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I. OVERVIEW

Arlington’s County Employees Retirement System (“ACERS” or “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 Chapter 46 of the Code of the County. While different County employees have other benefits depending on their date of hire or type of employment, the System utilizes a single Fund for all participants. 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. In 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.

The System provides regular and early service retirement benefits for members who attain age and service requirements 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 eligible for benefits at their normal retirement date.

Arlington’s Human Resources department provides an annual benefit statement to each member. They provide counseling to all benefit applicants and others requesting counseling throughout the year and make presentations at new employee orientations and various employee group meetings and training sessions. All retirement handbooks and forms are available in the Human Resources office and on the [Retiree Resources Website – Official Website of Arlington County Virginia Government \(arlingtonva.us\)](#).

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 Retirement Investment Office – Official Website of Arlington County Virginia Government (arlingtonva.us)

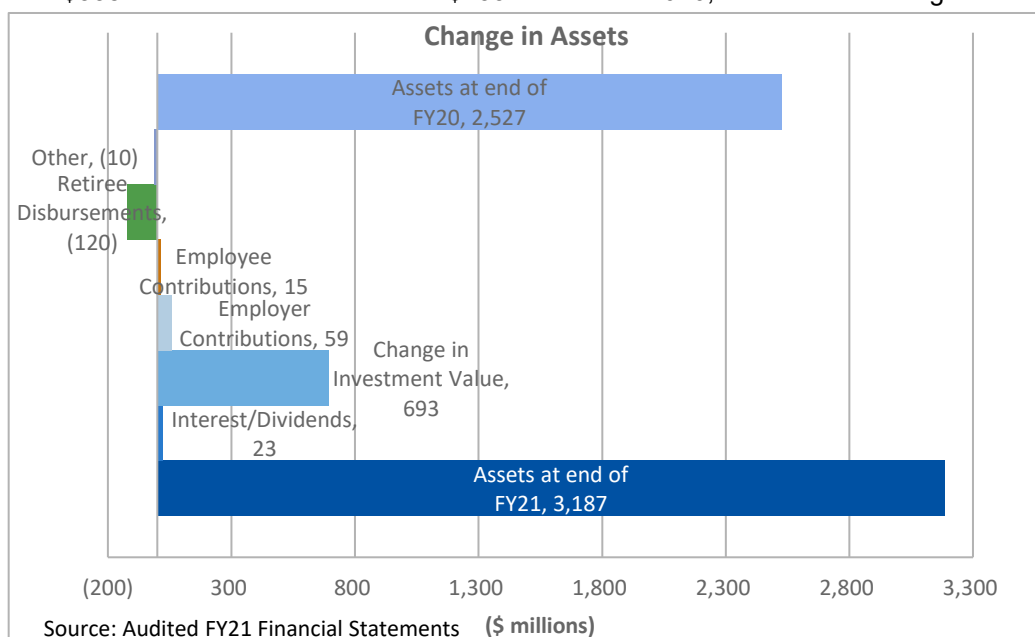
Arlington's County Employees Retirement System ("ACERS" or "System") remains financially and actuarially sound. The System's position results from regular contributions from members and Arlington County combined with better than average investment returns over the long term. With \$3,187 million in net assets on June 30, 2021, and funded status of 108.4%, the System remains well-positioned to meet its obligations.

This summary presents the financial and investment highlights of the System for the fiscal year ending June 30, 2021.

II. FINANCIAL HIGHLIGHTS

For the year ended June 30, 2021:

- System net position totaled \$3.188 billion, increasing \$661 million, or 26.1% from the past fiscal year. The net position includes county and member contributions, interest and dividends on the System investments, and benefit payments primarily drive investment gains/losses; deductions to assets.
- Employer contributions totaled \$59.6 million, and employee contributions totaled \$14.8 million. Dividend and interest income totaled \$22.9 million.
- The investment returns, including dividends and interest, of 28.3% for the year outperformed the 23.2% benchmark. The Fund's allocation to and within equities contributed to results. The System's investment portfolio is well-diversified and strives to balance capital preservation in down markets with an adequate risk-adjusted return over the long term.
 - Investment gains, which include realized and unrealized changes in investment portfolio fair value, were \$693.4 million in the fiscal year 2021, given the 28.3% earned in the fiscal year. This was a \$558.2 million increase from the \$135.2 million in 2020, and this outsized gain is not

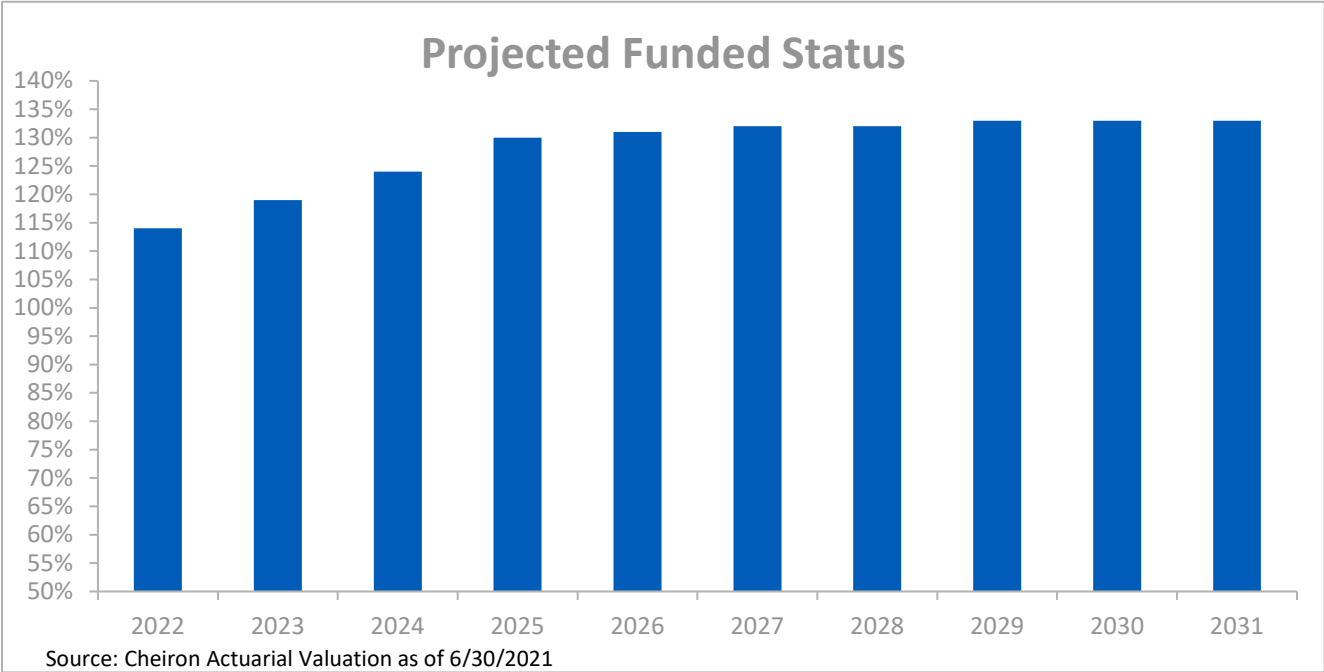


expected.

- Retirement benefit payments, including refunds paid to former members, totaled \$119.9 million.

III. 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 the reserve to meet all accrued obligations to participants. The funded ratio varies each year, driven primarily by investment returns. The fiscal year 2021's funded ratio of 108.4%, which compares favorably to other public plans, was calculated using June 30, 2021 data. The 28.3% 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 be at 114% in 2022 and to increase gradually to 133% in ten years.



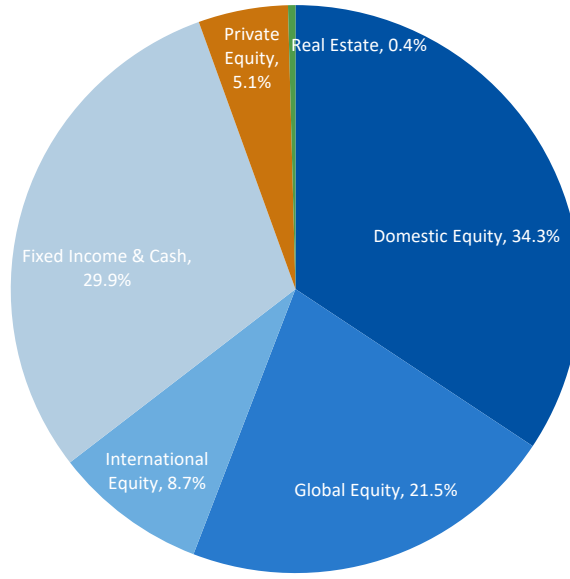
IV. INVESTMENTS

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 says 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.

Global equity markets continued the historic rally from lows set in March 2020. Markets were supported by recovering earnings projections, driven by massive monetary and fiscal stimulus from central banks and governments across the globe and optimism around coronavirus treatments and vaccines during the first half of the fiscal year. The second half of the fiscal year continued the momentum supported by rising economic and earnings growth forecasts, progress in vaccine rollouts, and additional fiscal stimulus in the US. However, concerns emerged at the fiscal year-end over the trajectory of economic growth, inflation, monetary, fiscal policy, and an uptick in COVID cases and variants. The recovery continued to progress but is fragile given the risks to the continued economic rebound coupled with persistent high equity valuations resulting in more volatility ahead.

As of June 30, 2021, the System's assets were allocated:

Investment Allocation at June 30, 2021



Source: Audited FY21 Financial Statements

For the fiscal year ended June 30, 2021, the System net return of 28.3% compared to a benchmark return of 23.2%. This performance is above the 26.9% median return of the TUCS Public Plan Universe, placing the System in the 29th percentile of public plans for the year. Over the long term, the System outperformed its benchmarks and ranks in the top third of public fund peers. Contributing to the System's fiscal year results were the underweight fixed income and overweight equity relative to the policy benchmark and selection within the equity portfolio.

Other Post Employment Benefits (OPEB)

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, in investing to prefund Other Postemployment Benefits (OPEB) such as post-retirement health care. Authority for a local retirement board to act as Trustee for OPEB assets is provided in Virginia Code §15.2-1547. Additional funding of \$7.5 million and \$2.6 million for the County and School trusts, respectively, was made in 2021. As of June 30, 2021, the County and School trusts had \$215.1 million and \$89.3 million, respectively. These trusts are separate and independently managed from Retirement System assets. The OPEB trusts are managed by an Investment Policy Statement tailored to their needs.

V. APPENDIX

The tables that follow provide additional detailed information: 1) Investment Performance, 2) Plan Net Assets, 3) Asset Allocation, 4) Contribution Analysis, and 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 | 2017 | 2018 | 2019 | 2020 | 2021 |
| <u>Investment Performance (net of fees)</u> | | | | | | | | |
| Total Fund⁽¹⁾ (Benchmark) | 9.3% | 12.2% | 13.5% | 12.7% | 7.8% | 6.8% | 6.6% | 28.3% |
| <i>Domestic Equities (Russell 3000)</i> | 11.6% | 14.3% | 15.3% | 15.3% | 10.2% | 11.0% | 0.7% | 37.1% |
| <i>Global Equities (MSCI AC World)</i> | 16.1% | 24.1% | 25.1% | 26.9% | 18.3% | 3.1% | 22.7% | 55.0% |
| <i>International Equities (MSCI AC World ex-US)</i> | 6.2% | 10.4% | 8.0% | 22.7% | 5.9% | -5.8% | -7.3% | 44.3% |
| <i>Fixed Income (Fixed Income)</i> | 3.7% | 3.4% | 4.7% | 2.5% | 0.3% | 6.9% | 6.0% | 1.6% |
| <u>Benchmark Performance</u> | | | | | | | | |
| Total Fund⁽²⁾ | 8.5% | 10.7% | 11.8% | 11.1% | 7.1% | 7.5% | 5.5% | 23.2% |
| <i>Russell 3000</i> | 14.7% | 17.9% | 18.7% | 18.5% | 14.8% | 9.0% | 6.5% | 44.2% |
| <i>MSCI AC World</i> | 9.9% | 14.6% | 14.6% | 18.8% | 10.7% | 5.7% | 2.1% | 39.3% |
| <i>MSCI AC World ex-US</i> | 5.4% | 11.1% | 9.4% | 20.5% | 7.3% | 1.3% | -4.8% | 35.7% |
| <i>Fixed Income⁽³⁾</i> | 3.7% | 3.4% | 5.5% | 0.9% | -0.3% | 8.0% | 7.9% | 1.3% |
| CPI + 3.75% Annualized ⁽⁴⁾ | 5.5% | 6.2% | 6.3% | 5.4% | 6.6% | 5.4% | 4.4% | 9.1% |
| Actuarial Assumed Rate of Return | | | | 6.75% | 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

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------|------------------|------------------|------------------|------------------|------------------|
| Beginning | \$1,963.5 | \$2,173.9 | \$2,303.1 | \$2,413.3 | \$2,527.2 |
| Additions | 311.8 | 236.1 | 222.9 | 231.4 | 782.5 |
| Deductions | 101.4 | 106.9 | 112.7 | 117.5 | 121.9 |
| Net Change | 210.4 | 129.2 | 110.2 | 113.9 | 660.6 |
| Year End | \$2,173.9 | \$2,303.1 | \$2,413.3 | \$2,527.2 | \$3,187.9 |

Table 3**Asset Allocation on June 30, 2021**

| <u>Asset Class</u> | <u>Millions</u> | <u>% of fund</u> |
|---------------------------|------------------------|-------------------------|
| Domestic Equity | \$1,094.2 | 34.3% |
| Global Equity | \$685.6 | 21.5% |
| International Equity | \$277.9 | 8.7% |
| Fixed Income & Cash | \$954.3 | 29.9% |
| Private Equity | \$162.4 | 5.1% |
| Real Estate | \$13.4 | 0.4% |
| Total Assets | \$3,187.8 | 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> | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------------------------|---------|---------|---------|---------|---------|----------|----------|---------|----------|-----------|
| Estimated Covered Payroll | \$225.2 | \$222.6 | \$231.2 | \$231.2 | \$245.9 | \$252.6 | \$263.7 | \$269.2 | \$285.2 | \$276.9 |
| Total Employer Contribution | \$46.3 | \$48.0 | \$53.7 | \$58.2 | \$54.5 | \$51.8 | \$54.9 | \$56.7 | \$59.9 | \$59.6 |
| Total Employee Contribution | \$11.0 | \$11.4 | \$11.9 | \$12.2 | \$12.3 | \$12.7 | \$12.9 | \$13.0 | \$14.7 | \$14.8 |
| Employer/Employee Contribution | 4.2 | 4.2 | 4.5 | 4.8 | 4.4 | 4.1 | 4.2 | 4.3 | 4.1 | 4.0 |
| Unfunded Actuarial Liability | \$75.3 | \$151.2 | \$106.1 | \$20.2 | \$9.1 | (\$58.0) | (\$96.4) | \$3.5 | (\$29.7) | (\$213.5) |

Table 5**Participant Data and Ratios for Year Ended June 30**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Participant Data | | | | | | | | | | |
| Active Employees | 3,610 | 3,550 | 3,554 | 3,533 | 3,566 | 3,576 | 3,531 | 3,521 | 3,539 | 3,516 |
| Deferred Vested Members | 326 | 358 | 500 | 548 | 559 | 584 | 631 | 665 | 693 | 706 |
| Retirees | 3,764 | 3,833 | 3,882 | 3,945 | 3,909 | 4,004 | 4,085 | 4,113 | 4,271 | 4,218 |
| Retirees as a % of Active Employees | 104.3% | 108.0% | 109.2% | 111.7% | 109.6% | 112.0% | 115.7% | 116.8% | 120.7% | 120.0% |
| Retirement Benefits Paid (millions) | \$77.4 | \$81.4 | \$85.3 | \$88.9 | \$94.0 | \$98.7 | \$104.2 | \$109.6 | \$114.4 | \$119.7 |
| Average Benefit Payment (\$/month) | | | | | | | | | | |
| Chapter 21 | \$2,599 | \$2,671 | \$2,756 | \$2,831 | \$2,898 | \$2,967 | \$3,049 | \$3,135 | \$3,239 | \$3,346 |
| Chapter 35 (Supplement) | \$771 | \$793 | \$813 | \$832 | \$846 | \$854 | \$869 | \$885 | \$896 | \$911 |
| Chapter 46 ⁽¹⁾ | \$1,559 | \$1,659 | \$1,741 | \$1,842 | \$1,952 | \$2,033 | \$2,132 | \$2,210 | \$2,286 | \$2,392 |
| Investment Data | | | | | | | | | | |
| Net Assets, Market Value (millions) | \$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 | \$3,187.9 |
| Ratio: Net Assets/ Benefits Paid | 19.6 | 20.8 | 23.2 | 22.4 | 20.9 | 22.0 | 22.1 | 22.0 | 22.1 | 26.6 |

(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.