SUCCESS
SUPPORTING SUCCESS
with fcps

Popular Annual Financial Report

Fairfax County Public Schools
Engage • Inspire • Thrive
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 2019. 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. ERFC staff visited 24 schools and administrative centers, explaining to members the provisions and importance of their retirement benefits. The ERFC Ambassador Program increased 96% to 174 worksite volunteers, up from 89 one year ago. Ambassadors are now located at 72 elementary schools, 10 middle schools, 20 high schools and 9 administrative centers.

The ERFC staff increased its efforts to implement process enhancements that will result in improved efficiencies, cost savings and customer service. ERFC worked with Linea Solutions, specializing in change management, business process reengineering, organizational restructuring and continuous process improvement for pension organizations.

STRATEGIC PLAN AND OPERATIONAL UPDATES
ERFC staff successfully completed action items included in the 2018-2021 Strategic Plan. Two significant RFP’s were completed leading to a new General Investment Consultant (Segal Marco) and a new actuary (AON), resulting in greater than $1M in Net Present Value (NPV) savings within renegotiated contracts. Succession and Staff Development Plans were successfully developed and implemented, aimed at increasing the sustainability of the Plan across all organizational levels. We created a Marketing Plan using data science, which identified member segments for targeted outreach – promoting Plan awareness and supporting FCPS recruitment and retention efforts. The Board of Trustees reinforced their commitment to continuous education with a Trustee Education Plan. The asset allocation was reviewed and changed, resulting in projected money manager fee savings of $17.24M over the next ten years. In addition, ERFC is lowering expected portfolio risk and increasing expected returns over the next 10 years – increasing overall probability to achieve its expected rate of return over the next 20 years.

PLAN FINANCIAL CONDITION
The ERFC Fund earned a 4.7 percent net of fees return on investments in fiscal year 2019. For the fiscal year, ERFC underperformed its policy index by 1.9 percent, driven by slight underperformance in all asset classes, except for emerging market debt.

ERFC’s independent actuary reported that the System’s funding ratio decreased slightly from 75.7 percent to 74.0 percent for the valuation period ending December 31, 2018. This decrease is due to unfavorable investment performance in the prior 2018 calendar year, higher than anticipated pay increases and unfavorable demographic experience. The recommended employer contribution rate increased to 6.26 percent of payroll, from 6.24 percent, for fiscal year 2019.

INVESTMENT ACTIVITY
The ERFC’s return of 4.7 percent net of fees for FY 2019 underperformed the benchmark index return of 6.6 percent, and the InvestorForce Public Defined Benefit (funds of $1 billion to $5 billion in assets) universe
for the fiscal year with the median fund returning 5.1 percent. The Fund’s longer-term return remained strong, however, with the 10-year return of 8.9 percent exceeding the policy index return of 8.5 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 2018 Comprehensive Annual Financial Report (CAFR). This is the 22nd 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’ 2019 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. Segal Marco Advisors, based in New York, NY, provides investment consulting services, and AON/Retirement and Investment, 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 2019 fiscal year. ERFC’s Comprehensive Financial Annual Report for FY 2019, which was published in December 2019, provides additional information in greater detail. Copies of both publications are posted on the System’s website at www.fcps.edu/erfc.
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

DARYL RICHARDS
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

HELEN NIXON
TRUSTEE
APPOINTED MEMBER
MEMBERSHIP AS OF DECEMBER 31, 2018

TOTAL ERFC MEMBERSHIP

12,101 Retirees and Beneficiaries
4,996 Deferred Vested Members
22,048 Active Members

MEMBER CONTRIBUTION RATE
3%

FCPS EMPLOYER CONTRIBUTION RATE
6.26%

10,815 Legacy Retirees
1,286 2001 Retirees

1973
FCPS & FEA ESTABLISHED ERFC

1988
ALTERED PLAN: RESPONSE TO VRS CHANGES

2001
ESTABLISHED ERFC 2001 TIER 1 PLAN
MEMBERSHIP AS OF DECEMBER 31, 2018

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

RETIREMENT ELIGIBILITY

UNREDEUCED $

- AGE 65
- AGE 60
- SS AGE

Rule of 90 is years worked + age = 90.

REDEUCED $

- AGE 55
- AGE 45

YEARS WORKED

2011
IMPLEMENTED ERFCDIRECT

2017
ESTABLISHED ERFC 2001 TIER 2 PLAN

46 YEARS
### Members as of December 31, 2018

<table>
<thead>
<tr>
<th>Active Member Ages</th>
<th>Active Member Years of Service</th>
<th>Active Member Salaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERFC Legacy</td>
<td>ERFC 2001</td>
<td></td>
</tr>
<tr>
<td>ERFC Legacy</td>
<td>ERFC 2001</td>
<td></td>
</tr>
<tr>
<td>30 &amp; up</td>
<td>25</td>
<td>7,950</td>
</tr>
<tr>
<td>25-29</td>
<td>116</td>
<td>4,743</td>
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<tr>
<td>20-24</td>
<td>225</td>
<td>3,716</td>
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<tr>
<td>15-19</td>
<td>1,471</td>
<td>1,524</td>
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<tr>
<td>10-14</td>
<td>1,465</td>
<td></td>
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<tr>
<td>5-9</td>
<td>622</td>
<td></td>
</tr>
<tr>
<td>0-4</td>
<td>191</td>
<td></td>
</tr>
<tr>
<td>Total Active Members</td>
<td>22,048</td>
<td></td>
</tr>
</tbody>
</table>

*Average Service = 9.4 years

^Average Annual Pay = $70,510

#Average Age = 43.6 years | Total Active Members = 22,048
**Members as of December 31, 2018**

**Benefits Paid**

**As of June 30**

$ Millions

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Benefits Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>'10</td>
<td>$143.1</td>
</tr>
<tr>
<td>'11</td>
<td>$149.0</td>
</tr>
<tr>
<td>'12</td>
<td>$155.0</td>
</tr>
<tr>
<td>'13</td>
<td>$160.1</td>
</tr>
<tr>
<td>'14</td>
<td>$161.3</td>
</tr>
<tr>
<td>'15</td>
<td>$162.1</td>
</tr>
<tr>
<td>'16</td>
<td>$165.7</td>
</tr>
<tr>
<td>'17</td>
<td>$168.8</td>
</tr>
<tr>
<td>'18</td>
<td>$173.1</td>
</tr>
<tr>
<td>'19</td>
<td>$177.4</td>
</tr>
</tbody>
</table>

**Retirees and Beneficiaries by Type of Benefit Being Paid**

- Full Service 63%
- Disability 2%
- Beneficiary Survivor 1%
- Reduced Service 35%

Total: 12,101

**Benefits Paid**

- Full Service 63%: $7,604
- Disability 2%: $190
- Beneficiary Survivor 1%: $79
- Reduced Service 35%: $4,228
FUNDING

FUNDING PROGRESS

VALUE OF ASSETS

ACCRUED LIABILITIES

Calendar Year

'09 '10 '11 '12 '13 '14 '15 '16 '17 '18

$1,769,969,000
$1,828,093,000
$1,864,926,000
$1,925,229,000
$2,099,005,000
$2,128,910,000
$2,188,037,000
$2,279,410,000
$2,296,485,000
$2,398,668,000

Funding Progress 76% 77% 76% 75% 77% 78% 76% 76% 75% 74%

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

2019     2018     VARIANCE

ASSETS
Total cash and investments  $2,661,830,887  $2,579,998,120  $81,832,767
Total receivables  11,919,565  5,972,204  5,947,361
Other assets  43,010  39,369  3,641
TOTAL ASSETS  2,673,793,462  2,586,009,693  87,783,769

LIABILITIES
Capital leases  12,455  21,107  (8,652)
Accounts payable  2,095,788  1,992,441  103,347
Securities purchased  6,606,218  3,928,604  2,677,614
Securities lending collateral  143,637,529  133,787,644  9,849,885
TOTAL LIABILITIES  152,351,990  139,729,796  12,622,194

TOTAL NET POSITION
RESTRICTED FOR PENSIONS  $2,521,441,472  $2,446,279,897  $75,161,575
<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>DIFFERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADDITIONS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer</td>
<td>$96,982,911</td>
<td>$91,704,877</td>
<td>$5,278,034</td>
</tr>
<tr>
<td>Member</td>
<td>46,645,396</td>
<td>44,169,100</td>
<td>2,476,296</td>
</tr>
<tr>
<td>Net investment income</td>
<td>117,727,500</td>
<td>188,145,489</td>
<td>(70,417,989)</td>
</tr>
<tr>
<td><strong>TOTAL ADDITIONS</strong></td>
<td>261,355,807</td>
<td>324,019,466</td>
<td>(62,663,659)</td>
</tr>
<tr>
<td><strong>DEDUCTIONS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td>177,422,308</td>
<td>173,052,461</td>
<td>4,369,847</td>
</tr>
<tr>
<td>Refunds</td>
<td>4,509,765</td>
<td>4,667,835</td>
<td>(158,070)</td>
</tr>
<tr>
<td>Admin. Expenses</td>
<td>4,262,159</td>
<td>4,300,927</td>
<td>(38,768)</td>
</tr>
<tr>
<td><strong>TOTAL DEDUCTIONS</strong></td>
<td>186,194,232</td>
<td>182,021,223</td>
<td>4,173,009</td>
</tr>
<tr>
<td><strong>NET INCREASE IN NET POSITION</strong></td>
<td>$75,161,575</td>
<td>$141,998,243</td>
<td>($66,836,668)</td>
</tr>
</tbody>
</table>
INVESTMENTS FOR THE PERIODS ENDING JUNE 30, 2019

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.
PERFORMANCE FOR THE PERIODS ENDING JUNE 30, 2019

TOTAL FUND (AFTER FEES)

- **TOTAL FUND**
  - 1 year: 8.3%
  - 3 years: 7.8%
  - 5 years: 8.4%
  - 10 years: 8.9%

- **BENCHMARK**
  - 1 year: 4.7%
  - 3 years: 5.1%
  - 5 years: 5.2%
  - 10 years: 5.5%

- **PUBLIC FUNDS**
  - 1 year: 6.6%
  - 3 years: 7.8%
  - 5 years: 5.5%
  - 10 years: 9.0%

**PORTFOLIO RETURN** 4.7%

**POLICY INDEX** 6.6%

**ALLOCATION INDEX** 5.1%

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* Diversified benchmark is 16.5% Russell 1000, 6.0% Russell 2000, 14% MSCI ACWI ex USA, 3.0% MSCI Emerging Markets, 5% MSCI World, 5% Citibank Global Aggregate, 5% BBgBarc US TIPS TR, 3% JPM GBI-EM Global Diversified TR, 4% FTSE EPRA/NAREIT Developed TR USD, 4% NCREIF-ODCE NET, 18% BBgBarc US Aggregate TR, 4% BBgBarc US Credit TR, 4% BBgBarc US Credit Long TR, 5% HFRI Fund of Funds Composite Index, 3.5% Venture Economics All US Private Equity Index

** Investor Force Public Defined Benefit Plan Universe
DOMESTIC EQUITY (AFTER FEES)

BENCHMARK

DOMESTIC FIXED INCOME (AFTER FEES)

BENCHMARK

INTERNATIONAL EQUITY (AFTER FEES)

BENCHMARK

REAL ESTATE (AFTER FEES)

BENCHMARK

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^ Benchmark: Russell 3000 Index
Ω Benchmark: Bloomberg Barclays US Aggregate TR
# Benchmark: JPMorgan GBI-EM Broad/Global Div Ind
+ Benchmark: Blended Real Estate Index
For the Fiscal Year Ended June 30, 2019
The Educational Employees’ Supplementary Retirement System of Fairfax County
A Component Unit of Fairfax County Public Schools
Fairfax, Virginia

THE 2019 POPULAR ANNUAL FINANCIAL REPORT FEATURES ERFC AMBASSADORS AND ACTIVE AND RETIRED 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

59
AVERAGE RETIREMENT AGE

22
AVERAGE YEARS OF SERVICE

24
SCHOOL & ADMIN CENTER VISITS

174
ERFC VOLUNTEER AMBASSADORS