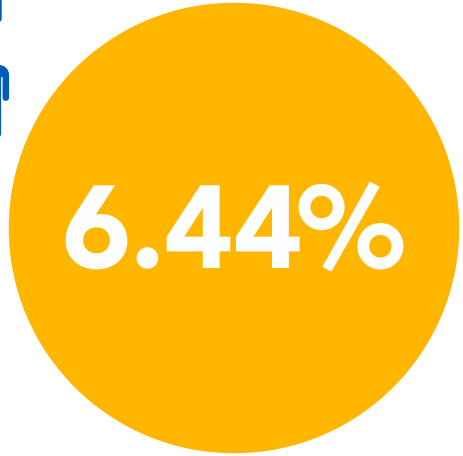
TOTAL ERFC MEMBERSHIP



12,842 Retirees and Beneficiaries
5,415 Deferred Vested Members
22,360 Active Members



MEMBER
CONTRIBUTION
RATE



FCPS EMPLOYER
CONTRIBUTION
RATE



11,092 Legacy Retirees

1,750 2001 Retirees

1973

FCPS & FEA
ESTABLISHED ERFC

1988

ALTERED PLAN:
RESPONSE TO VRS CHANGES

2001

ESTABLISHED ERFC 2001
TIER 1 PLAN

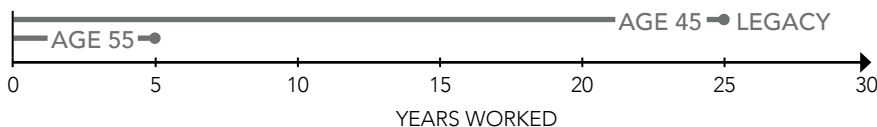


70% OF RETIREE BENEFITS PAID TO VIRGINIA RESIDENTS
 42% OF RETIREE BENEFITS PAID TO FAIRFAX COUNTY RESIDENTS

RETIREMENT ELIGIBILITY UNREDUCED \$



REDUCED \$



ACHIEVEMENTS

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to ERFC for its Popular Annual Financial Report for the fiscal year ended June 30, 2020. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Annual Comprehensive Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

**The Educational Employees Supplementary Retirement
System of Fairfax County**

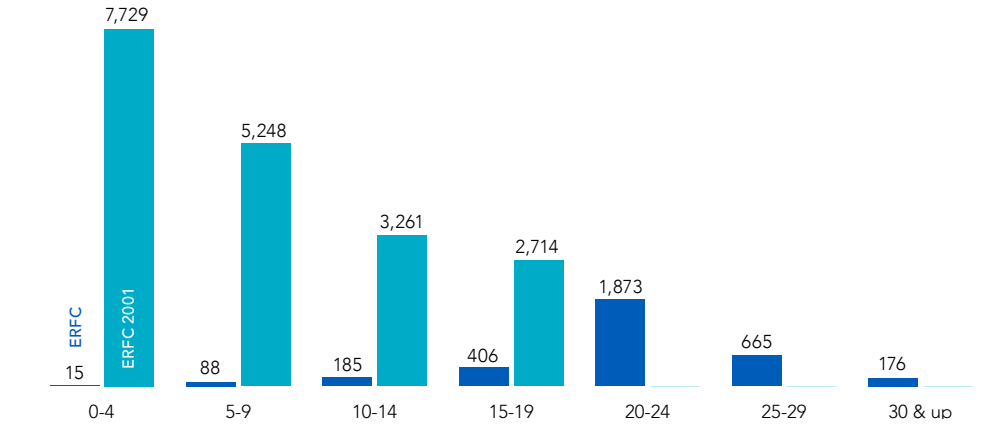
Virginia

For its Annual Financial Report
for the Fiscal Year Ended

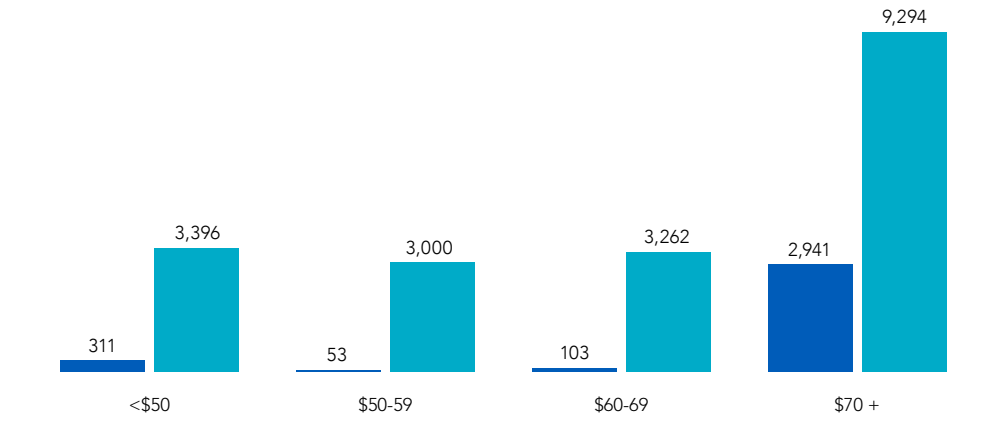
June 30, 2020

Executive Director/CEO

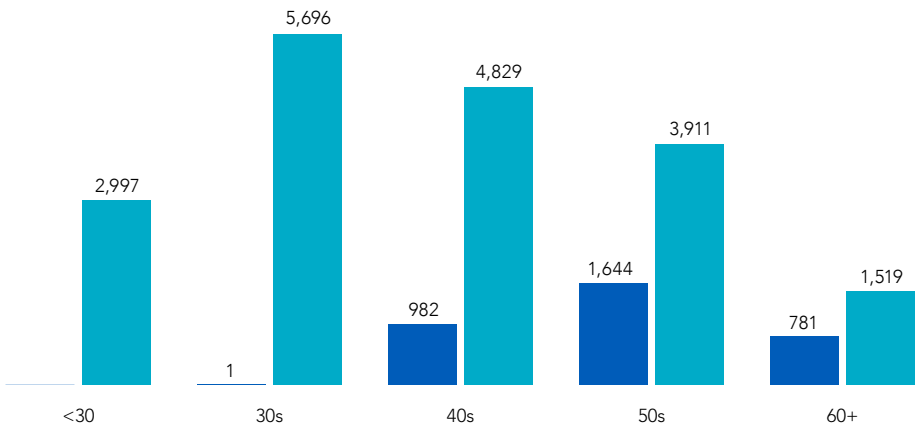
ACTIVE MEMBER YEARS OF SERVICE*



ACTIVE MEMBER SALARIES^ \$ THOUSANDS



ACTIVE MEMBER AGES#

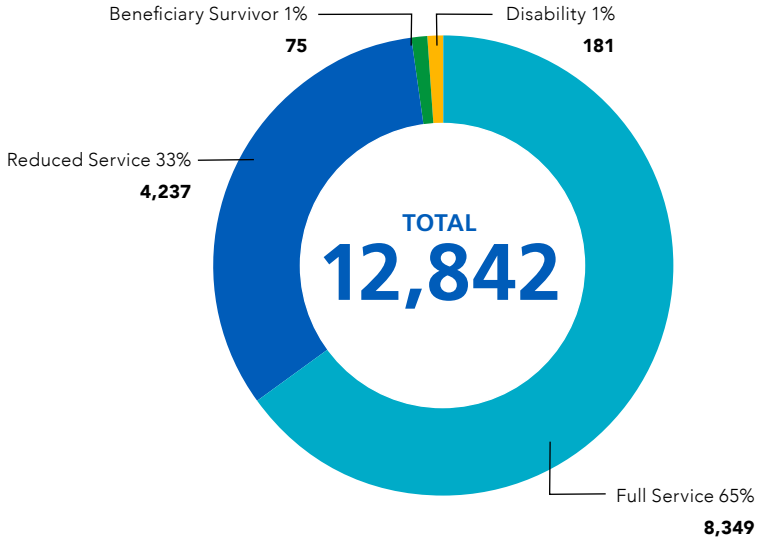


* Average Service = 9.8 years

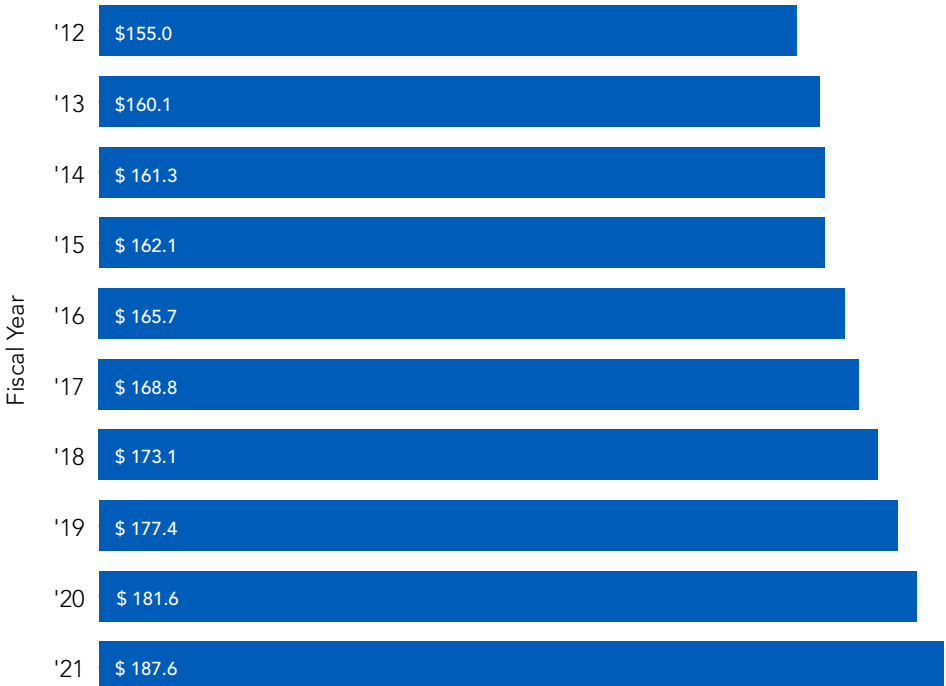
^ Average Annual Pay = \$73,053

Average Age = 44.4 years | Total Active Members = 22,360

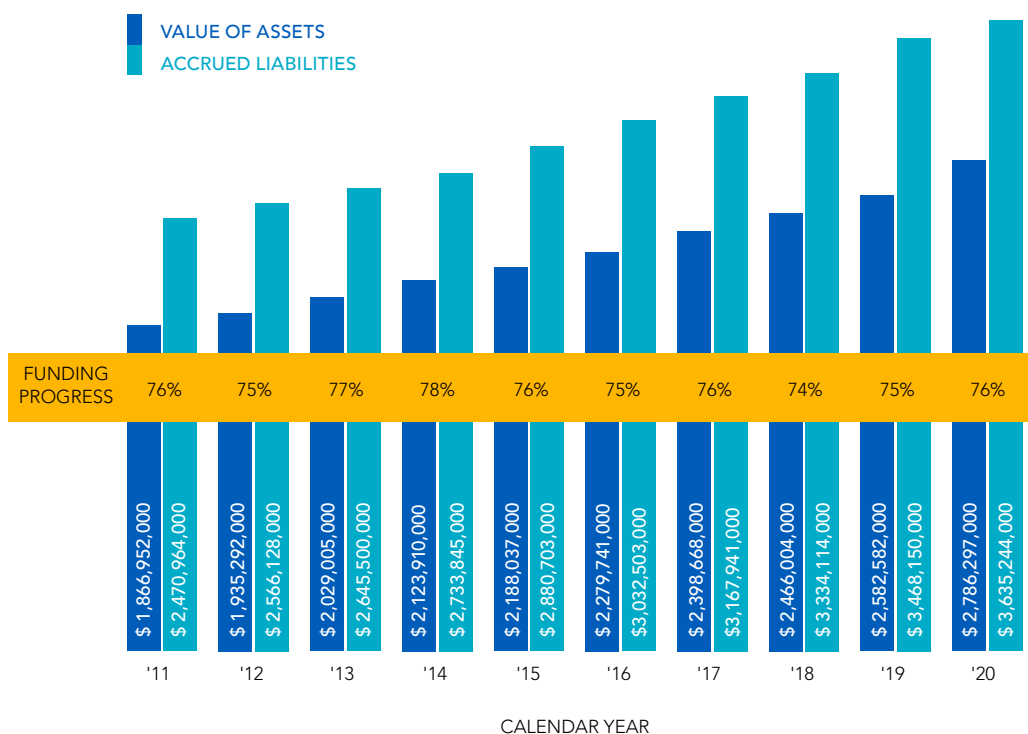
**RETIREES AND BENEFICIARIES
BY TYPE OF BENEFIT BEING PAID**



**BENEFITS PAID
AS OF JUNE 30
\$ MILLIONS**



FUNDING PROGRESS



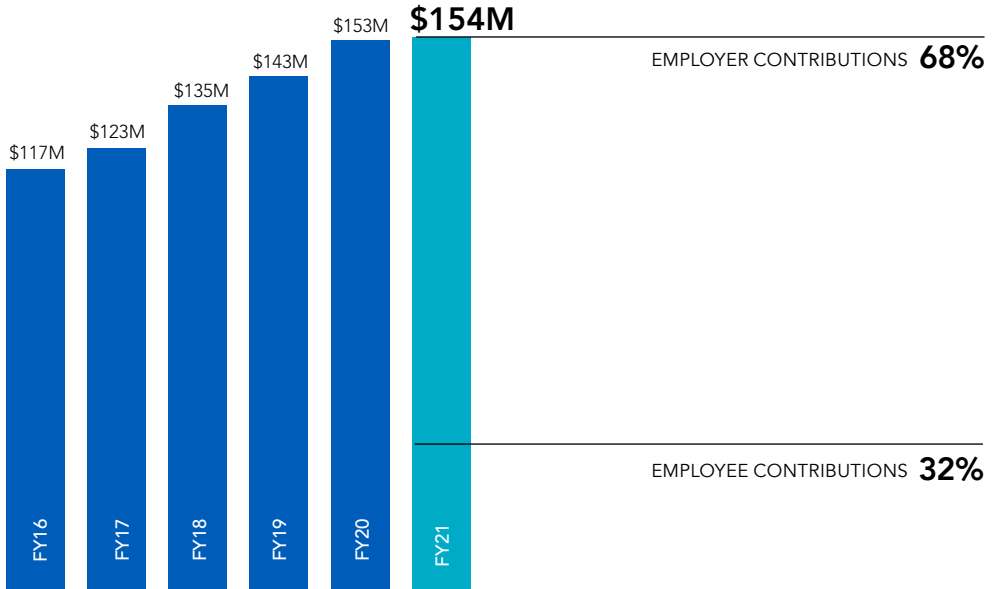
SUMMARY OF FIDUCIARY NET POSITION

AS OF JUNE 30

	2021	2020	VARIANCE
ASSETS			
Total cash and investments	\$ 3,430,488,099	\$ 2,796,033,651	\$ 634,454,448
Total receivables	42,178,337	14,052,270	28,126,067
Other assets	40,854	33,468	7,386
TOTAL ASSETS	3,472,707,290	2,810,119,389	662,587,901
LIABILITIES			
Capital leases	26,426	8,782	17,644
Accounts payable	2,339,106	1,843,713	495,393
Securities purchased	51,085,575	88,500,826	(37,415,251)
Securities lending collateral	147,105,099	126,382,893	20,722,206
TOTAL LIABILITIES	200,556,206	216,736,214	(16,180,008)
TOTAL NET POSITION RESTRICTED FOR PENSIONS	\$ 3,272,151,084	\$ 2,593,383,175	\$ 678,767,909

FUNDING

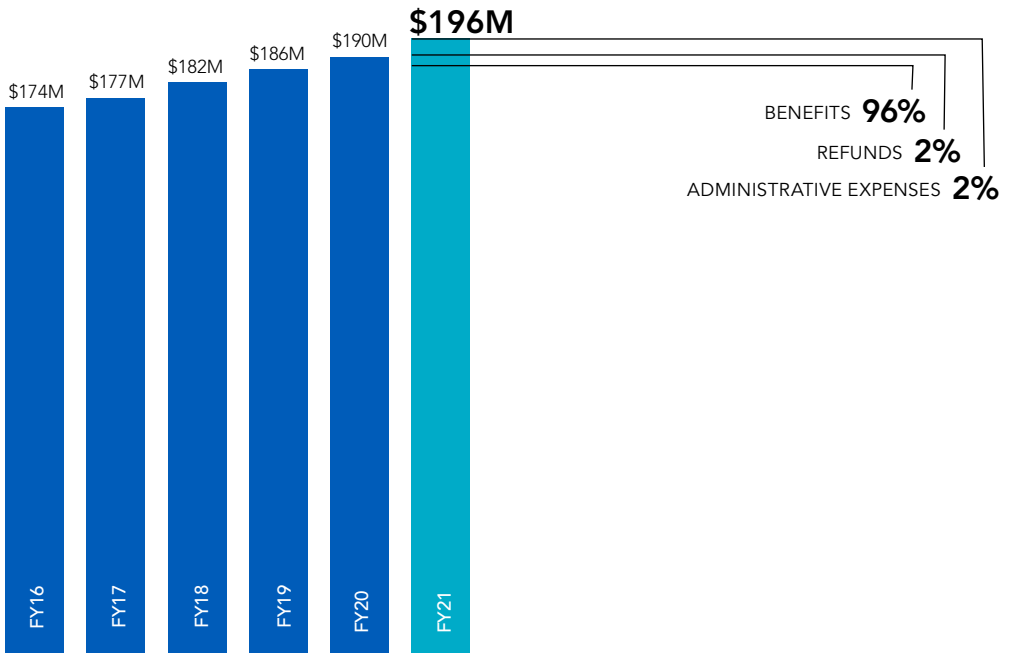
TOTAL CONTRIBUTIONS



SUMMARY OF CHANGES IN FIDUCIARY NET POSITION AS OF JUNE 30

	2021	2020	VARIANCE
ADDITIONS			
Contributions			
Employer	\$ 104,784,310	\$ 104,741,255	\$ 43,055
Member	48,934,340	49,095,601	(161,261)
Net investment income	720,738,680	108,472,534	612,266,146
TOTAL ADDITIONS	874,457,330	262,309,390	612,147,940
DEDUCTIONS			
Benefits	187,660,019	181,587,150	6,072,869
Refunds	3,605,963	4,399,346	(793,383)
Admin. Expenses	4,423,439	4,381,191	42,248
TOTAL DEDUCTIONS	195,689,421	190,367,687	5,321,734
NET INCREASE IN NET POSITION	\$ 678,767,909	\$ 71,941,703	\$ 606,826,206

TOTAL DEDUCTIONS



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

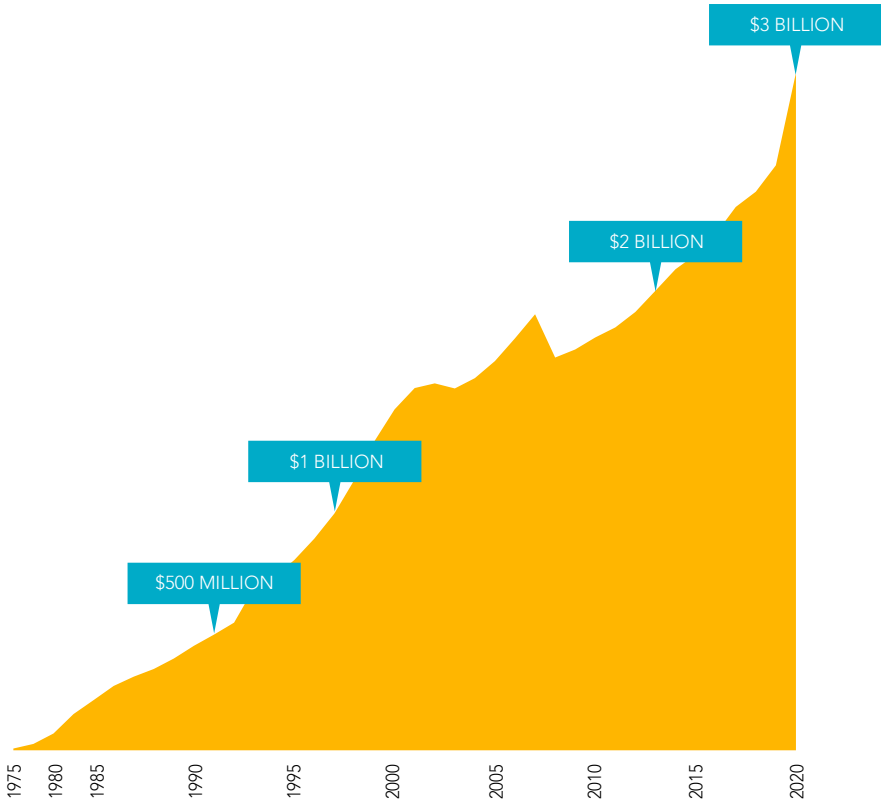
The process of spreading money among different securities, industries, sectors and strategies within a number of asset classes. ERFC's goal is to achieve the highest possible investment return at the lowest possible risk.



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.

ERFC TOTAL FUND GROWTH — VALUATION ASSETS SINCE INCEPTION (AS REFLECTED IN THE DECEMBER 31, 2020 ACTUARIAL VALUATION)



ASSET ALLOCATION

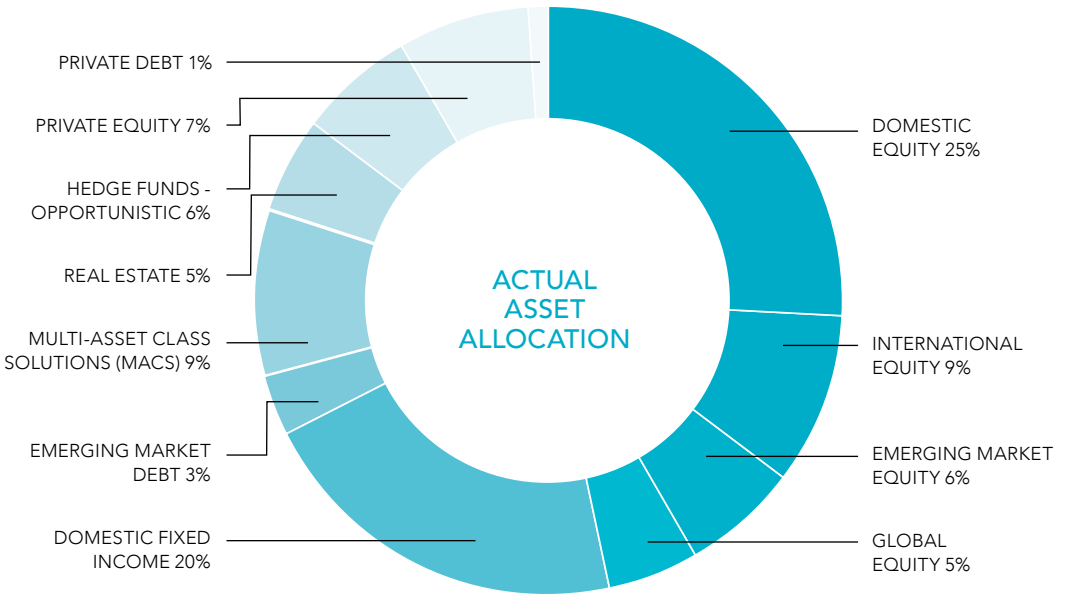
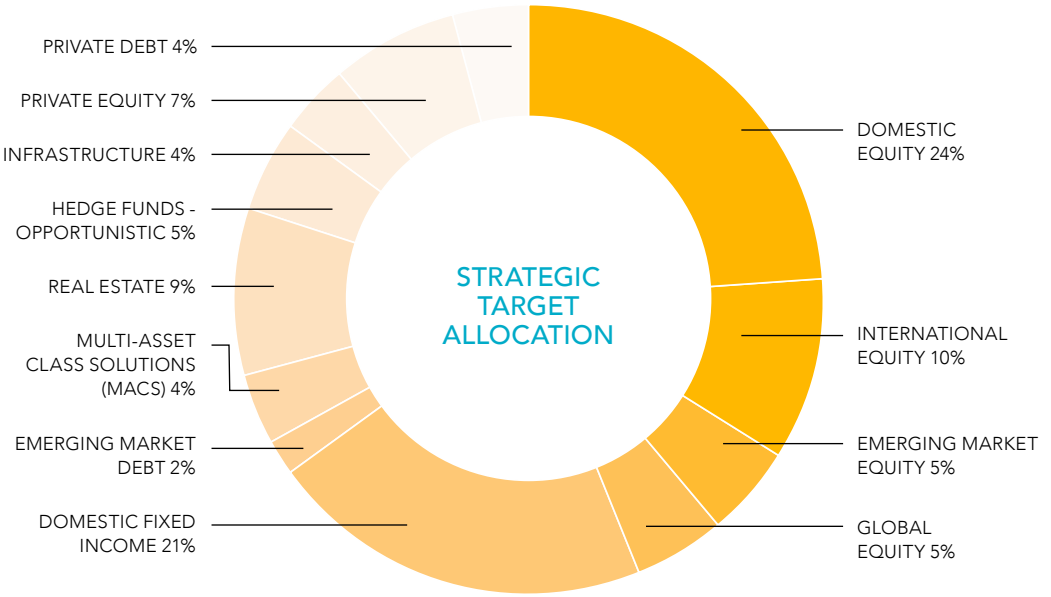
Assigning specific percentages of investments

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.

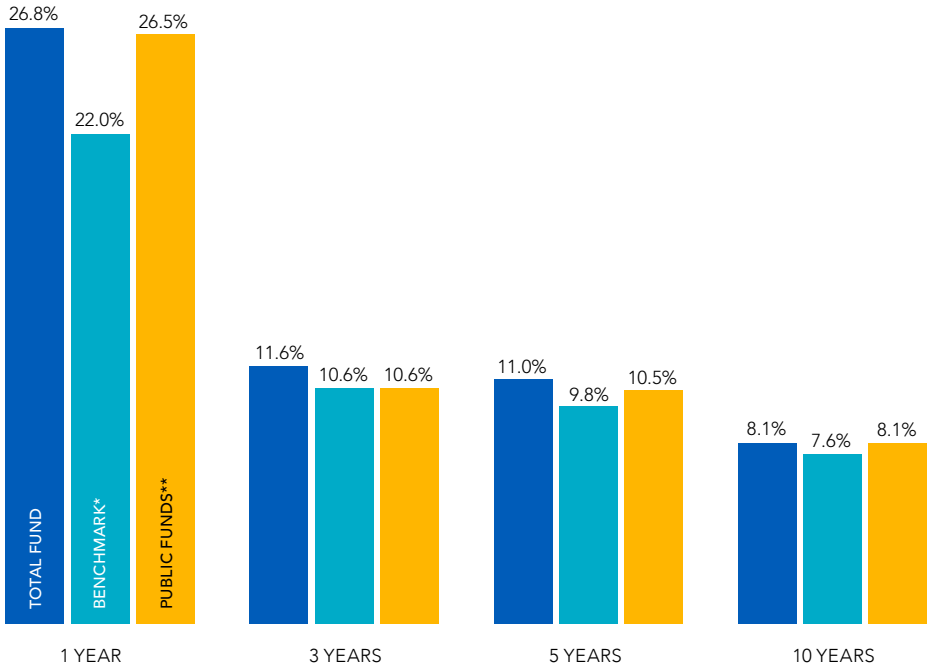


BENCHMARK

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



TOTAL FUND (AFTER FEES)



PORTFOLIO
RETURN

26.8%

POLICY
INDEX

22.0%

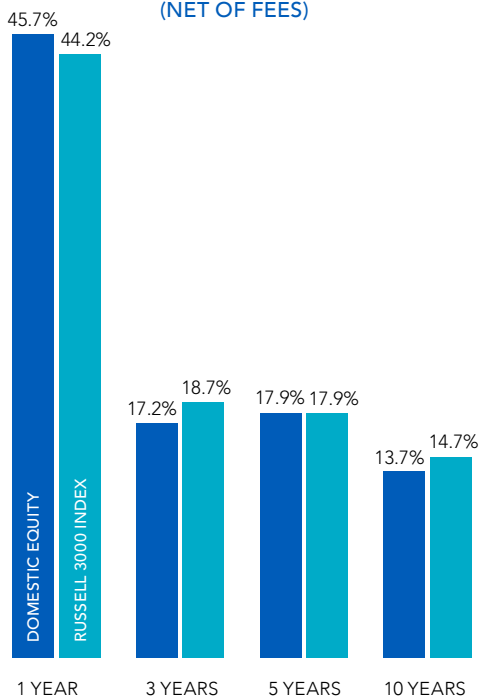
PUBLIC
FUNDS**

26.5%

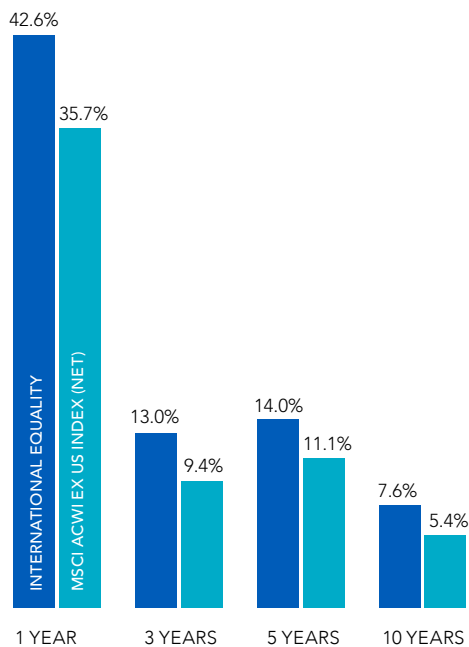
* 16% Russell 1000 Index, 7% Russell 2000 Index, 9% MSCI AC World ex USA (Net), 5% MSCI EM (net), 5% MSCI World (Net), 14% BB U.S. Aggregate, 8% BB U.S. Credit Index, 3% JPM GBI-EM Global Diversified TR, 4% BB U.S. TIPS, 5.8% MSCI AC World Index (Net), 3.2% BB U.S. Aggregate, 4% HFRI Fund of Funds Composite Index, 6% NCREIF - ODCE NET, 1% CPI + 4%, 1% BB U.S. Corp High Yield + 150 bps, 6% ThomsonOne All Regions PE, 2% 90 Day U.S. Treasury Bill

** Investment Metrics Public Plan Universe > \$1B

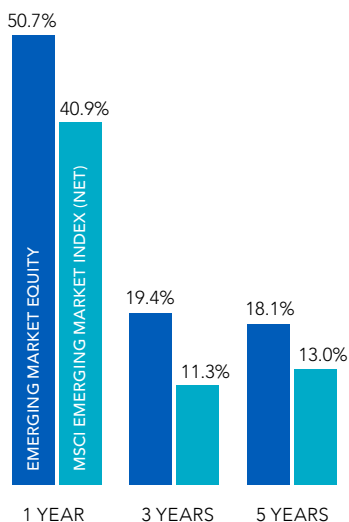
DOMESTIC EQUITY (NET OF FEES)



INTERNATIONAL EQUITY (NET OF FEES)



EMERGING MARKET EQUITY (NET OF FEES)

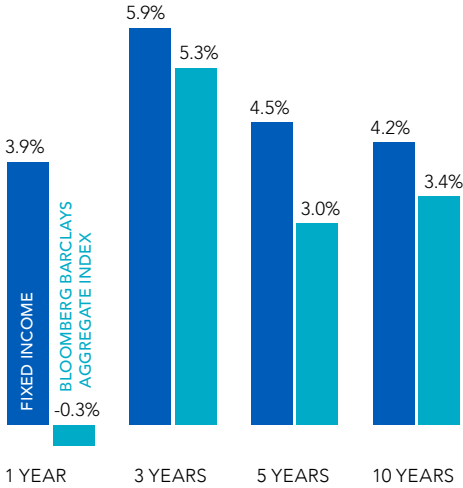


GLOBAL EQUITY (NET OF FEES)

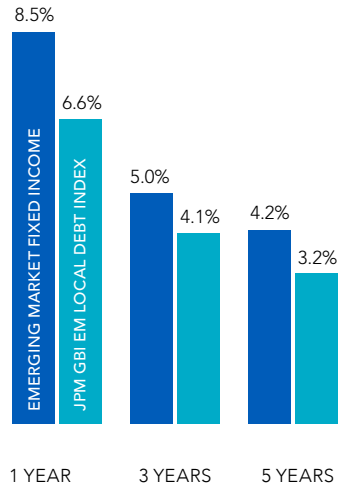


PERFORMANCE FOR THE PERIODS ENDING JUNE 30, 2021

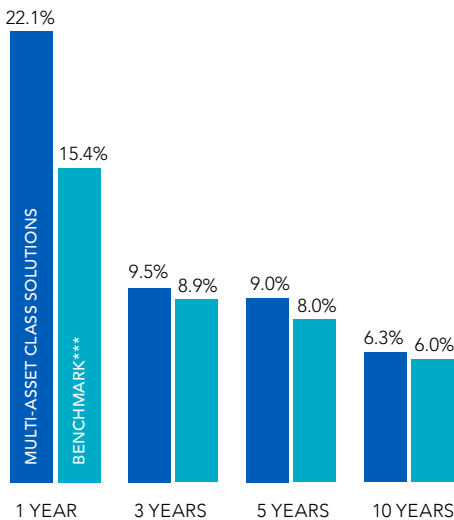
DOMESTIC FIXED INCOME (NET OF FEES)



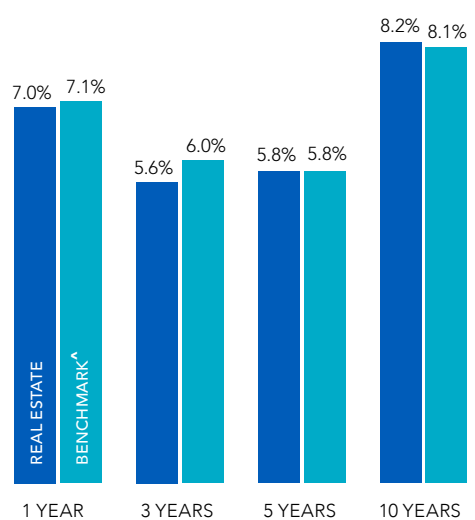
EMERGING MARKET FIXED INCOME (NET OF FEES)



MULTI-ASSET CLASS SOLUTIONS (NET OF FEES)



REAL ESTATE (NET OF FEES)



Note: All investment performance figures were calculated using time-weighted rate of return based on market values.

Custom benchmark members have changed over time.

*** 65% MSCI (NET) / 35% BB Aggregate

^ 100% NCREIF ODCE



THROUGH
EVERY SEASON,
ERFC IS THE
RETIREMENT
PEACE OF MIND
YOU CAN
COUNT ON

KNOW YOUR PLAN



DO IT YOURSELF
WITH ERFCDIRECT 24/7

- Run retirement benefit estimates
- Keep your personal information up-to-date
- Check your member statement annually
- and much more...

www.fcps.edu/erfcdirect



OTHER RESOURCES

FCPS HUMAN RESOURCES

Search Human Resources on fcps.edu
571-423-3000 | 804-649-8059

FCPS EMPLOYEE ASSISTANCE PROGRAM (EAP)

Financial Specialist Services
Search EAP on fcps.edu
855-355-9097

VRS

www.varetire.org
888-827-3847 | 800-333-1633

SOCIAL SECURITY

www.ssa.gov
800-772-1213

MEDICARE

www.medicare.gov
800-633-4227



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M-F 8 AM—4:30 PM



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WEB

www.fcps.edu/erfc
www.fcps.edu/erfcdirect



FOR THE FISCAL YEAR ENDED JUNE 30, 2021
THE EDUCATIONAL EMPLOYEES' SUPPLEMENTARY
RETIREMENT SYSTEM OF FAIRFAX COUNTY
A COMPONENT UNIT OF
FAIRFAX COUNTY PUBLIC SCHOOLS
FAIRFAX, VIRGINIA