Prilago. · PDF p.52 Excerpt

Fund's target asset allocation, but this is not disclosed. Support for the additional 50 basis points is also not provided. There is also no comment on expected investment expenses. We recommend including a more robust forward-looking analysis based on the target asset allocation when reviewing the investment rate of return assumption in the future.

We have assessed the validity of the 2.25% inflation assumption above. In this section, we will assess the validity of the 5.00% real return assumption as of July 1, 2017 based on the provided target asset allocation. A survey released by Horizon Actuarial Services, LLC provides expected returns by asset classes. The survey provides capital market assumptions specific to projections over 10 years and 20 years. The investment return assumption, as noted by the SOA's Report of the Blue Ribbon Panel on Public Pension Plan Funding, should be using rates of return that can be achieved over the next 20 to 30-year period. Therefore, we selected the 20-year time horizon for our analysis.

Using the survey's expected returns by asset class for the 20-year horizon, the asset allocation modeled by the retained actuary, and adjusting for inflation differences and expenses, we have the following results:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Horizon[1])
Domestic Equities	50.00%	6.68%
International Equities	20.00%	6.98%
Fixed Income	25.00%	2.15%
Other[2]	5.00%	6.47%
Weighted Average Real Return		**5.60%**
Assumed Investment Expenses[3]		**-0.37%**
Real Return		**5.33%**

[1]Expected return for the 20-year time horizon for those consultants that responded to the survey, adjusted by the average inflation expectation of 2.44%, as noted in Exhibit 15 of the Horizon Actuarial 2017 Survey of Capital Market Assumptions.
[2]Real estate, private equity, hedge funds
[3]Based on the average pension investment expenses reported in the following study: http://jsg.legis.state.pa.us/resources/documents/ftp/act5/pdf/PPMAIRC-FINAL.pdf

The expected real rate of return based on the target asset allocation is 5.33%. This is comparable to the 5.00% assumption used by the plan as of July 1, 2017.

While the investment return assumption was chosen using the underlying target asset allocation, we also compared the actual asset allocation with the target asset allocation. Page 9 of the Financial Statements report discloses the actual asset allocation as of June 30, 2017:

Asset Class	Target Allocation	Actual June 30, 2017 Allocation[2]
Domestic and International Equity	70.0%	71.9%
Fixed Income	25.0%	22.3%