

Retirement Fund Annual Summary

Published by the Arlington County Employee Retirement System Investment Office

2100 Clarendon Boulevard, Suite 504, Arlington, VA 22201

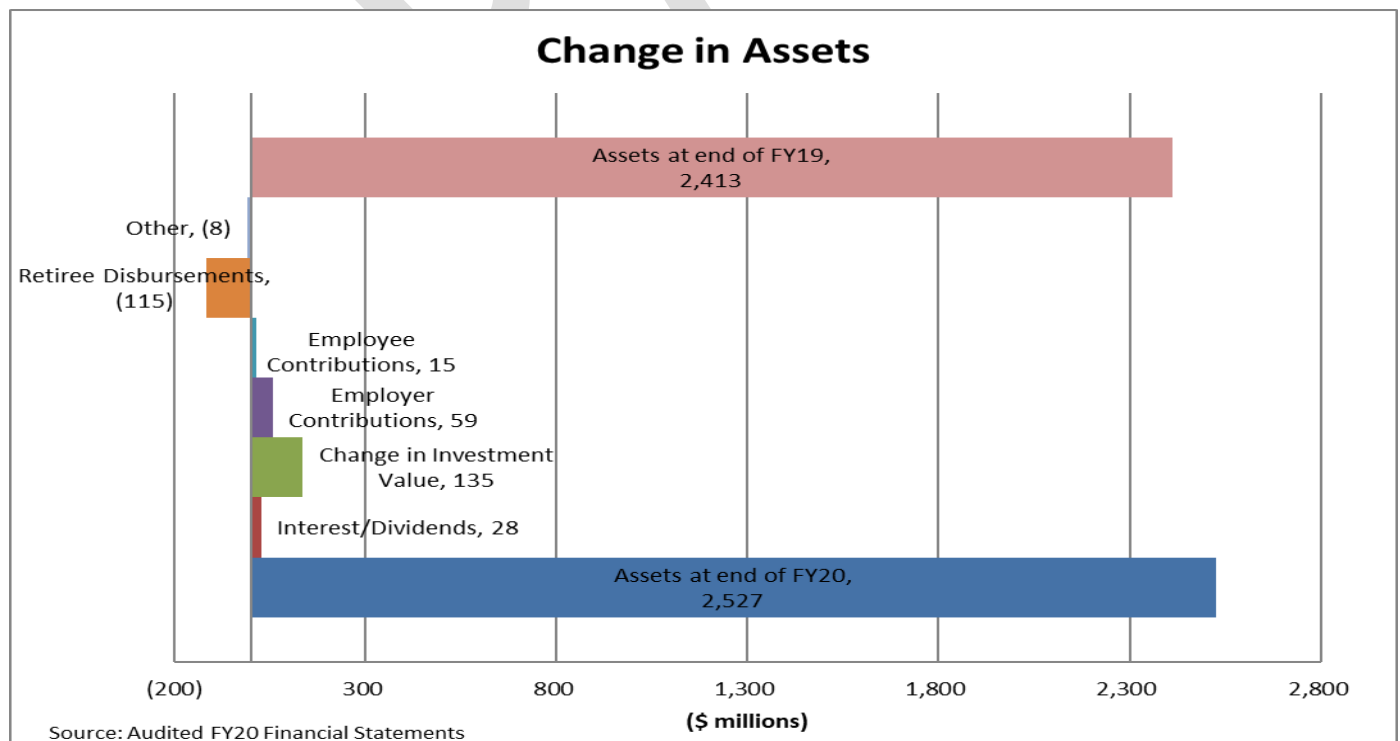
Telephone: (703) 228-3321 Fax: (703) 228-0646

Arlington's Retirement System remains financially and actuarially sound. The System's position results from regular contributions from members and Arlington County combined with better than average investment returns over the long term. With \$2,527 million in net assets at June 30, 2020 and a funded status of 101.2%, the System remains well positioned to meet its obligations.

Financial Highlights

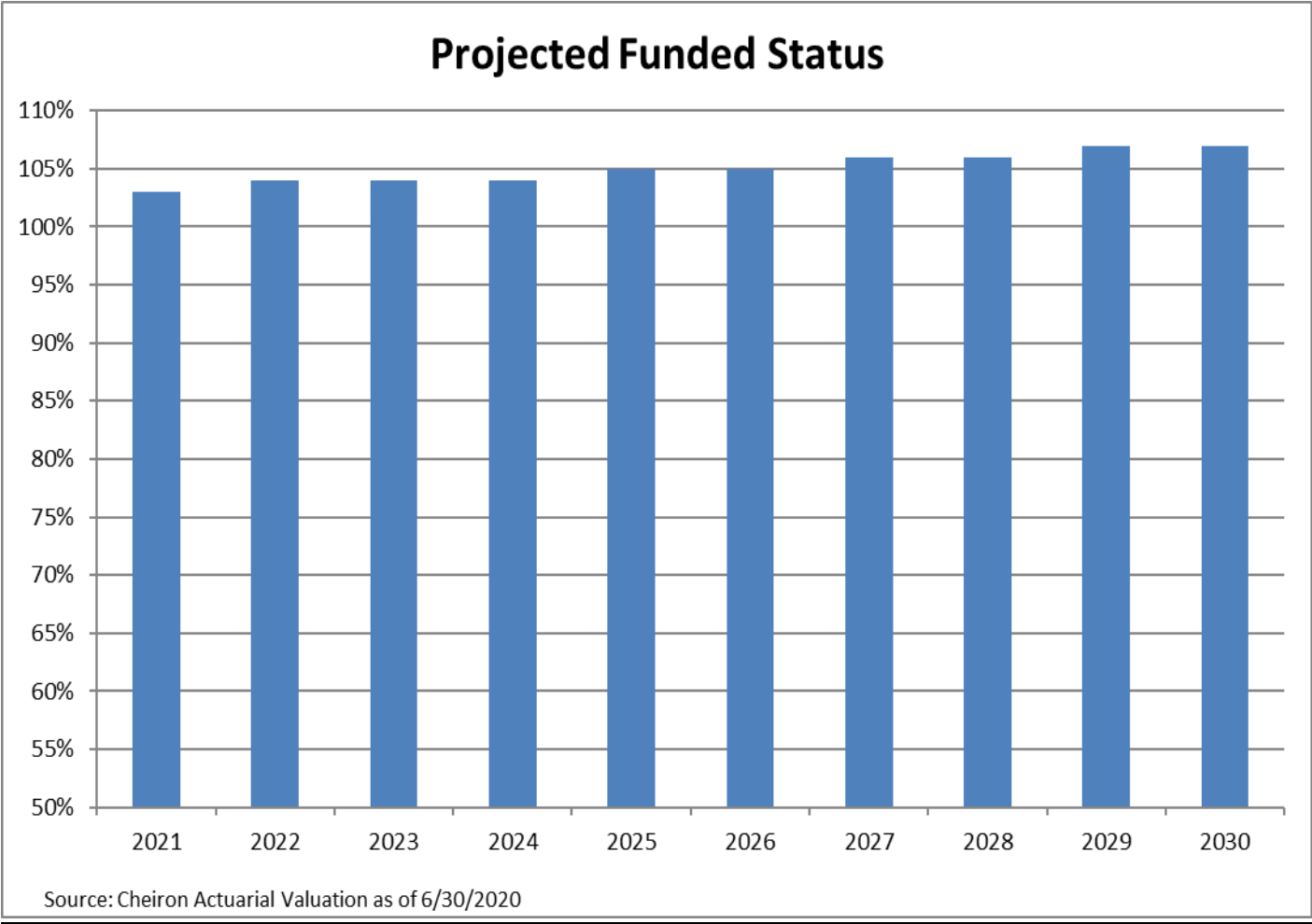
For the year ended June 30, 2020:

- Net assets increased by \$114 million to \$2,527 million, primarily due to an increase in the value of investments.
- The System's 1.2% investment overperformance relative to the overall policy benchmark was primarily attributable to strong returns for the public equity section, particularly growth-oriented global equity managers. The fiscal year return of 6.8% was above the 3.2% median return of the TUCS Public Plan Universe, placing the System in the 9th percentile (1st Decile) of public plans for the year. On a 3, 5 and 10-year basis, the System's performance ranked in the 14th, 22nd and 23rd percentiles, respectively.
- Employer contributions totaled \$59.9 million and employee contributions totaled \$14.7 million. Dividend and interest income totaled \$28.1 million.
- Retirement benefit payments, including refunds paid to former members, totaled \$115.5 million.



Funded Status

Each year, the Retirement Board conducts an actuarial valuation to determine funding requirements. A retirement system is considered fully funded from an actuarial perspective when there is enough money in reserve to meet all accrued obligations to participants. The funded ratio varies each year driven primarily by investment returns. Fiscal year 2020’s funded ratio of 101.2%, which compares favorably to other public plans, was calculated using June 30, 2020 data. The 6.8% investment return for the year exceeded the 6.75% actuarial rate of return assumption. Assuming all actuarial assumptions are met in the future, the funded ratio is projected to remain at 101% in 2020 and to increase gradually to 107% in ten years.



Investments

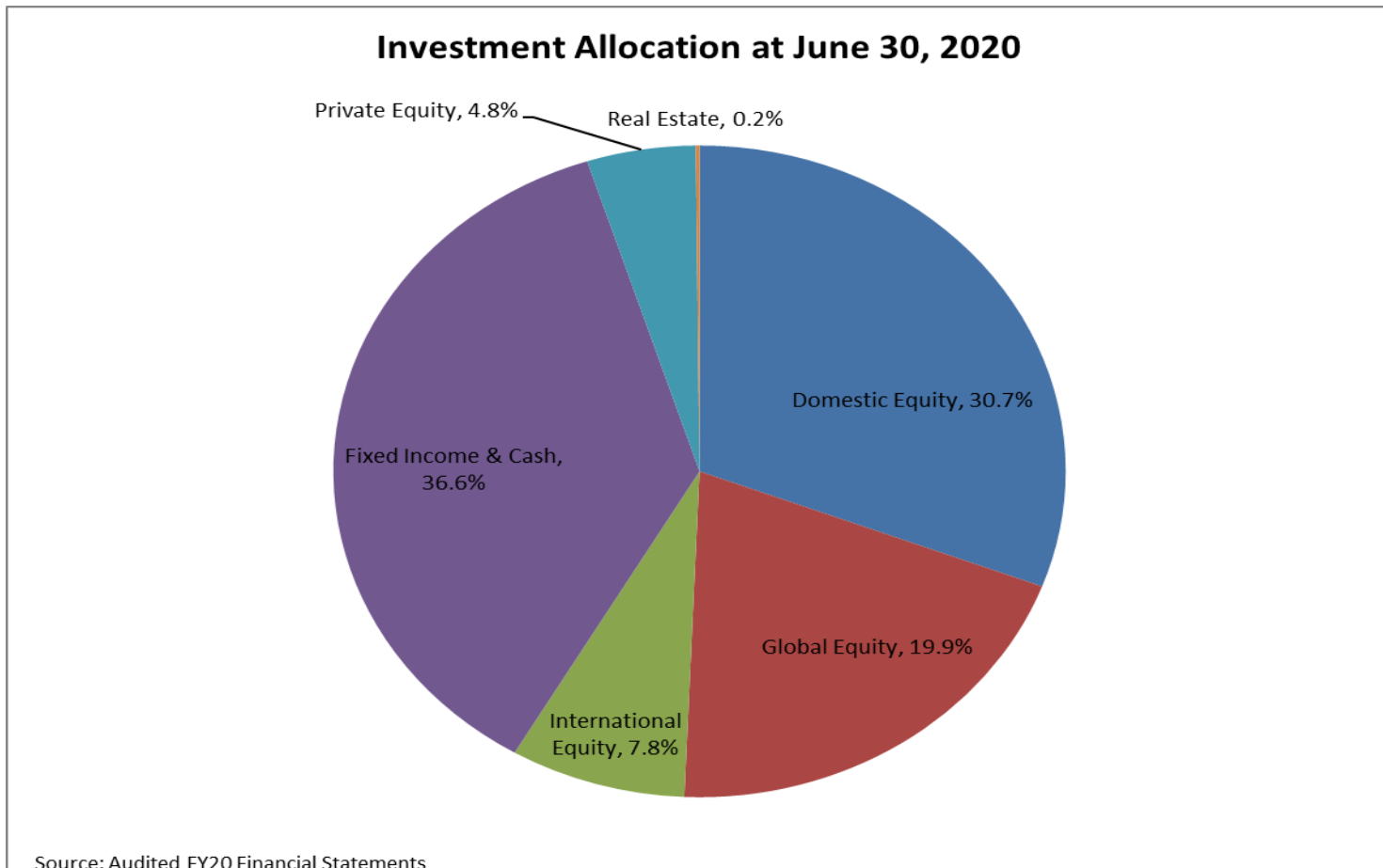
The Retirement Board has adopted a written investment policy under the authority provided by the Arlington County Code. The Board operates with the standard of care required in making investments as stated in the Code of Virginia §51.1-803 which states that “funds... shall be invested with the care, skill, prudence and diligence ... that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with the same aims.” Arlington County Code allows for the engagement of professional investment managers.

The financial markets were mixed as more accommodative monetary policies helped offset concerns about slowing global growth and uncertainty surrounding the US-China trade dispute. The Federal Reserve cut interest rates in July and again in September. European Central Bank also announced additional stimulus.

US-China trade tensions appeared to ease as the quarter progressed amid news that the world’s two largest economies would restart negotiations in October. Fixed income markets were broadly positive. Global equity markets capped off a strong year with gains in the fourth quarter of 2019. A US-China trade agreement marked notable progress in the nearly two-year trade dispute. The Federal Reserve cut interest rates in October and took steps that expanded its balance sheet. Longer term interest rate moved modestly higher and corporate bond spreads narrowed. The rapid spread of the coronavirus across the globe placed strain on health care systems, wreaked havoc on financial markets and economies, and altered nearly every aspect of everyday life and business. Restrictions to control the outbreak dramatically curtailed economic activity. Governments and central banks worldwide responded with unprecedented monetary and fiscal stimulus. The Federal Reserve cut interest rates, resumed bond purchases and revived financial crisis era programs. Stimulus measures helped stocks recover some losses in the final days of March. Fixed income markets were also volatile as interest rates fell to all-time lows, while credit spreads quickly widened. Global equity markets rebounded sharply in the second quarter of 2020. Progress in the development of treatments and vaccines for the coronavirus provided a boost to markets. Fixed Income markets also registered gains as Treasury bond yields moved modestly lower, while credit-oriented bonds rallied alongside stocks.

From an investment perspective, the Board acted at several points during the year to manage the portfolio’s risk/return profile considering developments in the capital markets. The System’s investment portfolio remains well diversified and strives to balance capital preservation in down markets with generating a 6.75% return over the long term.

As of June 30, 2020, the System followed its investment policy guidelines and fixed income investments and cash equivalents totaled 36.6% of assets.



Other Post Employment Benefits

In February 2009, the Retirement Board voted to act as Trustee with investment oversight for two trusts, one for County funds and one for School funds, invested to prefund Other Post-Employment Benefits (OPEB) such as health care. Authority for a local retirement board to act as Trustee for OPEB assets is provided for in Virginia Code §15.2-1547. Additional funding of \$7.0 million for the County trust was made during fiscal year 2020, no contribution was made to the School trust. As of June 30, 2020, the County and School trusts had assets of \$165 million and \$69 million, respectively. These trusts are completely separate and independently managed from Retirement System assets. The OPEB trusts are managed in accordance with an Investment Policy Statement tailored to their needs. Detailed financial reporting for the OPEB trusts is included in the County and School annual financial reports.

Website Updates

The Retirement Office posts fund updates quarterly providing information on investment balances, performance and asset allocation. In addition, the website contains information such as Retirement Board meeting agendas, meeting minutes, System history and contact information. A detailed description of the two offices responsible for the System — Investment and Benefits — is also included. To reach the site directly, please visit www.careers.arlingtonva.us/retirement-investment-office

Detailed Information

The tables that follow provide additional detailed information. Specifically:

- Table 1 – Investment Performance
- Table 2 – Plan Net Assets
- Table 3 – Asset Allocation
- Table 4 – Contribution Analysis
- Table 5 – Participant Data

Table 1
Arlington County Employees' Retirement System
Investment Performance Summary
(Returns for periods greater than one year are annualized)

	Fiscal Year Ended June 30							
	10 Years	5 Years	3 Years	2016	2017	2018	2019	2020
Investment Performance (net of fees)								
Total Fund⁽¹⁾ (Benchmark)	8.8%	6.7%	7.1%	0.0%	12.7%	7.8%	6.8%	6.6%
<i>Domestic Equities (Russell 3000)</i>	11.2%	7.4%	7.2%	0.4%	15.3%	10.2%	11.0%	0.7%
<i>Global Equities (MSCI AC World)</i>	14.7%	12.9%	14.4%	-3.5%	26.9%	18.3%	3.1%	22.7%
<i>International Equities (MSCI AC World ex-US)</i>	4.8%	0.6%	-2.6%	-9.2%	22.7%	5.9%	-5.8%	-7.3%
<i>Fixed Income (Fixed Income)</i>	4.5%	3.9%	4.3%	3.9%	2.5%	0.3%	6.9%	6.0%
Benchmark Performance								
Total Fund⁽²⁾	8.2%	6.5%	6.7%	1.5%	11.1%	7.1%	7.5%	5.5%
<i>Russell 3000</i>	13.7%	10.0%	10.0%	2.1%	18.5%	14.8%	9.0%	6.5%
<i>MSCI AC World</i>	9.2%	6.5%	6.1%	-3.7%	18.8%	10.7%	5.7%	2.1%
<i>MSCI AC World ex-US</i>	5.0%	2.3%	1.1%	-10.2%	20.5%	7.3%	1.3%	-4.8%
<i>Fixed Income⁽³⁾</i>	4.1%	4.4%	5.2%	5.8%	0.9%	-0.3%	8.0%	7.9%
CPI + 3.75% Annualized ⁽⁴⁾	5.3%	5.3%	5.5%	4.5%	5.4%	6.6%	5.4%	4.4%
Actuarial Assumed Rate of Return				7.25%	6.75%	6.75%	6.75%	6.75%

⁽¹⁾ Includes cash and alternative investment performance though returns for these asset classes are not listed separately

⁽²⁾ 40% RU 3000, 17.5% MSCI AC World ex-US, 39% BC Universal, 1.5% BC TIPS & 2% 90 Day T-Bill

Prior to 10/1/07, 43% RU 3000, 14% EAFE, 38% BC Aggregate & 5% 90 Day T-Bill

⁽³⁾ Weights fixed income benchmark components to 100%

⁽⁴⁾ 3.75% as of 7/1/16, 3.5% prior

Table 2
Plan Net Assets for Year Ended June 30

	2016	2017	2018	2019	2020
Beginning	\$ 1,995.1	\$ 1,963.5	\$ 2,173.9	\$ 2,303.1	\$ 2,413.3
Additions	65.4	311.8	236.1	222.9	231.4
Deductions	97.0	101.4	106.9	112.7	117.5
Net Change	(31.6)	210.4	129.2	110.2	113.9
Year End	\$ 1,963.5	\$ 2,173.9	\$ 2,303.1	\$ 2,413.3	\$ 2,527.2

Table 3
Asset Allocation at June 30, 2020

<u>Asset Class</u>	<u>Millions</u>	<u>% of fund</u>
Domestic Equity	\$777.0	30.7%
Global Equity	\$503.5	19.9%
International Equity	\$196.2	7.8%
Fixed Income & Cash	\$925.2	36.6%
Private Equity	\$121.4	4.8%
Real Estate	\$4.1	0.2%
Total Assets	\$2,527.4	100.0%

Note: Residual cash held by investment managers is included in the total for each asset class. This allocation data does not include operating accruals reflected in Tables 2 and 5.

Table 4
Contribution Analysis for Year Ended June 30
(\$ amounts in millions)

<i>(Dollars in millions)</i>	2013	2014	2015	2016	2017	2018	2019	2020
Estimated Covered Payroll	\$222.6	\$231.2	\$231.2	\$245.9	\$252.6	\$263.7	\$269.2	\$285.2
Total Employer Contribution	\$48.0	\$53.7	\$58.2	\$54.5	\$51.8	\$54.9	\$56.7	\$59.9
Total Employee Contribution	\$11.4	\$11.9	\$12.2	\$12.3	\$12.7	\$12.9	\$13.0	\$14.7
Employer/Employee Contribution	4.2	4.5	4.8	4.4	4.1	4.2	4.3	4.1
Unfunded Actuarial Liability	\$151.2	\$106.1	\$20.2	\$9.1	(\$58.0)	(\$96.4)	\$3.5	(\$29.7)

Table 5
Participant Data and Ratios for Year Ended June 30

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Participant Data										
Active Employees	3,575	3,610	3,550	3,554	3,533	3,566	3,576	3,531	3,521	3,539
Deferred Vested Members	277	326	358	500	548	559	584	631	665	693
Retirees	3,725	3,764	3,833	3,882	3,945	3,909	4,004	4,085	4,113	4,271
Retirees as a % of Active Employees	104.2%	104.3%	108.0%	109.2%	111.7%	109.6%	112.0%	115.7%	116.8%	120.7%
Retirement Benefits Paid (millions)	\$75.0	\$77.4	\$81.4	\$85.3	\$88.9	\$94.0	\$98.7	\$104.2	\$109.6	\$114.4
Average Benefit Payment (\$/month)										
Chapter 21	\$2,553	\$2,599	\$2,671	\$2,756	\$2,831	\$2,898	\$2,967	\$3,049	\$3,135	\$3,239
Chapter 35 (Supplement)	\$664	\$771	\$793	\$813	\$832	\$846	\$854	\$869	\$885	\$896
Chapter 46 ⁽¹⁾	\$1,383	\$1,559	\$1,659	\$1,741	\$1,842	\$1,952	\$2,033	\$2,132	\$2,210	\$2,286
Investment Data										
Net Assets, Market Value (millions)	\$1,535.8	\$1,517.3	\$1,696.8	\$1,979.6	\$1,995.0	\$1,963.5	\$2,173.8	\$2,303.1	\$2,413.3	\$2,527.2
Ratio: Net Assets/ Benefits Paid	20.5	19.6	20.8	23.2	22.4	20.9	22.0	22.1	22.0	22.1

(1)The averages for Chapter 46 retirees is impacted by several factors: This Chapter is relatively new; disability retirees significantly affect the average and there is blending of VRS and non-VRS members' benefits.

About the Arlington County Retirement System

Benefit Provisions

The System provides normal and early service retirement benefits for members who attain age and service requirements as specified in the County Code. Coverage for service-connected disability benefits is immediate upon membership in the System. Ordinary, non-service related disability benefits are provided after the attainment of two years of service. Members are vested in the System after five years of service and are then eligible for benefits at their normal retirement date.

Arlington's Human Resources department provides an annual benefit statement to each member. Throughout the year, they provide counseling to all benefit applicants and to others requesting counseling and makes presentations at new employee orientations and at various employee group meetings and training sessions. All retirement handbooks and forms are available in the Human Resources office and on the web site at www.careers.arlingtonva.us/retirement-investment-office.

History

The System was established as a defined benefit plan under authority of an act of the General Assembly of Virginia in Chapter 21 of the Code of the County (for Uniform and General Employees) as of December 21, 1953 and in Chapter 35 (for School Board Employees) as of January 1, 1969. System provisions were modified and all County employees hired on or after February 8, 1981 are covered by the provisions of Chapter 46 of the Code of the County. While different County employees have different benefits depending on their date of hire or type of employment, the System utilizes a single Fund for all participants and there is no segregation of assets for individual classes of employees. A formal Trust was adopted for the System as of December, 2001 and all assets are now held under the Trust.

On November 16, 2004, amendments to Arlington County Code Chapters 21, 35, and 46 were made to transfer the administrative responsibilities of these Chapters to the County Manager with investment management responsibility remaining with the Retirement Board.

Arlington County Employees' Retirement System Board of Trustees
(as of December 2020)

	<u>Trustees</u>	<u>Term Expires</u>
Jonathan Kinney, President	Appointed by the County Board	1/31/2021
Richard Alt, Vice President	Elected by Retired Employees	1/31/2023
Michelle Cowan, Treasurer	Appointed by the County Manager	1/31/2023
Jimmie Barrett, Secretary	Elected by Uniformed Employees	1/31/2023
Michael-dharma Irwin	Elected by General Employees	1/31/2021
William Ross, Assistant Treasurer	Appointed by the County Board	1/31/2021
Barbara Donnellan	Appointed by the County Board	1/31/2021

Substitute Trustees

Emily Hughes	Elected by General Employees	1/31/2021
Brian Lynch	Elected by Uniformed Employees	1/31/2023
Carl Newby	Elected by Retired Employees	1/31/2023

Investment Staff

Daniel Zito, Executive Director/Chief Investment Officer
Randee Stenroos, Assistant Director/Pension Investment Officer
Katrina Milne, Investment Analyst
Stephen Euell, Accountant and Office Manager

2021 Retirement Board Meetings

Retirement Board meetings, except for the portions held in executive session, are open to the public. Meetings are scheduled for 8:00 a.m. in One Courthouse Plaza on the following dates:

January 9 ⁽¹⁾	April 1	July 8	October 7
February 4	May 6	August 5 (tentative)	November 4
March 4	June 3	September 2	December 2

⁽¹⁾ Trustee Training

NOTICE: The Code of the County requires that a summary of the Annual Report of Arlington County Employees' Retirement System (System) be provided to members of the System each year. In accordance with the Code, this issue of the Newsletter becomes the summary for fiscal year ended June 30, 2020. Complete copies of the audited Comprehensive Annual Financial Report, which was issued in December, can be found on the retirement web site at www.careers.arlingtonva.us/retirement-investment-office and copies are available for inspection in the Retirement Office, at the Central Public Library and at the Government Reference Library.