
Board of Investment Trustees



Montgomery County Employee Retirement Plans

Annual Report

Fiscal Year ending June 30, 2021

Overview

December 31, 2021

To: Employees, Retirees, and Beneficiaries

From: Board of Investment Trustees

The mission of the Board of Investment Trustees is to manage prudent investment programs for the members of the Employee Retirement Plans and their beneficiaries. The County's Chief Administrative Officer is responsible for overseeing the day-to-day administration of the retirement plans.

We are pleased to present this annual report for the fiscal year ending June 30, 2021 on the three investment programs established for the retirement plans.

- The Employees' Retirement System (ERS) is a defined benefit pension plan with net assets of \$5,296.0 million, established in 1965 and closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and employees electing to participate in the Guaranteed Retirement Income Plan (GRIP). As of June 30, 2021 the ERS had 6,214 active participants and 6,843 retirees and beneficiaries receiving benefits.
- The Retirement Savings Plan (RSP) was established in 1994 as a defined contribution plan providing benefits to all non-public safety and certain public safety employees hired on or after October 1, 1994. As of June 30, 2021 the RSP had \$706.9 million in net assets and 4,388 (3,328 active and 1,060 inactive) participants.
- The County Deferred Compensation Plan (DCP) is a voluntary plan established pursuant to Section 457 of the Internal Revenue Code. As of June 30, 2021 the DCP had \$612.2 million in net assets and 3,423 participants.

Shown below is a condensed presentation of the Plan Net Position and Changes in Plan Net Position from the Annual Comprehensive Financial Report for the retirement plans for the period ending June 30, 2021:

	Net Position (Millions)						Change in Net Position (Millions)						
	ERS		RSP		DCP		ERS		RSP		DCP		
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	
Assets:							Additions:						
Cash and investments	\$ 5,445.6	\$ 4,482.5	\$ 704.8	\$ 535.5	\$ 610.9	\$ 466.6	Employer contributions	\$ 70.7	\$ 87.2	\$ 21.6	\$ 21.2	\$ -	\$ -
Receivables	19.3	21.7	2.2	2.1	1.3	1.1	Member contributions	30.8	30.8	11.8	11.5	25.7	22.5
Total assets	5,464.9	4,504.2	707.0	537.6	612.2	467.7	Net investment income	1,141.1	173.3	156.0	34.2	150.7	35.7
Liabilities	168.9	170.7	0.1	0.1	-	-	Total additions	1,242.6	291.3	189.4	66.9	176.4	58.2
Total net position	\$ 5,296.0	\$ 4,333.5	\$ 706.9	\$ 537.5	\$ 612.2	\$ 467.7	Deductions:						
							Benefits	267.4	262.1	-	-	-	-
							Refunds	9.7	9.3	19.8	18.6	31.9	34.1
							Administrative expenses	3.0	3.0	0.2	0.2	-	-
							Total deductions	280.1	274.4	20.0	18.8	31.9	34.1
							Total change in net position	\$ 962.5	\$ 16.9	\$ 169.4	\$ 48.1	\$ 144.5	\$ 24.1

For detailed information on the investment programs for all three retirement plans, please visit the Board's web site at www.montgomerycountymd.gov/retirement. For questions, please call the Board office at 240-777-8220.

Board of Investment Trustees

Joseph F. Beach
Chair
Public Representative
Term Expired March 2020

Jeffrey D. Buddle
Vice-Chair
Fire & Rescue Bargaining
Unit Designee

Diane Wurdeman
Non-Bargaining
Unit Representative
Term Expired March 2020

Jennifer Bryant
Montgomery County Director of
Management and Budget
Ex-Officio Member

Gino Renne
OPT/SLT Bargaining
Unit Designee

Deborah Snead
Retired Employees
Representative
Term Expires March 2024

George Willie
Public Representative
Term Expired March 2020

Berke Attila
Secretary
Montgomery County Director of
Human Resources
Ex-Officio Member

Barry Kaplan
Montgomery County Council
Representative
Term Expires March 2023

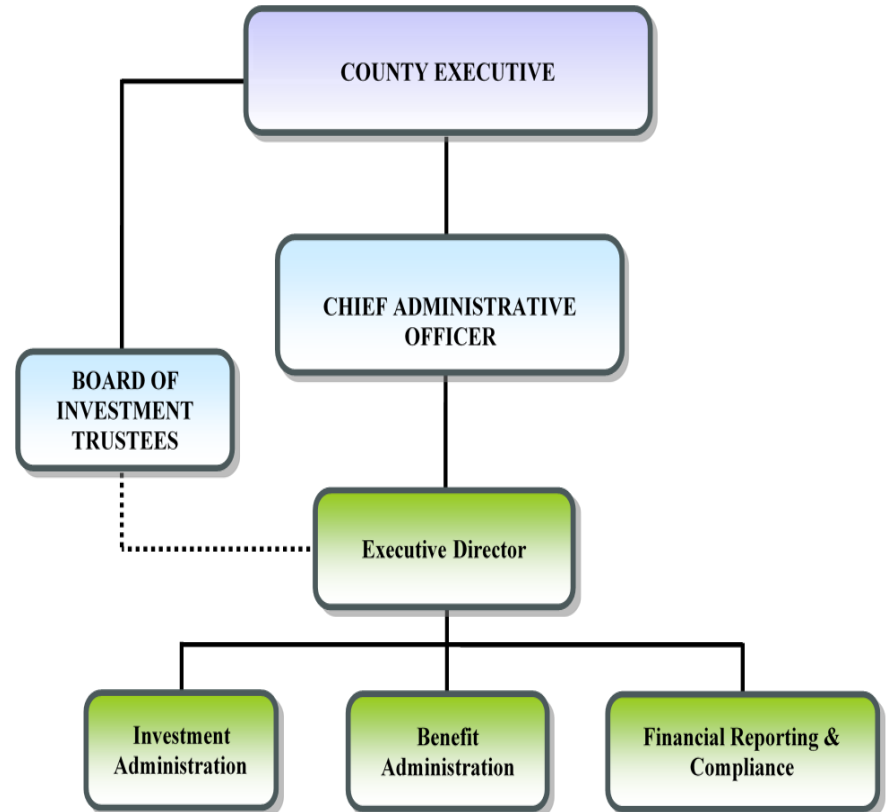
Michael J. Coveyou
Montgomery County
Director of Finance
Ex-Officio Member

Kelda J.C. Simpson
Police Bargaining
Unit Designee

Christine Kelleher
Montgomery County Council
Representative
Term Expires March 2024

Berke Attila
Montgomery County Director of
Human Resources
Ex-Officio Member

Retirement Plans Administrative Organization



Board Actions

■ ***Employees' Retirement System (includes GRIP)***

- *Added new investments in the following sectors to further diversify the portfolio and manage risk: within the public sector, equities, currency overlays, and fixed income; within private markets, equity, real assets, and debt.*
- *Submitted first annual Principles for Responsible Investing (PRI) report outlining initiatives and incorporation of ESG into the portfolio.*
- *Engaged with investment managers to provide reporting on Diversity, Equity, and Inclusion (DEI) considerations within their organizations.*

■ ***Retirement Savings Plan & Deferred Compensation Plan***

- *Transitioned to lower fee share classes or funds for Managed Income Portfolio and SSgA Global All Cap Equity ex-U.S. Index Fund.*
- *Contracted with Fidelity Investments to outsource the maintenance of beneficiary forms resulting in the lowering of plan administration costs and streamlining operations.*

Board Achievements

■ ***Certificate of Achievement for Excellence in Financial Reporting***

- *The Government Finance Officers Association (GFOA) awarded the Certificate of Achievement to the Board for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2020. The certificate of achievement is a prestigious national award that recognizes conformance with the highest standards in government accounting and financial reporting. The Board has received this award for each of the twenty-one years that it has published its own ACFR.*

■ ***Employees' Retirement System***

- *The investment return for the year ended June 30, 2021, was a gain of 27.0%. The return ranked slightly below the median returns achieved by similar public pension funds reporting results for the one-year period. For the longer time periods, five and ten years, the ERS' investment returns ranked in the top quartile and top decile, respectively.*

■ ***Retirement Savings Plan***

- *As of June 30, 2021, 83% of the funds offered through Fidelity were rated three stars or above by Morningstar (five star is the highest rating). The one-year return for the Plan was a gain of 24.0%.*

■ ***Deferred Compensation Plan***

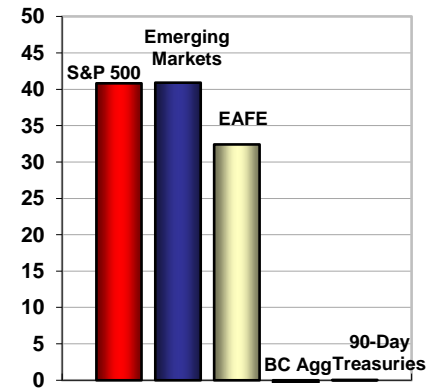
- *As of June 30, 2021, 83% of the funds offered through Fidelity were rated three stars or above by Morningstar (five star is the highest rating). The one-year return for the Plan was a gain of 31.0%.*

Market Highlights – ERS Investment Performance

Economic data reflected the gross domestic product (GDP) increased at a 6.5% annual rate at the end of the second quarter of 2021, signaling a continued recovery from the depths of the pandemic in 2020. This level indicates that GDP has now grown four consecutive quarters following an unprecedented decrease of 31.4% during the second quarter of 2020. Consumer spending, which represents 69% of the economy, continues to recover with a 12% annualized growth rate in the second quarter. The unemployment picture has improved with decreasing levels of initial jobless claims and increasing nonfarm payrolls. During the last fiscal year, the unemployment rate decreased from 11.1% to 5.9%, which represents the sharpest one year drop on record. While economic growth has rebounded significantly, inflation has reached levels not experienced in over a decade as the consumer price index rose 5.4% from a year ago, which is well above expectations and the highest inflation reading since before the global financial crisis of 2008-2009.

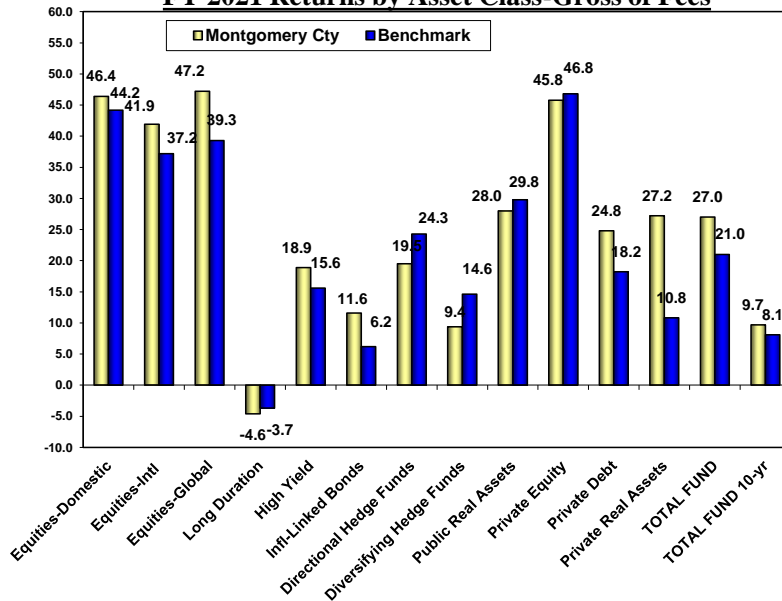
U.S. equity markets posted one of their strongest fiscal years on record with a 40.8% return due to widespread fiscal and monetary support and a gradual re-opening of the economy. While the drawdown during the initial stages of the pandemic represented the sharpest drawdown on record, the recovery back to all-time highs was equally as brisk as the market fully recovered by August. Both international developed and emerging markets experienced similar rallies with emerging markets performing in line with the U.S. market while developed international markets lagged. U.S. fixed income assets, as measured by the Bloomberg Barclays Aggregate Bond Index, were flat for the year as higher treasury rates were offset by tightening corporate bond spreads.

Index Returns
Year Ending 6/30/21



Employees' Retirement System

FY 2021 Returns by Asset Class-Gross of Fees



The Board allocates ERS assets to a broad array of asset classes resulting in the following allocation as of June 30, 2021: Domestic Equities 14.2%, International Equities 12.9%, Global Equities 2.7%, High Yield 7.7%, Emerging Markets Debt 1.3%, Long Duration 10.0%, Inflation Linked Bonds 12.8%, Public Real Assets 11.0%, Private Equity 14.0%, Private Real Assets 6.5%, Credit Opportunities 2.4%, Directional Hedge Funds 2.1%, and Diversifying Hedge Funds 2.4%. The chart to the left reflects the returns for the fiscal year ending June 30, 2021, achieved by ERS assets in each investment sector compared to the corresponding benchmark. The Board establishes benchmarks for each market sector, usually an index of securities that represent most of the available investment opportunities within that sector, to evaluate the performance of the investment managers within each sector.

In overseeing the management of ERS assets, the Board has developed sound and prudent investment policies. The Board works to control the risk to which the ERS is exposed while maximizing the potential for long term increases in the value of the assets. The Board's specific investment objectives are to:

- realize the actuarial assumed rate of return of 7.5% annually, over a long-term time horizon (for the 2011-2021 fiscal year decade, the annual rate of return on the ERS' investments was 9.7% before fees);
- manage portfolio risk to limit potential downside fluctuations in the value of the total ERS assets; and
- realize as high a rate of total return as possible consistent with the above.

Employees' Retirement System (ERS)

- **How do I know if I'm a participant in the ERS defined benefit plan?**

Employees who participate in the ERS have the following description on their pay stub next to the bi-weekly contribution amount: RETIRE

- **How do I know if I'm a participant in the GRIP?**

Employees who participate in the GRIP have the following description on their pay stub next to the bi-weekly contribution amount: RET GRI

- **How is my benefit calculated?**

If you are in the ERS (RETIRE on paystub), under County law your benefit is based on your salary, years of credited service, and age at retirement and is not based on the amount you contributed or the investment earnings of the ERS. If you are in the GRIP, your benefit is based on your account balance at time of retirement or separation of service from County.

- **How can I find more information on my benefit?**

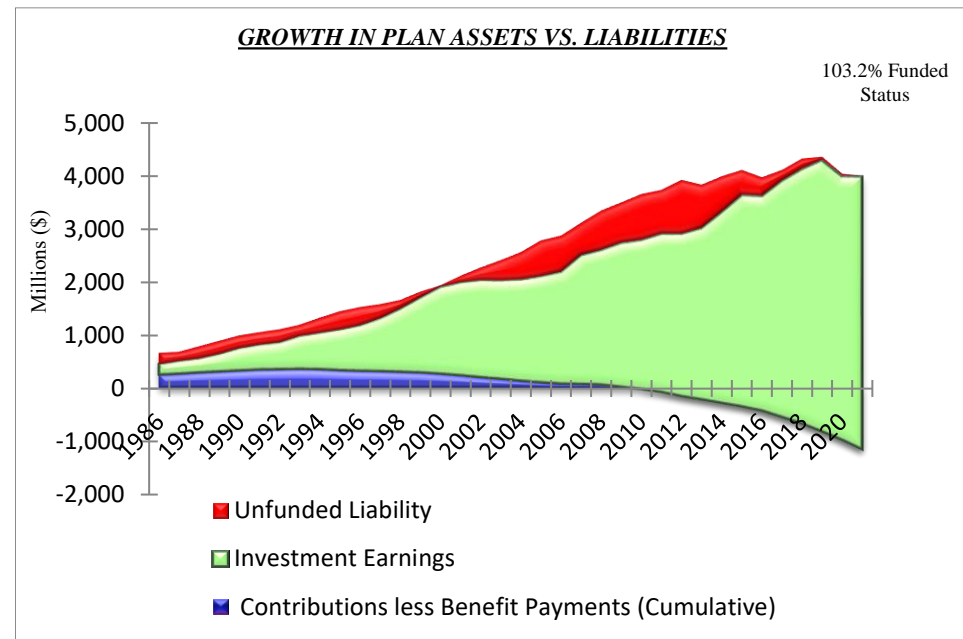
Contact the Montgomery County Employee Retirement Plans at 240-777-8230 or visit our website at www.montgomerycountymd.gov/retirement.

- **How does the amount earned on invested assets impact the ERS?**

While your ERS benefit is paid in accordance with County law, you may be interested in knowing about the status of the assets and liabilities of the ERS. Please refer to the chart below for a 36-year history. Your contributions, along with the County's, are used primarily to make benefit payments to retirees and beneficiaries and pay other costs associated with the administration of the ERS (shown as the bottom layer in the chart).

The earnings (shown as the green middle layer in the chart) represent the bulk of the growth in assets over the years. In funding the ERS, the County currently assumes the assets will earn 7.5% per year. During the strong equity markets of the late 1990s, the assets grew at nearly double that amount, and the funded status of the ERS was strengthened.

As of June 30, 2000 the ERS was nearly fully-funded, but because of the difficult financial markets in 2000-2002, plus increased liabilities for higher future benefit payments, the funded status decreased. Due to the strong financial markets of the last ten years, as well as low inflation, the ERS was 103.2% funded as of June 30, 2021. The area as the top layer that reflects the additional amount required does not appear anymore as the ERS achieved fully-funded status. As noted earlier, the Board continues to implement sound and prudent investment policies that will maximize the potential for long-term increases in the value of the assets.



Retirement Savings Plan (RSP)

The County established the Retirement Savings Plan for all non-public safety and certain public safety employees not represented by a collective bargaining agreement hired after October 1, 1994. The Plan requires employees to contribute 4% of regular earnings up to the Social Security wage base and 8% above the wage base and public safety employees to contribute 3% up to the Social Security wage base and 6% above the wage base. During FY21, the County contributed 8% and 10% of regular earnings for non-public safety and some public safety employees, respectively.

How do I know if I'm a participant in this plan?

Employees who participate in the RSP have the following description on their pay stub next to the bi-weekly contribution amount: RET SAV.

How is my retirement benefit calculated?

Your benefit is based on your account balance at the time of retirement or separation of service. The balance includes your contributions, the County's contributions (if you're vested) and investment earnings.

How can I find out more information on my account balance and benefit eligibility?

Contact Fidelity's onsite representative at 240-777-8228 or stop by the Fidelity office located in the Executive Office Building, 101 Monroe St, 15th floor. Additional information is also available at the Fidelity website at <https://nb.fidelity.com/public/nb/mcg/home> or by calling 1-800-343-0860.

The Board oversees the investment program, providing a variety of investment options for participants to choose from. The Board formally evaluates these options quarterly.

The Board also provides two hours of investment counseling annually to all RSP and DCP participants at no charge to encourage participants to expand their knowledge of investment products. Call 410-557-7300 to sign up or visit the Board's web site, <http://www.montgomerycountymd.gov/retirement>.

Shown to the right is a list of the investment funds offered, along with their Morningstar rating and annualized performance as of June 30, 2021.

Fidelity's web site <https://nb.fidelity.com/public/nb/mcg/home>, is an invaluable source of information. The web site contains:

- ✓ Your RSP account activity
- ✓ Analysis and performance information on all of the funds offered and information on investment markets
- ✓ Financial tools to assist you in determining the amount you'll need at retirement

Funds	Morningstar Rating	Rates of Return		
		1 Year	3 Year	5 Year
Stable Value Funds:				
Fidelity Managed Income	Not Rated	1.53	1.95	1.83
Income Funds:				
Fidelity Total Bond	★★★★	3.42	6.47	N/A
Fidelity Inflation-Protected Bond	★★★★	6.29	6.44	4.08
SSgA U.S. Bond Index	Not Rated	(0.43)	5.35	3.00
PIMCO High Yield	★★★★	12.44	6.89	6.59
Target Date Funds:				
SSgA Target Retirement 2020	Not Rated	19.64	9.75	8.90
SSgA Target Retirement 2025	Not Rated	23.79	11.69	10.82
SSgA Target Retirement 2030	Not Rated	26.80	12.90	11.97
SSgA Target Retirement 2035	Not Rated	29.60	13.51	12.75
SSgA Target Retirement 2040	Not Rated	32.31	13.98	13.39
SSgA Target Retirement 2045	Not Rated	34.88	14.37	13.92
SSgA Target Retirement 2050	Not Rated	36.40	14.68	14.10
SSgA Target Retirement 2055	Not Rated	36.40	14.67	14.10
SSgA Target Retirement 2060	Not Rated	36.40	14.67	14.10
SSgA Target Retirement 2065	Not Rated	36.40	N/A	N/A
SSgA Target Retirement Income	Not Rated	15.39	8.35	6.88
Growth & Income Funds:				
Hartford Dividend & Growth	★★★★★	42.02	15.70	14.98
SSgA S&P 500 Index	Not Rated	40.71	18.63	17.61
ClearBridge Appreciation Fund	★★★	38.16	18.22	16.02
Growth Funds:				
ClearBridge Small Cap Growth	★★★★	52.69	21.49	24.48
Fidelity Growth Company	★★★★★	57.32	32.74	32.02
Fidelity Low-Priced Stock	★★★★★	51.80	13.36	N/A
Fidelity Small Cap Value	★★★★★	79.74	13.63	13.78
SSgA Russell Small/Mid Cap Index	Not Rated	61.44	18.50	18.77
International Stock Funds:				
Harbor International	★★	41.15	7.53	8.89
Oppenheimer Global	★★★★	45.61	17.24	19.66
SSgA Global All Cap Equity ex US Index	Not Rated	36.89	9.63	11.27
Specialty Funds:				
Fidelity Strategic Real Return	★★	22.78	6.21	4.98

Deferred Compensation Plan (DCP)

The County established the Deferred Compensation Plan for employees in 1980. The Board formally evaluates the investment performance of the funds offered quarterly. Shown below is a list of the funds available as of June 30, 2021, along with their Morningstar rating and the annualized performance for various time periods. Additional information on the investment program is available on the Plan web site at <https://nb.fidelity.com/public/nb/mcg/home> and the Board's web site at <http://www.montgomerycountymd.gov/retirement>.

■ **How do I know if I'm eligible to participate in this plan?**

All non-represented employees hired after June 6, 2010 are automatically enrolled in the Plan 60 days after the date they are hired. Other non-represented employees are eligible to join the DCP at any time. Employees who are members of MCGEO, and were hired prior to March 1, 2005 and were not members of the DCP at that time, may also join the plan at any time. MCGEO members hired after March 1, 2005 and employees represented by the FOP or the IAFF, are not eligible to make contributions to the DCP.

■ **How is my retirement benefit calculated?**

Your benefit is based on your account balance at the time of retirement or separation of service. The balance includes your contributions and investment earnings.

■ **How can I find out more information on my account balance and benefit eligibility?**

Contact Fidelity's onsite representative, at 240-777-8228 or stop by the Fidelity office located in the Executive Office Building, 101 Monroe Street, 15th floor. Additional information is also available at the Fidelity website at <https://nb.fidelity.com/public/nb/mcg/home>.

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Funds	Morningstar Rating	Rates of Return		
		1 Year	3 Year	5 Year
Stable Value Funds:				
Fidelity Managed Income	Not Rated	1.53	1.95	1.83
Income Funds:				
Fidelity Total Bond	★★★★	3.42	6.47	N/A
Fidelity Inflation-Protected Bond	★★★★	6.29	6.44	4.08
SSgA U.S. Bond Index	Not Rated	(0.43)	5.35	3.00
PIMCO High Yield	★★★★	12.44	6.89	6.59
Target Date Funds:				
SSgA Target Retirement 2020	Not Rated	19.64	9.75	8.90
SSgA Target Retirement 2025	Not Rated	23.79	11.69	10.82
SSgA Target Retirement 2030	Not Rated	26.80	12.90	11.97
SSgA Target Retirement 2035	Not Rated	29.60	13.51	12.75
SSgA Target Retirement 2040	Not Rated	32.31	13.98	13.39
SSgA Target Retirement 2045	Not Rated	34.88	14.37	13.92
SSgA Target Retirement 2050	Not Rated	36.40	14.68	14.10
SSgA Target Retirement 2055	Not Rated	36.40	14.67	14.10
SSgA Target Retirement 2060	Not Rated	36.40	14.67	14.10
SSgA Target Retirement 2065	Not Rated	36.40	N/A	N/A
SSgA Target Retirement Income	Not Rated	15.39	8.35	6.88
Growth & Income Funds:				
Hartford Dividend & Growth	★★★★★	42.02	15.70	14.98
SSgA S&P 500 Index	Not Rated	40.71	18.63	17.61
ClearBridge Appreciation Fund	★★★	38.16	18.22	16.02
Growth Funds:				
ClearBridge Small Cap Growth	★★★★	52.69	21.49	24.48
Fidelity Growth Company	★★★★★	57.32	32.74	32.02
Fidelity Low-Priced Stock	★★★★★	51.80	13.36	N/A
Fidelity Small Cap Value	★★★★★	79.74	13.63	13.78
SSgA Russell Small/Mid Cap Index	Not Rated	61.44	18.50	18.77
International Stock Funds:				
Harbor International	★★	41.15	7.53	8.89
Oppenheimer Global	★★★★	45.61	17.24	19.66
SSgA Global All Cap Equity ex US Index	Not Rated	36.89	9.63	11.27
Specialty Funds:				
Fidelity Strategic Real Return	★★	22.78	6.21	4.98