



DCRB Report

SPRING 2016

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The District of Columbia Retirement Board's mission is to prudently invest the assets of the Police Officers, Firefighters, and Teachers of the District of Columbia, while providing those employees with total retirement services.

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From the Chair of the Board

At our February 2016 meeting, the Board of Trustees (the Board) held officer elections, and I was honored to be elected to serve a fourth term as Chair of the District of Columbia Retirement Board (DCRB). The Trustees also elected Joseph Clark as Vice Chair/Secretary and Lyle Blanchard as Treasurer. The Sergeant-at-Arms and Parliamentarian officer positions were eliminated in a restructuring of the Board last fall. The current standing committee chairs are: Barbara Davis Blum, Investment Committee; Edward Smith, Benefits Committee; Darrick Ross, Operations Committee; Lyle Blanchard, Legislative Committee; and Gary Hankins, Audit Committee.



Joseph M. Bress

Health of the Plans

The primary purpose of DCRB's spring Newsletter is to serve as your Summary Annual Report of financial information related to the District of Columbia Teachers' Retirement Plan and the District of Columbia Police Officers and Firefighters' Retirement Plan (the Plans) for the prior Fiscal Year (FY 2015), which ended on September 30, 2015. The investment and financial information on pages 2 and 3 reflect the status of the Trust Fund (the Fund) that supports the Plans and illustrate changes to the Fund during FY 2015. Once again, I am pleased to report that the Plans are well-funded, with an aggregate funded ratio of 101.7%, as of October 1, 2015.

Technology Updates

In FY 2013, DCRB launched a Retirement Modernization Program focused on multi-year technology projects intended to improve benefits administration. During FY 2015, we completed a project to reengineer benefits processes and procedures, and identified information to fill gaps in the electronic records. Those projects, and a Data Management Project, which began this year, include activities that will lead up to our eventual acquisition of a Pension Information Management System (PIMS). The PIMS will store pension-related information in one location that is electronically maintained and controlled by DCRB. The main purpose of the system is to produce initial pension payments much more quickly and to provide you with a wider range of retirement services. A Request for Proposal related to this system is being developed and is projected to be released in FY 2017.

Financial Awards

During FY 2015, DCRB received the Government Finance Officers Association's Certificate of Achievement Award for Excellence in Financial Reporting for FY 2014, an award we have received for seven consecutive years. In addition, DCRB received the Public Pension Coordinating Council's award for plan funding.

In closing, your Plans are in excellent condition, and we continue to make strides toward creating a comprehensive retirement system to better serve your needs.

Membership Totals as of October 1, 2015

Category	Police	Firefighters	Teachers	Total
Active	3829	1708	4866	10,403
Service Retirement	3428	1081	5389	9898
Disability Retirement	1067	393	331	1791
Survivors	1366	519	417	2302
Total	9690	3701	11,003	24,394

Fiscal Year 2015 Investment Update

Performance Update

The assets of the District of Columbia Teachers' Retirement Fund and the District of Columbia Police Officers and Fire Fighters' Retirement Fund (collectively referred to as the Fund) are commingled for investment purposes. As of the end of FY 2015 (Sept. 30, 2015), the Fund's assets stood at \$6.1 billion after the payment of all benefits and administrative expenses, a decrease of approximately \$200 million compared to the end of FY 2014 (a net return of -4.0%). Since its inception in October 1982, the Fund has underperformed the Total Fund Benchmark¹ by roughly 1% per year but exceeded the actuarial return target² by roughly 2% per year, net of fees.

Global Market Review

Investor concerns about geopolitical issues, the slowdown of the Chinese economy, and falling commodity prices brought about a return of global equity market volatility during FY 2015.

Stock indices in the U.S. reached new record highs in late 2014, as the Federal Reserve ended its quantitative easing program in October. Crude oil prices plunged from \$90/barrel to less than \$55/barrel, and third quarter growth increased more than expected. In the first quarter of 2015, non-U.S. developed markets rallied by over 10% in local currency terms as the European Central Bank began its quantitative easing program by

buying government bonds. However, dollar investors were up only 4.9% due to the strength of the dollar, another recurring theme during the year.

In second quarter 2015, global equity markets slowed their rise, while the 10-year Treasury yield had its largest increase in nearly two years, closing at 2.3%. In the third calendar quarter of 2015—the final quarter of the fiscal year—global equity markets performed at their worst since the third quarter of 2011. The U.S. equity markets fell 6.4%, non-U.S. developed markets dropped 10.2%, and emerging markets declined 17.9%. The economic slowdown in China and uncertainty about the Federal Reserve's next move dominated news headlines.

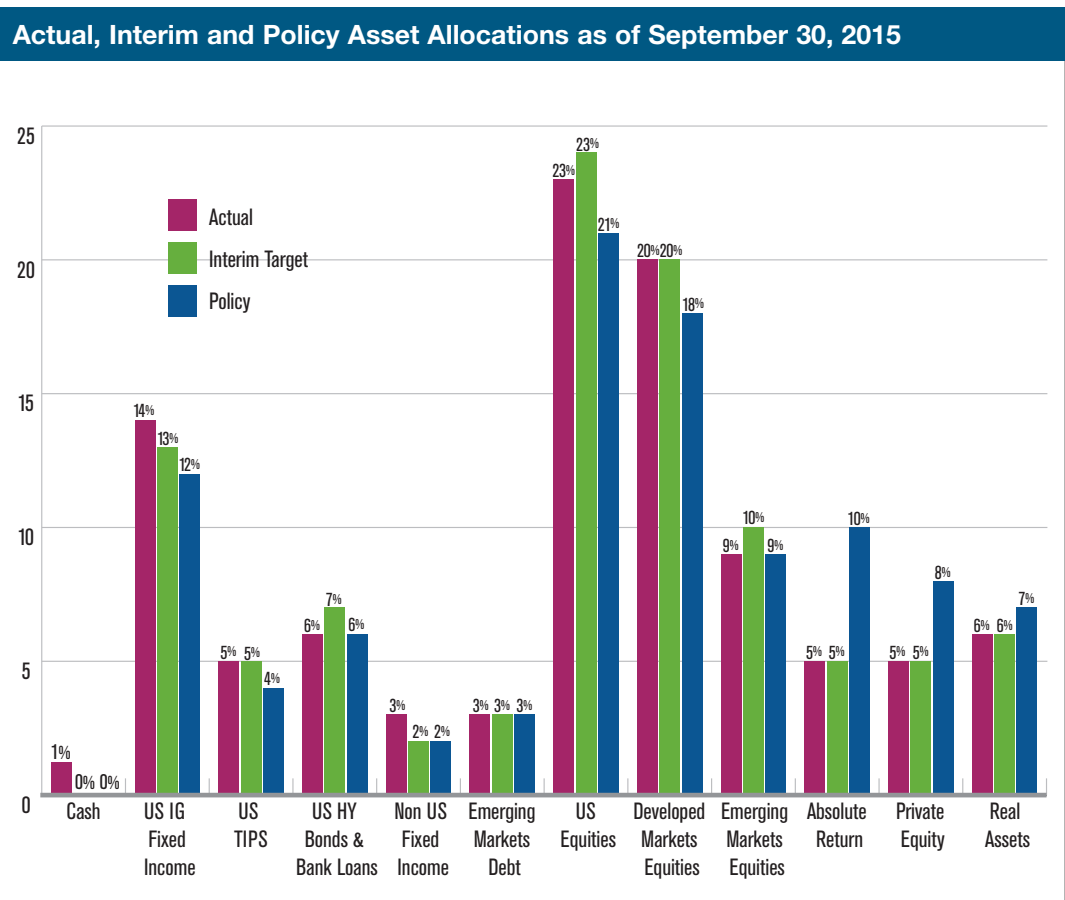
In terms of cumulative returns for FY 2015, the Russell 3000 Index,

which measures the performance of the 3,000 largest U.S. companies and represents approximately 98% of the U.S. equity market, was roughly flat at -0.5%. International developed equity markets, as measured by the MSCI World ex U.S. Index, fell by 10.1% in U.S. dollar terms, while emerging markets, as measured by the MSCI Emerging Markets Index, dropped 19.3% in U.S. dollar terms. The Barclays Capital U.S. Aggregate Bond Index, a broad measure of U.S. fixed income markets, rose by 2.9%, driven by a small decline in U.S. interest rates.

Asset Allocation

There were no changes in DCRB's asset allocation policy³ during FY 2015, which the Board last reviewed in July 2013. The Interim Target

Continued on page 4



DCRB Financial Statements

For Fiscal Year 2015, the Board once again received an unmodified, clean opinion from its independent auditor. The following schedules compare the FY 2015 financial statements with those of FY 2014.

Statement of Net Position (in \$000s) for the Fiscal Years ending:

	September 30, 2015			September 30, 2014		
	Teachers' Retirement Fund	Police Officers and Firefighters' Retirement Fund	Total	Teachers' Retirement Fund	Police Officers and Firefighters' Retirement Fund	Total
Assets						
Cash and short-term investments	\$18,352	\$57,140	\$75,492	\$7,236	\$20,164	\$27,400
Receivables & Prepaid Expenses	4,885	9,239	14,124	43,458	111,885	155,343
Investments at fair value	1,650,974	4,405,127	6,056,101	1,729,571	4,546,197	6,275,768
Collateral from securities lending	-	-	-	6,885	18,097	24,982
Total assets	1,674,211	4,471,506	6,145,717	1,787,150	4,696,343	6,483,493
Liabilities						
Other payables	1,156	3,058	4,214	1,781	4,623	6,404
Investment commitments payable	2,417	6,450	8,867	32,426	85,237	117,663
Obligations under securities lending	-	-	-	6,982	18,354	25,336
Total liabilities	3,573	9,508	13,081	41,189	108,214	149,403
Net Assets Held in Trust For Pension Benefits	\$1,670,638	\$4,461,998	\$6,132,636	\$1,745,961	\$4,588,129	\$6,334,090

Statement of Changes in Net Position (in \$000s) for the Fiscal Years ending:

	September 30, 2015			September 30, 2014		
	Teachers' Retirement Fund	Police Officers and Firefighters' Retirement Fund	Total	Teachers' Retirement Fund	Police Officers and Firefighters' Retirement Fund	Total
Additions						
District Government contributions	\$39,513	\$103,430	\$142,943	\$31,636	\$110,766	\$142,402
Employee contributions	31,621	33,679	65,300	28,751	32,821	61,572
Net investment income (loss)	(72,647)	(187,283)	(259,930)	132,086	338,894	470,980
Other income	385	1,012	1,397	522	1,342	1,864
Total additions (reductions)	(1,128)	(49,162)	(50,290)	192,995	483,823	676,818
Deductions						
Benefit payments	64,076	63,634	127,710	59,832	52,784	112,616
Refunds	5,576	1,396	6,972	5,790	1,637	7,427
Administrative expenses	4,543	11,939	16,482	3,787	9,730	13,517
Total deductions	74,195	76,969	151,164	69,409	64,151	133,560
Change in Net Position	(75,323)	(126,131)	(201,454)	123,586	419,672	543,258
Net Assets Held in Trust For Pension Benefits, Beginning of Fiscal Year	1,745,961	4,588,129	6,334,090	1,622,375	4,168,457	5,790,832
Net Assets Held in Trust For Pension Benefits, End of Fiscal Year	\$1,670,638	\$4,461,998	\$6,132,636	\$1,745,961	\$4,588,129	\$6,334,090

2016 COLA Notices to Members

The DC Department of Human Resources (DCHR) has announced 2016 cost-of-living adjustments (COLAs) for retirees and survivors receiving annuities under the District of Columbia Police Officers and Firefighters' Retirement Plan and the District of Columbia Teachers' Retirement Plan. They are as follows:

- Police officers and firefighters who retired on or after February 15, 1980: 0.7%
- Teachers hired before, on, or after November 1, 1996: 0.4%

COLAs are effective on March 1 and are paid beginning April 1.

DC Retirement Board

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Fiscal Year 2015 Investment Summary and Financial Statements

FY 2015 Investment Update

from page 2

Allocation distributes the underweight to alternative investments (absolute return, private equity, and real assets) across the traditional investments (fixed income and public equities). The Actual, Interim Target and Policy asset allocations are shown in the chart on page two.

At the close of FY 2015, the Fund's asset classes were within their respective target allocation ranges with the exception of the Absolute Return program, which continued to be below the targeted minimum. This underweight has been re-allocated to fixed income and public equities as a temporary placeholder for future investments in this asset class.

The underweight to private equity is driven by a deliberate pace of new commitments and a high volume of realizations from more

mature funds over recent years. It should moderate by 2020-22, as new commitments draw down capital and mature funds slow their distributions. In the meantime, the Board is focused on continuing to build its private equity program, subject to the availability of compelling investment opportunities.

Other Updates

During FY 2015, the Board completed a review of its custodial bank relationship and hired Northern Trust as the Board's new custodial bank. The transition was completed on December 1, 2015 and is projected to result in a savings to the Fund of approximately \$300,000 over the next three years.

In addition, DCRB and its consultants continued to incorporate into their respective due diligence processes the Environmental, Social, and Governance (ESG) policy, passed by the Board in Novem-

ber 2013. Given the rapid developments in the sustainable and responsible investment market, this policy will continue to be a focus for the Board during FY 2016 and beyond.

A second major initiative in FY 2016 will be the review of current investment consultants, as well as an asset allocation study to update the prior analysis completed in 2013. For more information on DCRB's investment program, please visit www.dcrb.dc.gov/service/investments.

1. A standard against which the performance of the total fund is evaluated. The Total Fund Benchmark is composed of several broad market indices, such as the Russell 3000 Index for U.S. stocks and the Barclays Capital U.S. Aggregate Bond Index for investment-grade fixed income securities.
2. The expected investment return used to project long-term asset growth.
3. The broad mix of assets (equities, fixed income, cash equivalents and alternatives) necessary to achieve the Fund's investment return and risk objectives.

TRUSTEES

Lyle M. Blanchard
Treasurer
Council Appointee

Mary A. Collins
Elected Retired
Teacher

Nathan A. Saunders
Elected Active
Teacher

Michael J. Warren
Council Appointee

Barbara Davis Blum
Mayoral Appointee

Gary W. Hankins
Elected Retired
Police Officer

Edward C. Smith
Elected Active
Firefighter

Lenda P. Washington
Mayoral Appointee

Joseph M. Bress
Chair
Council Appointee

Darrick O. Ross
Elected Active
Police Officer

Thomas N. Tippet
Elected Retired
Firefighter

Jeffrey Barnette
Ex Officio,
Non-Voting

Joseph W. Clark
Vice Chair/Secretary
Mayoral Appointee

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