

Response to Questions on the Retirement System Review

Request By: Supervisor Foust

Question: How do the retirement systems benchmark investment performance?

Response: The Boards of Trustees for the Fairfax County Employees' (ERS), Police Officers (PORS), and Uniformed (URS) Retirement Systems have adopted a risk-balanced investment approach to achieving the return objectives of the Systems. The investment philosophy seeks to broadly diversify the investment portfolio's risk exposures, in order to deliver as smooth a return pattern as possible through the course of the business cycle.

The overall return objective of each System is to earn a total return equal to or greater than the rate assumed in determining the actuarially required funding, within a risk tolerance determined by the Board of Trustees. Each System currently has a long-term actuarial total return assumption of 7.25%, after fees and expenses. This actuarial assumption includes an assumed rate of inflation of 2.75%.

Over a full market cycle, each system's investment returns (net of management fees) should exceed the system's Investment Policy Benchmark, which is weighted according to each System's target asset allocation. The net-of-fees performance of each asset class will also be measured against an appropriate benchmark of asset classes as outlined in each system's Investment Policy Statement. The effectiveness of each of the Systems' investment manager selections shall be evaluated by comparing the returns of their investment portfolios with the returns of the appropriate benchmark index.

Through December 31, 2016, the Employees', Police Officers and Uniformed systems have all exceeded their Investment Policy Benchmarks on a 10-year basis. In addition, BNY Mellon, the systems' Custodian Bank, calculates the performance of each system and compares it to a peer group of U.S. public pension plans. For the 10-year period ending 12/31/2016, the annualized returns for each system were as follows:

ERS: 5.92% (top 14% of peer group)
PORS: 5.87% (top 16% of peer group)
URS: 5.17% (top 56% of peer group)

Ultimately, each System is trying to achieve the 7.25% actuarial assumed rate of return. The above time period includes the 2008 global financial crisis; however, in the time periods since, the systems' returns exceeded this 7.25% threshold, as seen in the chart on the following page:

