
Board of Investment Trustees



Montgomery County Employee Retirement Plans

Annual Report

Fiscal Year ending June 30, 2022

Overview

December 31, 2022

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, 2022 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 \$4,836.3 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, 2022 the ERS had 5,956 active participants and 6,966 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, 2022 the RSP had \$614.8 million in net assets and 4,396 (3,238 active and 1,158 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, 2022 the DCP had \$516.9 million in net assets and 3,437 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, 2022:

Net Position (Millions)							Change in Net Position (Millions)					
	ERS		RSP		DCP		ERS		RSP		DCP	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Assets:												
Cash and investments	\$ 5,028.9	\$ 5,445.6	\$ 612.6	\$ 704.8	\$ 515.6	\$ 610.9	\$ 68.1	\$ 70.7	\$ 22.3	\$ 21.6	\$ -	\$ -
Receivables	18.4	19.3	2.3	2.2	1.3	1.3	31.2	30.8	12.2	11.8	23.9	25.7
Total assets	5,047.3	5,464.9	614.9	707.0	516.9	612.2	(257.1)	1,141.1	(103.6)	156.0	(89.3)	150.7
Liabilities	211.0	168.9	0.1	0.1	-	-	(157.8)	1,242.6	(69.1)	189.4	(65.4)	176.4
Total net position	\$ 4,836.3	\$ 5,296.0	\$ 614.8	\$ 706.9	\$ 516.9	\$ 612.2	301.8	280.1	23.1	20.0	29.9	31.9
							\$ (459.6)	\$ 962.5	\$ (92.2)	\$ 169.4	\$ (95.3)	\$ 144.5

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

Jeffrey D. Buddle
Chair
Fire & Rescue Bargaining
Unit Designee

Marlene Michaelson
Vice-Chair
Montgomery County Council
Executive Director
Ex-Officio Member

James Donaldson
Non-Bargaining
Unit Representative
Term Expires March 2023

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

Gino Renne
OPT/SLT Bargaining
Unit Designee

Joseph Beach
Public Representative
Term Expires March 2023

Brian Swain
Public Representative
Term Expires March 2023

Deborah Snead
Secretary
Retired Employees
Representative
Term Expires March 2024

Barry Kaplan
Montgomery County Council
Representative
Term Expires March 2023

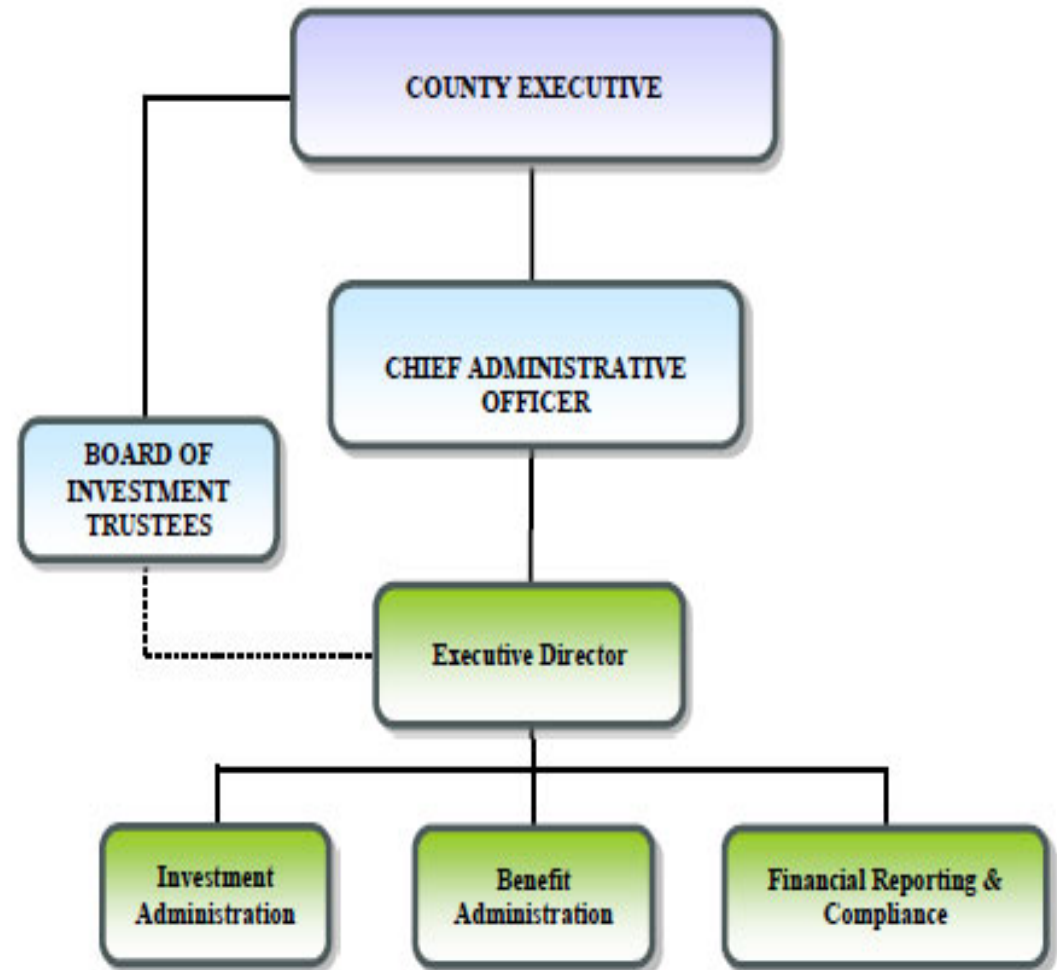
Michael J. Coveyou
Montgomery County
Director of Finance
Ex-Officio Member

Vacant
Police Bargaining
Unit Designee

Christine Kelleher
Montgomery County Council
Representative
Term Expires March 2024

Vacant
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: public equities; and within private markets, equity, real assets, and debt.*
- *Hired a new consultant to assist with the continued build out of the private real asset program to provide protection against inflation.*
- *Submitted the second annual Principles for Responsible Investing (PRI) report outlining initiatives and incorporation of ESG into the portfolio.*
- *Developed more granular reporting templates to better assess investment managers Diversity, Equity, and Inclusion (DEI) considerations within their organizations.*

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

- *Transitioned to lower fee share classes or funds for the SSgA S&P 500 Index Fund, SSgA Russell Small/Mid Cap Index Fund, and the SSgA U.S. Bond Index Fund.*
- *Consolidated the fund offerings by removing the ClearBridge Appreciation Fund and mapping all assets to the SSgA S&P 500 Index Fund.*
- *Replaced the PIMCO High Yield Fund with the American Century High Income Fund sub-advised by Nomura.*

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, 2021. 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-two years that it has published its own ACFR.*

■ ***Employees' Retirement System***

- *The investment return for the year ended June 30, 2022, was a loss of 2.9%. The return ranked in the top quartile 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 decile and near the top decile, respectively.*

■ ***Retirement Savings Plan***

- *As of June 30, 2022, 82% 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 loss of 14.5%.*

■ ***Deferred Compensation Plan***

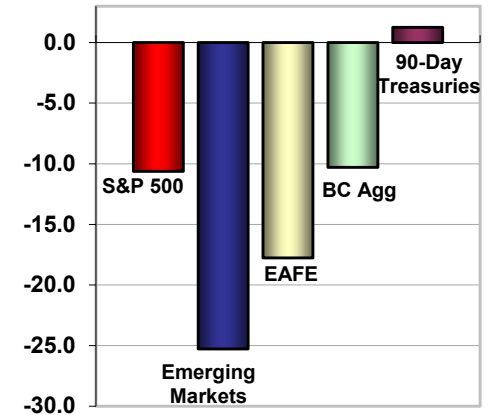
- *As of June 30, 2022, 82% of the funds offered through Fidelity were rated three stars or above by Morningstar (five star is the highest rating). The one-year return for the Plan was a loss of 14.8%.*

Market Highlights – ERS Investment Performance

After posting some of their strongest growth in decades, global economies began to slow earlier this year due to a confluence of factors, including persistent supply chain issues, the Russian invasion of Ukraine, and the COVID-related lockdowns in China. In the U.S., first and second quarter GDP numbers were down 1.6% and 0.9%, respectively, the first period of consecutive decreases since the onslaught of COVID in early 2020. Inflation reached 8.6% at the end of the second quarter, forcing the Fed to take an increasingly hawkish monetary policy in an effort to cool down the economy. As a result, the Fed Funds Rate went from 0%-0.25% at the end of 2021 to 1.5%-1.75% by the end of the second quarter of 2022. The rapid rise in rates increased concerns that the economy could be entering a recession.

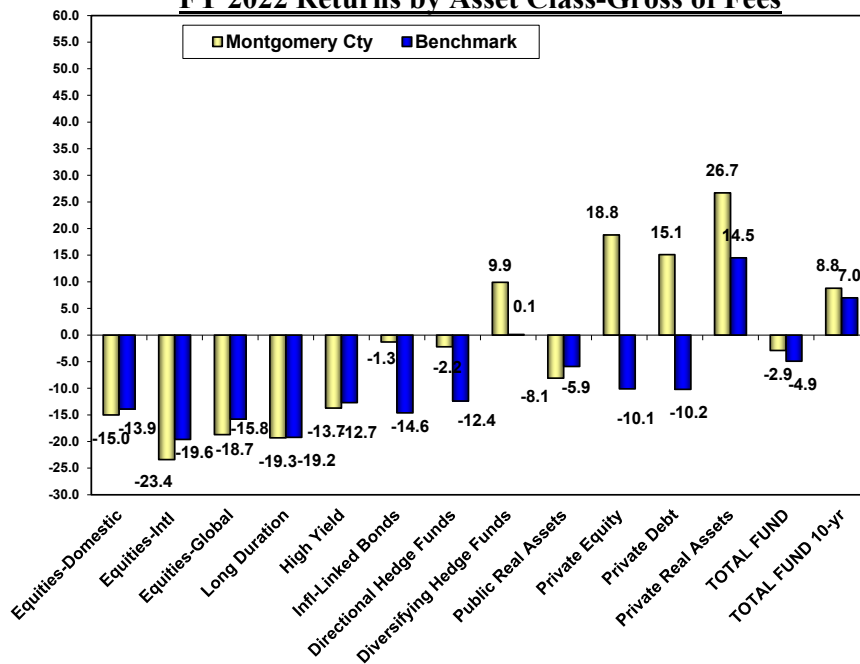
Global financial markets were not immune to this change in economic environment. During the first six months of 2022, the S&P 500 dropped 20.6%, marking its worst first-half performance since 1970, and bringing fiscal year-to-date returns to -10.6%. Energy was the only S&P sector with positive returns during the first half of the year, with prices driven higher by disruptions in oil supplies and the return of travel and office commutes. Emerging markets were down more than 25% YoY, driven primarily by the significant compression in Chinese technology stocks. International stocks were down close to 18% as economies faced similar inflationary and policy headwinds to the U.S. Europe faced dramatic energy price increases because of the region’s dependence on Russian energy. U.S. fixed income assets, as measured by the Bloomberg Barclays Aggregate Bond Index, were down for the year because of the increase in interest rates.

Index Returns
Year Ending 6/30/22



Employees' Retirement System

FY 2022 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, 2022: Domestic Equities 11.8%, International Equities 10.5%, Global Equities 3.2%, High Yield 6.7%, Emerging Markets Debt 1.1%, Long Duration 8.1%, Inflation Linked Bonds 16.4%, Public Real Assets 7.9%, Private Equity 16.9%, Private Real Assets 9.0%, Credit Opportunities 3.3%, Directional Hedge Funds 2.4%, and Diversifying Hedge Funds 2.7%. The chart to the left reflects the returns for the fiscal year ending June 30, 2022, 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 2012-2022 fiscal year decade, the annual rate of return on the ERS’ investments was 8.8% 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?**

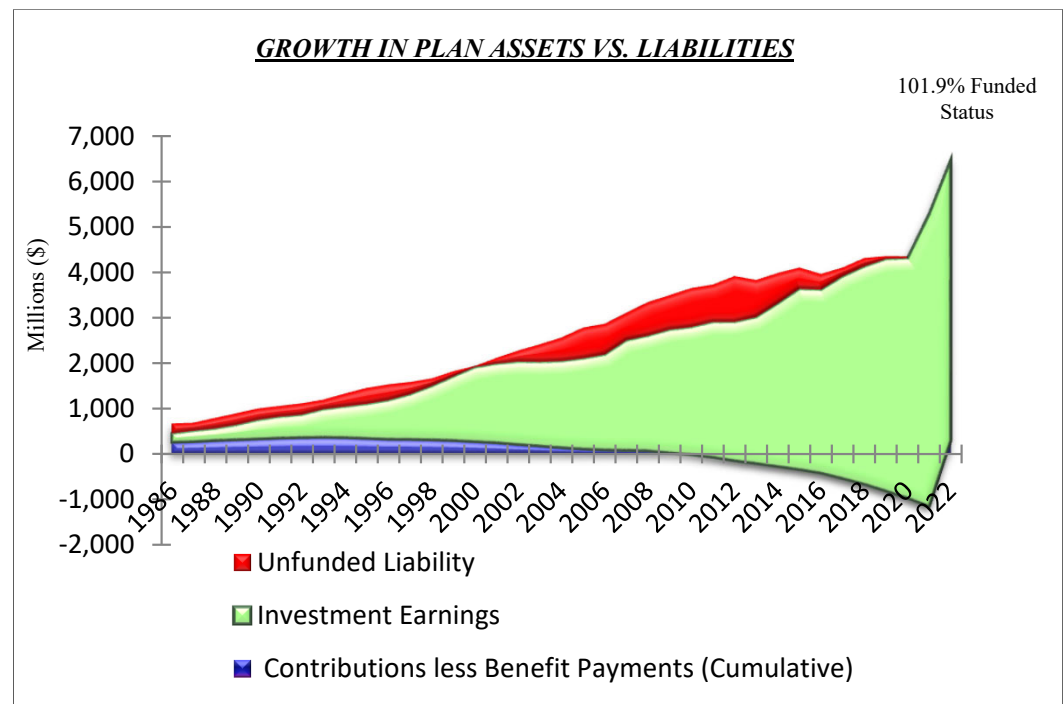
Contact the Montgomery County Employee Retirement Plans at 240-777-8230 or visit our website at www.montgomerycountymd.gov/retirement.

- **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 37-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 13 years, as well as low inflation, the ERS was 101.9% funded as of June 30, 2022. 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 FY22, 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, 2022.

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	1.18	1.64	1.75
Income Funds:				
Fidelity Total Bond	★★★★	(10.45)	0.09	1.56
Fidelity Inflation-Protected Bond	★★★★	(5.29)	2.93	3.12
SSgA U.S. Bond Index	Not Rated	(10.32)	(0.94)	0.87
PIMCO High Yield	★★★★	(12.68)	(0.62)	1.53
Target Date Funds:				
SSgA Target Retirement 2020	Not Rated	(9.07)	4.21	4.99
SSgA Target Retirement 2025	Not Rated	(11.96)	4.90	5.73
SSgA Target Retirement 2030	Not Rated	(14.63)	4.96	5.93
SSgA Target Retirement 2035	Not Rated	(15.69)	5.17	6.17
SSgA Target Retirement 2040	Not Rated	(16.30)	5.45	6.41
SSgA Target Retirement 2045	Not Rated	(16.92)	5.65	6.59
SSgA Target Retirement 2050	Not Rated	(17.48)	5.71	6.62
SSgA Target Retirement 2055	Not Rated	(17.47)	5.71	6.62
SSgA Target Retirement 2060	Not Rated	(17.49)	5.70	6.62
SSgA Target Retirement 2065	Not Rated	(17.47)	N/A	N/A
SSgA Target Retirement Income	Not Rated	(8.11)	3.37	3.98
Growth & Income Funds:				
Hartford Dividend & Growth	★★★★★	(1.54)	11.51	10.89
SSgA S&P 500 Index	Not Rated	(10.64)	10.57	11.28
Growth Funds:				
ClearBridge Small Cap Growth	★★★★	(32.23)	4.63	10.13
Fidelity Growth Company	★★★★★	(29.35)	16.16	16.28
Fidelity Low-Priced Stock	★★★★★	(9.13)	9.95	8.53
Fidelity Small Cap Value	★★★★★	(10.69)	11.06	7.51
SSgA Russell Small/Mid Cap Index	Not Rated	(28.49)	5.20	6.82
International Stock Funds:				
Harbor International	★★	(19.39)	2.18	0.94
Oppenheimer Global	★★★★	(29.33)	3.17	5.72
SSgA Global All Cap Equity ex US Index	Not Rated	(19.56)	1.78	2.72
Specialty Funds:				
Fidelity Strategic Real Return	★★	1.23	6.06	4.95

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, 2022, 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?**

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Fidelity Managed Income	Not Rated	1.18	1.64	1.75
Income Funds:				
Fidelity Total Bond	★★★★	(10.45)	0.09	1.56
Fidelity Inflation-Protected Bond	★★★★	(5.29)	2.93	3.12
SSgA U.S. Bond Index	Not Rated	(10.32)	(0.94)	0.87
PIMCO High Yield	★★★★	(12.68)	(0.62)	1.53
Target Date Funds:				
SSgA Target Retirement 2020	Not Rated	(9.07)	4.21	4.99
SSgA Target Retirement 2025	Not Rated	(11.96)	4.90	5.73
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SSgA Target Retirement 2045	Not Rated	(16.92)	5.65	6.59
SSgA Target Retirement 2050	Not Rated	(17.48)	5.71	6.62
SSgA Target Retirement 2055	Not Rated	(17.47)	5.71	6.62
SSgA Target Retirement 2060	Not Rated	(17.49)	5.70	6.62
SSgA Target Retirement 2065	Not Rated	(17.47)	N/A	N/A
SSgA Target Retirement Income	Not Rated	(8.11)	3.37	3.98
Growth & Income Funds:				
Hartford Dividend & Growth	★★★★★	(1.54)	11.51	10.89
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