

Richmond Retirement System (RRS)
Presentation to
Organizational Development Committee
November 6, 2023



Today's Agenda

- ▶ Investment Performance
- ▶ Asset Liability Management
- ▶ Asset Allocation
- ▶ Diversified Portfolios and Volatility
- ▶ Membership Composition
- ▶ Actuarial Data
- ▶ Contributions
- ▶ Conclusion
- ▶ Appendix – Investment Portfolio Initiatives

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Portfolio Initiatives

- ▶ The Appendix contains information related to a major restructuring of the RRS investment portfolio

Financial Summary – Investment Performance

- ▶ Investment returns, net-of-fees, at June 30, 2023:
 - 1 year, 5.7%
 - 3 years, 7.0%
 - 10 years, 6.4%
- ▶ Since the 2020 restructure, the portfolio has outperformed its benchmark by 0.9% annualized
- ▶ The trailing 10 years includes seven years under the prior target allocations. Since that time results are much improved during a difficult market environment.

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Asset/Liability Management

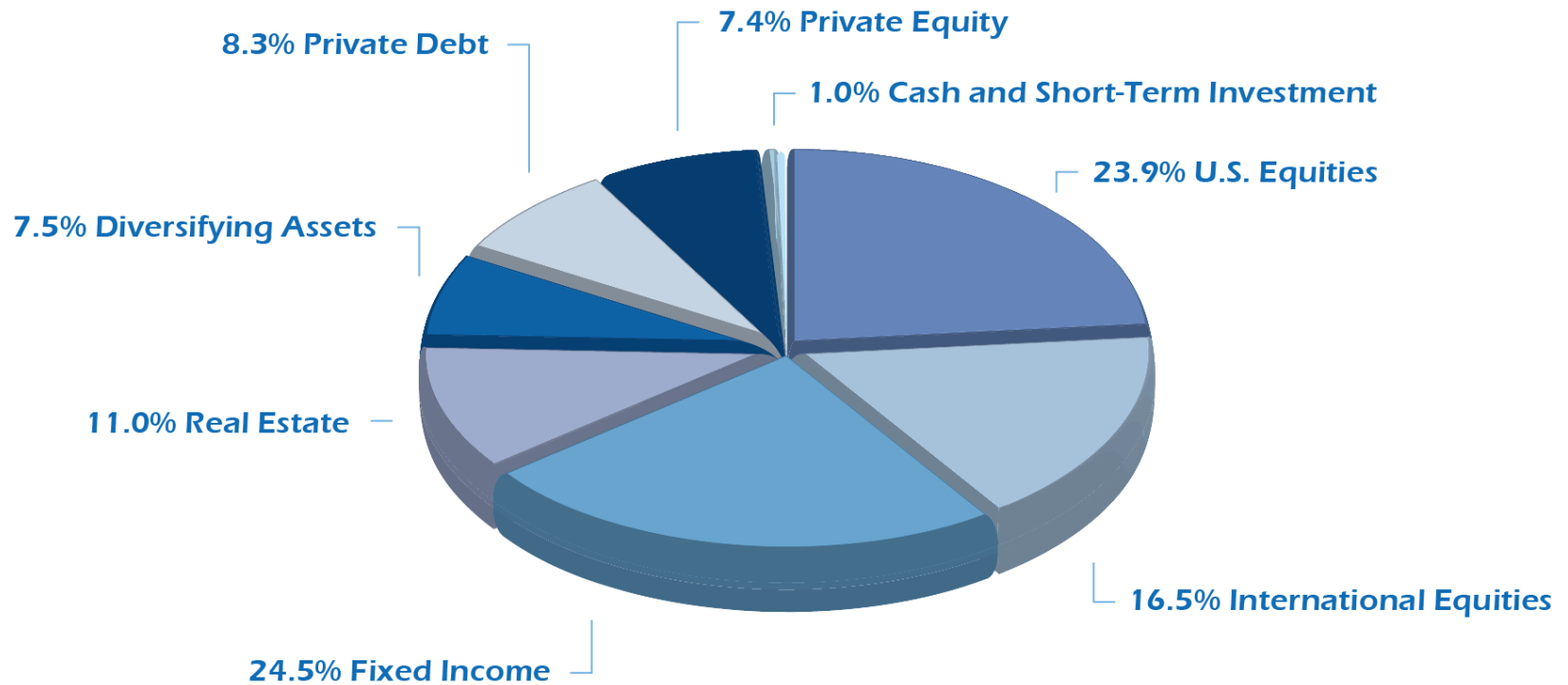
- ▶ Asset/Liability Management (ALM) is the process of managing assets and cash flows to the actuarial pension liability to manage the organization's risk
- ▶ RRS became a partially closed pension plan on July 1, 2006, which is *unique*. RRS' pension liability is very different than other governmental pension plans
- ▶ RRS uses ALM to manage its investment assets to reduce risk and manage volatility of the dollar value of employer contributions

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Asset Allocation at June 30, 2023



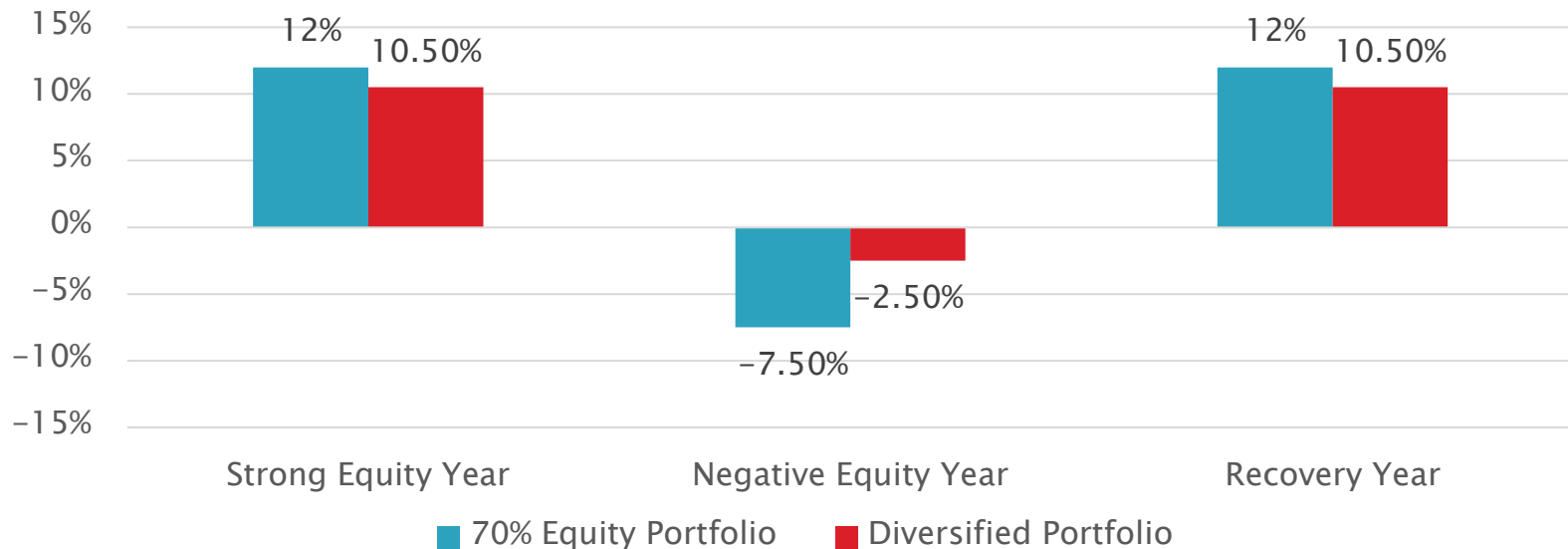
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Volatility

Less Volatility Can Result in Higher Long Term Dollar Returns



- **Lower** volatility portfolios can result in **greater** portfolio values during tumultuous market environments. Compounding asset values, over time, matters.

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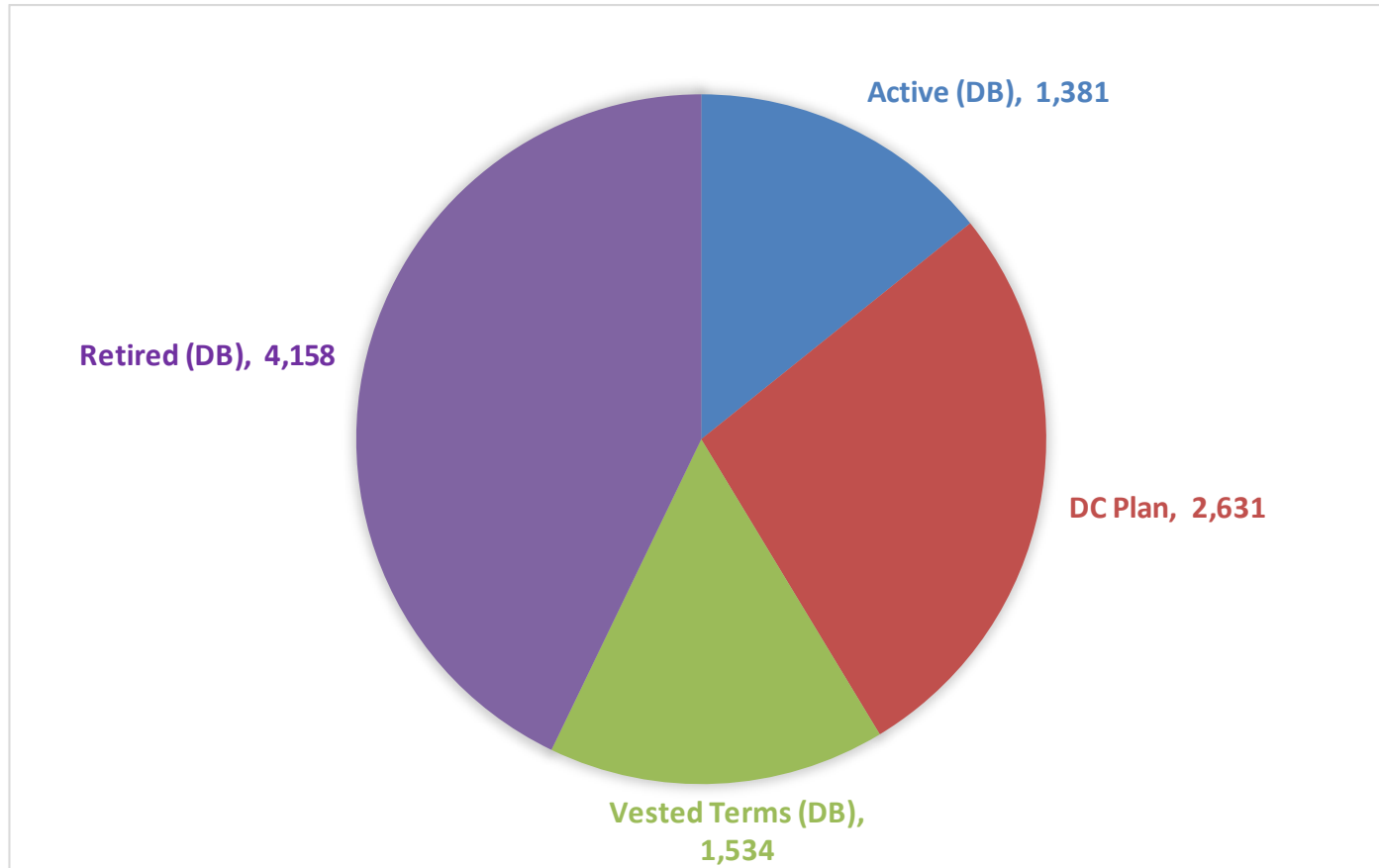
Financial Summary – Actuarial

- ▶ Funded status is 65.0% as of 6/30/23 up from 64.5% in 2022
- ▶ At 65.0%, the funded status is over 15% higher than it was in 2009, during the Great Financial Crisis
- ▶ Net Pension Liability is \$345.3 million at 6/30/23
- ▶ According to S&P Global Ratings, the median funded ratio for the 20 largest U.S. cities is 70.6% in 2022

Financial Summary – Actuarial

- ▶ The primary reasons for the increase in the System's funded status to 65.0% are a positive investment return and a significant increase in contributions resulting from higher salaries.

Membership Composition

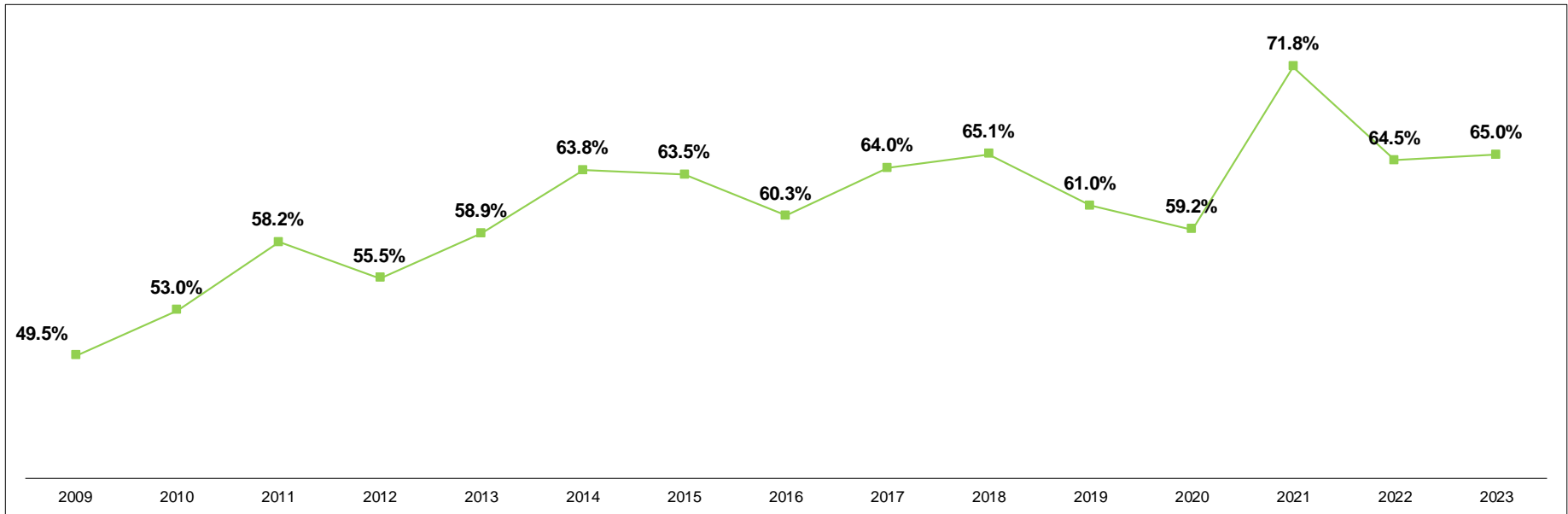


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Funded Status



The funded status has improved by over 15% since 2009 and continues to trend upward over time. The assumed rate of return has been reduced by 1%, and new mortality tables have been adopted, over this time period.

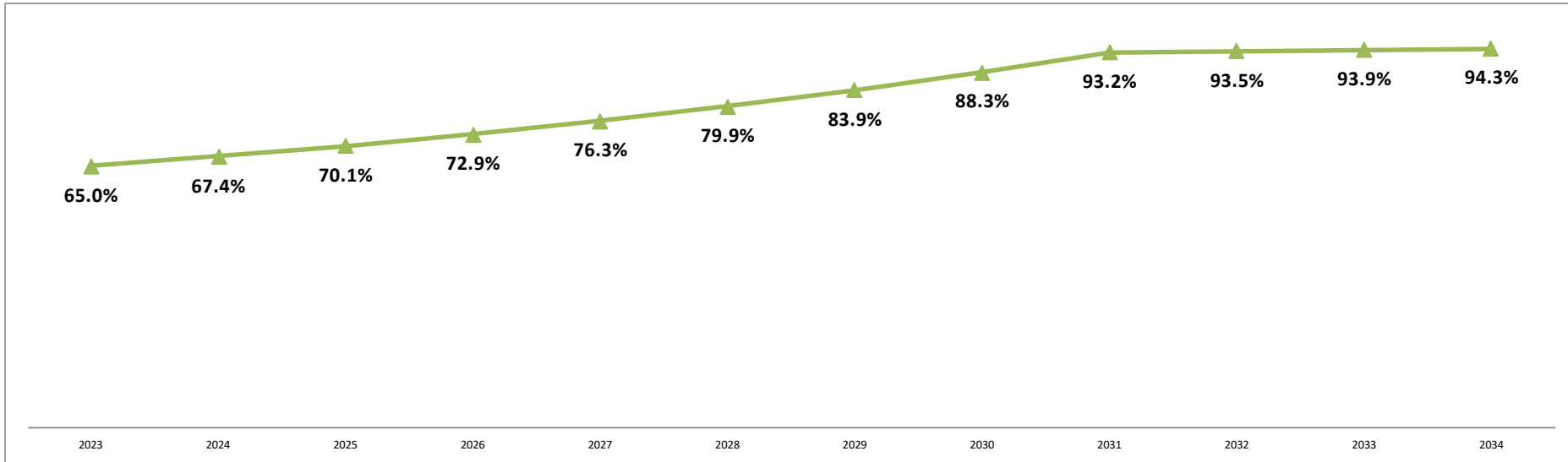
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Projected Funded Status

Fiscal Years Ended June 30



The funded status is projected to improve significantly over a decade, if all current assumptions are realized (actual results will vary)

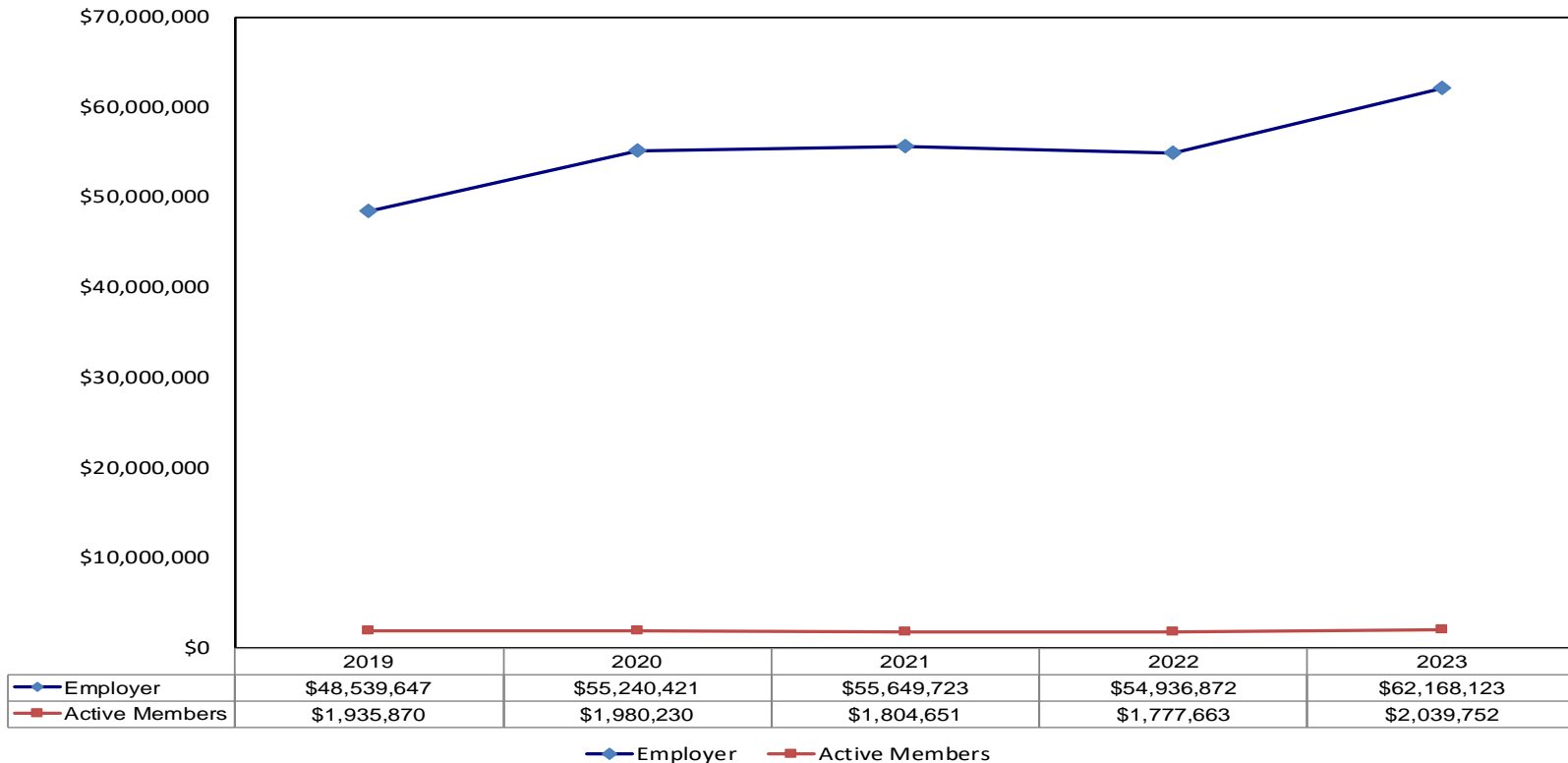
- 7.0% assumed investment return
- No future benefit enhancements or ad hoc retiree COLAs are included in the projections
- Assumes the employer(s) continues to fully fund the actuarially determined contribution

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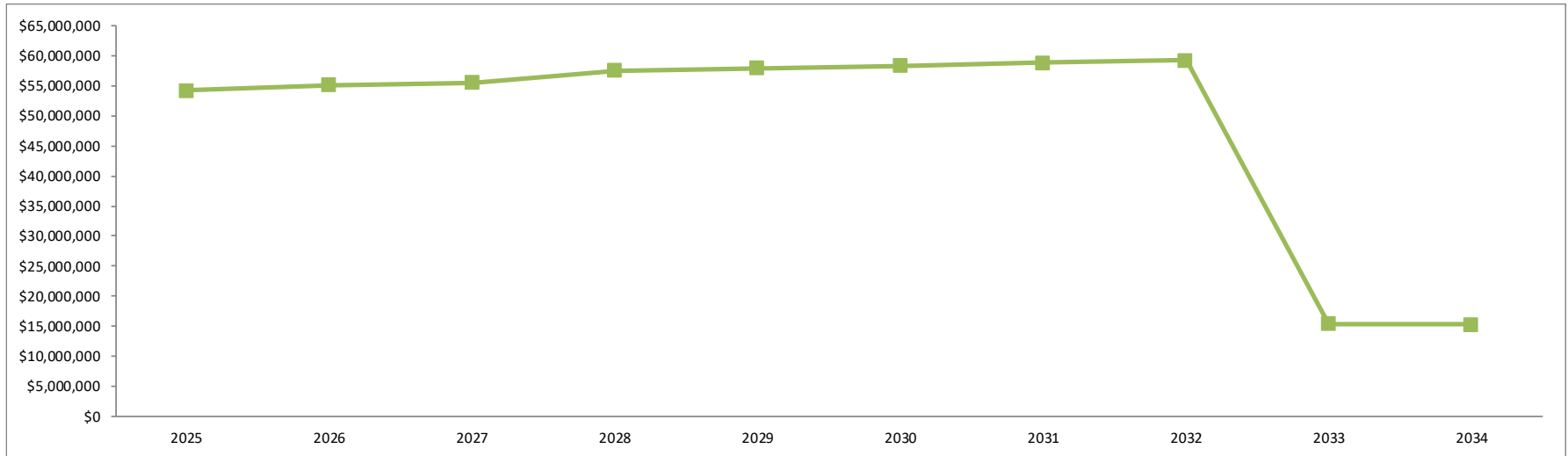
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Contributions



The City provides most of the funding for the DB Plan. In addition, the City contributed \$6.2 million to the 401(a) DC Plan in FY 2023.

Projected Employer Contributions Fiscal Years Ended June 30



Employer contributions are projected to exceed \$50 million annually through 2032 and then decline once the legacy unfunded liability is paid off.

- 7.0% assumed investment return
- No future benefit enhancements or ad hoc retiree COLAs included in the projections
- Assumes the employer(s) continues to fully fund the actuarially determined contribution

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Conclusion

- ▶ Restraint should be exercised with respect to benefit enhancements
- ▶ The City should continue to fully fund the Actuarially Determined Contribution (ADC)
- ▶ A sharp decline in contributions is projected in 2033
- ▶ Funded status is actuarially projected to exceed 90% in less than a decade

Questions?

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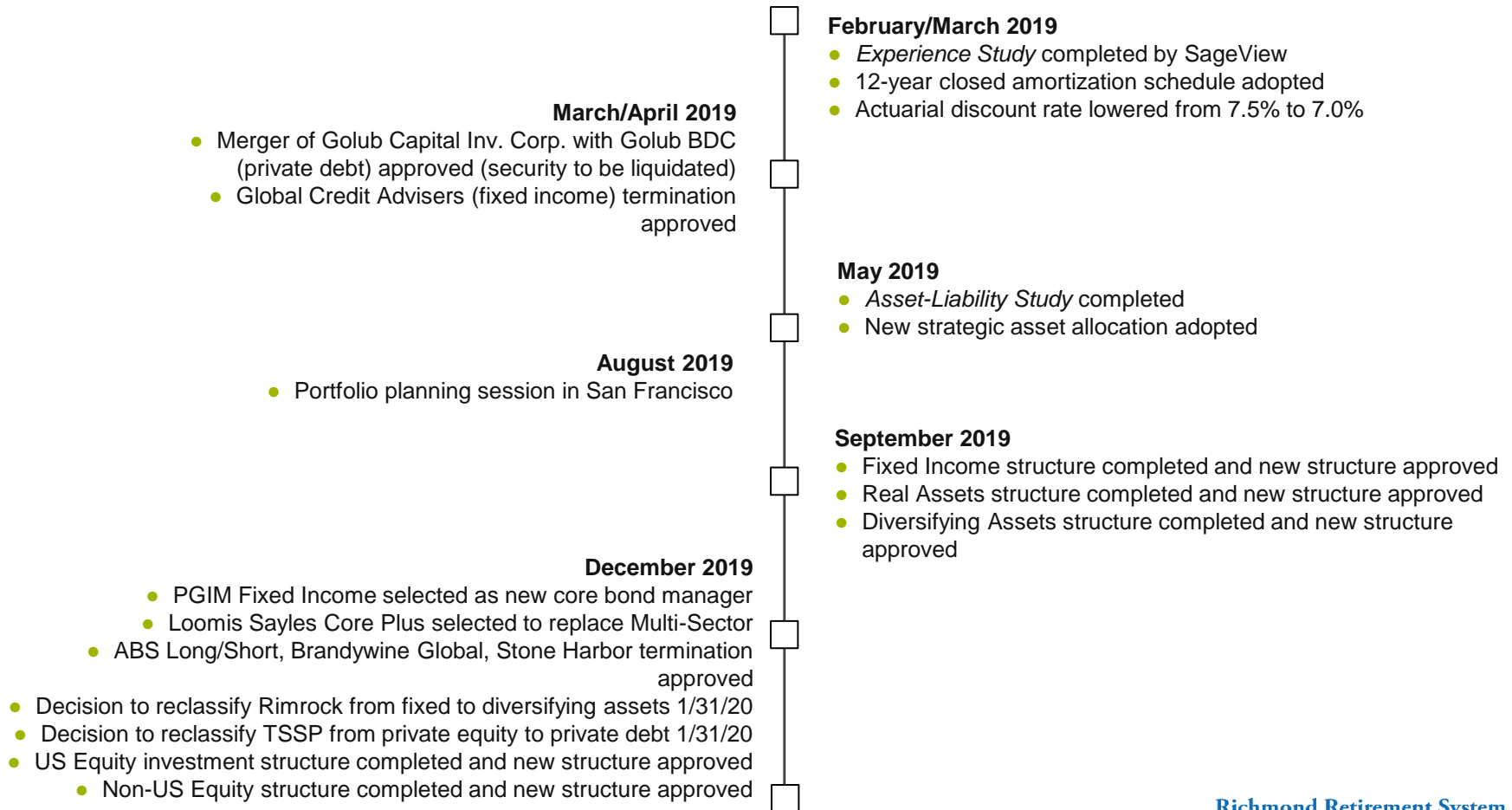
Appendix – Investment Portfolio Restructuring by Year

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Timeline of 2019 Decisions & Transitions



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Timeline of 2020 Decisions & Transitions

March/April 2020

- William Blair Large Cap Growth funded
- Victory Sycamore selected as small cap value US equity manager
- Brown Advisory selected as small cap growth US equity manager
 - Fidelity SMID termination approved
- Northern Trust selected as Russell 1000 passive index fund provider
- CD&R private equity approved; docs complete; GP accepted commitment
 - Exit securities lending program approved
 - Portfolio and performance review

May 2020

- WCM selected as ACWI ex-US equity manager
- Acadian Int'l All Cap IMI transition to Acadian ACWI ex-US approved
 - Axiom EM and Allianz EM termination approved
- Victory Sycamore CIT and Brown Advisory MF funded
 - Portfolio and performance review

October - December 2020

- \$10mm commitment to CarVal Credit Value V approved (Private Credit)
- \$7.5mm commitment to HPS Specialty Loan Fund approved (Private Credit)
 - \$10mm commitment to Brighton Park Fund I approved (Private Equity)
 - Performance benchmark annual transition – July 1 2020 effective date
 - Investment Policy Statement 2020 update completed
 - Private Debt investment structure analysis completed and approved
- Diversifying Assets investment structure analysis completed and approved
 - Portfolio and performance review

January/February 2020

- Principal (US Property) selected as core private real estate manager
- PGIM (PRISA II) selected as core plus private real estate manager
- William Blair selected as large cap growth equity manager
- CenterSquare (REIT) and Pharo Gaia (hedge fund) termination approved
- Private Equity investment strategy study completed and approved
- PGIM Core Bond CIT funded
- Loomis Sayles Core Plus CIT funded
- Terminate ABS Long/Short, Brandywine Global, and Stone Harbor
- Reclassify Rimrock from fixed to diversifying assets 1/31/20
- Reclassify TSSP from private equity to private debt 1/31/20
- Private debt target modified from 8% to 6.5% 2/1/2020
- Fixed Income target modified from 27.5% to 29% 2/1/2020
- Portfolio and performance review

June/July 2020

- Northern Trust Russell 1000 passive index funded
- Acadian ACWI ex-US equity funded
- Terminate SSgA, Fidelity, Axiom and Allianz
- US equity w/in policy benchmark modified from 18% S&P 500 + 5% Russell 2500 to 23% Russell 3000 6/30/20
- Non-US equity w/in policy benchmark modified from 8% MSCI EAFE + 7% MSCI EM to 15% MSCI ACWI ex-US 7/31/20
- Private Equity target allocation set to 3% effective 7/1/20
- Portfolio and performance review

August/September 2020

- Exited securities lending
- WCM ACWI ex-US equity fully funded
- Acadian ACWI ex-US fully funded
- Investment Policy Statement phase 1 review for approval

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Timeline of 2021 Decisions & Transitions

- March 2021**
 - Custody search kickoff
 - 1st tranche funded Principal Core Real Estate
 - Callan Long/Short hedge fund manager search
 - Portfolio and performance review
 - Monthly Private Markets pipeline review
- July - September 2021**
 - Trust/Custody evaluation
 - Establish new PE target 4% (effective 7/1/21)
 - Annual IPS review
 - Final funding Principal Core Real Estate
 - CenterSquare redemption request fulfilled
 - Approved Clearlake Capital Partners VII
 - Event driven hedge fund candidate reviewed.
 - Submitted Graham and Blackstone redemption requests
 - Portfolio and performance review
 - Monthly Private Markets pipeline review

January/February 2021

- Approved Arcline Fund II
- Portfolio and performance review
- Monthly Private Markets pipeline review

April – June 2021

- Interviewed hedge fund manager finalists – long/short equity
- Presented North Rock long/short hedge fund to IAC and for Board approval
- Began funding Prudential Core Plus Real Estate (PRISA II) in June
- Approved Park Square Capital Credit Opportunities IV
- Submitted Rimrock termination notification
- Portfolio and performance review
- Monthly Private Markets pipeline review

October - December 2021

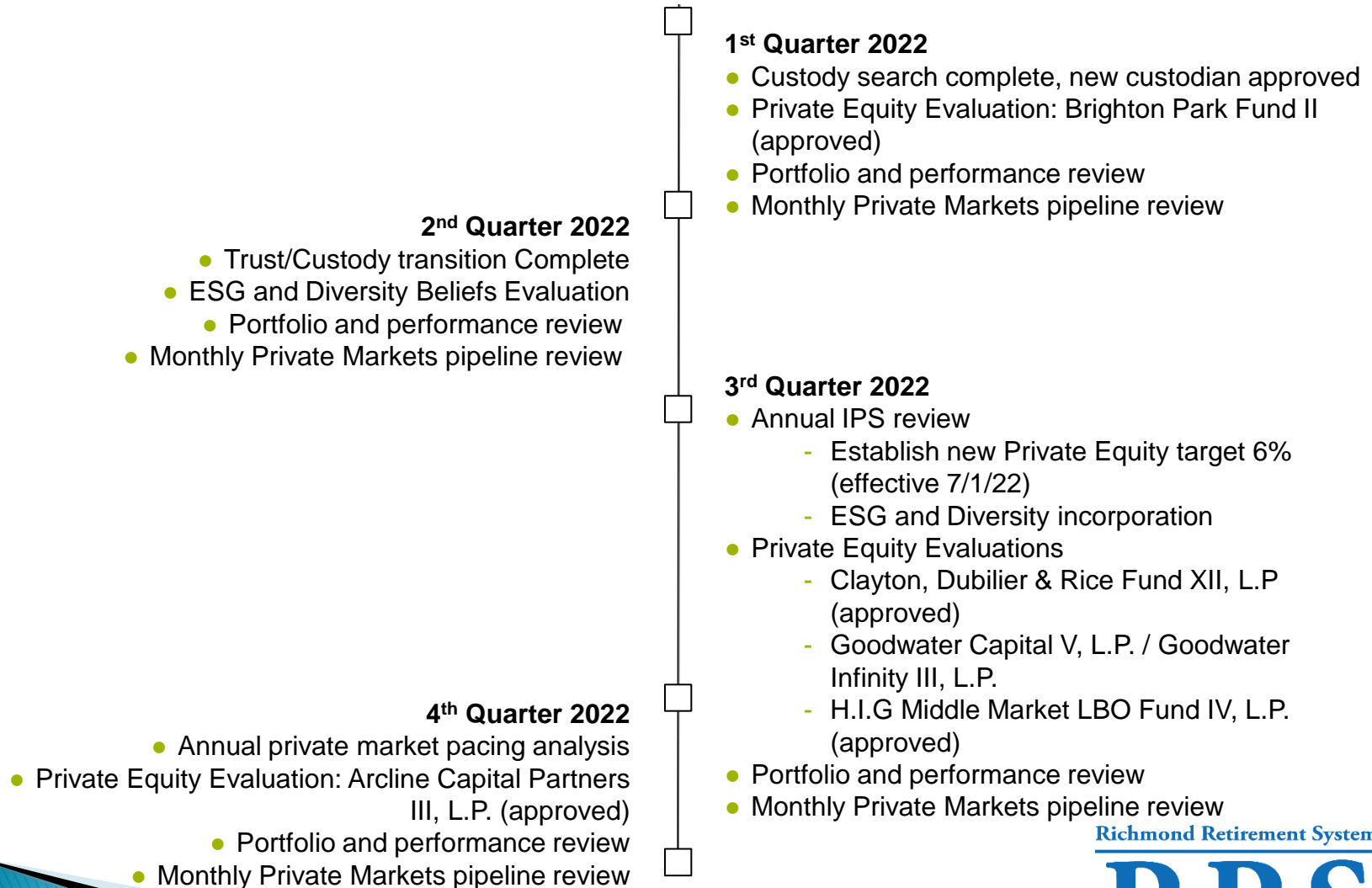
- Final funding Prudential Core Plus Real Estate (PRISA II) in December
- Funded North Rock long/short hedge fund strategy in October
- Annual private market pacing analysis
- Approved Atalaya Special Opportunities Fund VIII
- Approved AKKR Growth Capital Partners Fund IV
- Trust/Custody evaluation – finals in November
- Portfolio and performance review
- Monthly Private Markets pipeline reviews

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Timeline of 2022 Decisions & Transitions



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2023 Work Plan

- 2nd Quarter 2023**
- Portfolio and performance review
 - Monthly Private Markets pipeline review
 - HPS Specialty Loan Fund VI Approved

- 4th Quarter 2023**
- Annual private market pacing analysis
 - Portfolio and performance review
 - Monthly Private Markets pipeline review

1st Quarter 2023

- Review Capital Market Assumptions
- Private Credit Evaluation: HPS Specialty Loan Fund VI
- Portfolio and performance review
- Monthly Private Markets pipeline review

3rd Quarter 2023

- Annual IPS review
 - Establish new Private Equity target (effective 7/1/23)
- Annual ESG and Diversity Discussion
- Portfolio and performance review
- Monthly Private Markets pipeline review

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