

PARTICIPATE



SAVE



MONTGOMERY COUNTY

EMPLOYEE RETIREMENT PLANS

2023 POPULAR ANNUAL FINANCIAL REPORT

INVEST



RETIRE



MESSAGE FROM THE PLAN ADMINISTRATOR & THE BOARD CHAIR



We are pleased to present to you the Popular Annual Financial Report (PAFR) of the Montgomery County (County) Employee Retirement Plans (Plans) for the fiscal year ended June 30, 2023. The information provided in this PAFR is a snapshot of the detailed information contained within the Plan's Annual Comprehensive Financial Report (ACFR). It is designed to assist you in understanding the structure and current status of the Plans by providing a concise summary of each Plan's financial health, investment performance, and key accomplishments throughout the fiscal year.

The County's Chief Administrative Officer is responsible for overseeing the day-to-day administration of the benefits provided to over 10,000 active and 6,900 retired participants in the Plans.

The Board continued to implement changes to the investment portfolio in an effort to improve the risk-adjusted returns of the program. During the year, new investments were added across the portfolio, including enhancements to public equity, private equity, private credit, and private real assets portfolios.

Environmental, Social, and Governance (ESG) considerations continue to play an important role in the investment program. Over the last year, staff completed the second annual Principles for Responsible Investment

(PRI) submission, which is the most robust way for our ESG integration process to be benchmarked to peers. Staff continue to influence investment managers in the portfolio to become PRI signatories, as we believe it is the industry standard designation concerning ESG integration. Currently, 52% of the managers within the portfolio are signatories, up from 44% last year. Staff also engage with investment managers on Diversity, Equity, and Inclusion (DEI) initiatives within their firms and report results at several Board meetings throughout the year. The Board's Governance Manual states that the Board, staff, and consultants are committed to including emerging investment managers in searches, including businesses owned by women, minorities, and disabled individuals. As of the end of the fiscal year, 24% of the portfolio was allocated to diverse firms.

The Board continually monitors the investment options offered to participants to ensure they offer the best risk and return for their sector as well as the lowest fee.

For more in-depth information, we encourage you to read the ACFR by visiting www.montgomerycountymd.gov/retirement.

Respectfully submitted,

Richard Madaleno

Chief Administrative Officer

M. Michael

Board Chair

Montgomery County Board of Investment Trustees

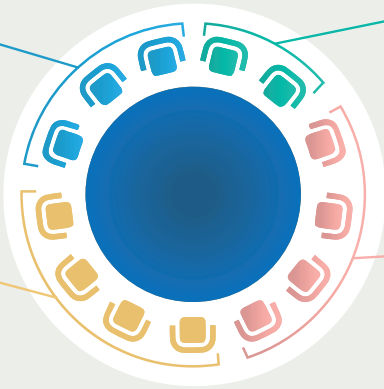
The Board is comprised of 13 trustees appointed by the County Executive and confirmed by the County Council. Shown below is the composition of the Board of Investment Trustees.

Three Certified Employee Organization Representatives:

These representatives are nominated by the employee organizations certified as the representatives of the OPT/SLT, fire & rescue, and police bargaining units.

Four Ex Officio Representatives:

Directors of three County departments: (Management & Budget; Finance; Human Resources) and the County Council.



Two Employee Representatives:

One active County employee who is not represented by a bargaining unit and is a member of a County retirement plan, and one retired County employee recommended by the Montgomery County Retired Employees' Association.

Four Other Representatives:

Individuals who are knowledgeable in pensions, investments, or financial matters - two recommended by the County Council and two recommended by citizens or countywide citizens' groups.

FINANCIAL SUMMARY

Fiduciary Net Position As of June 30

The financial statements for the Plans have been prepared under the accrual basis of accounting in conformity with U.S. generally accepted accounting principles, promulgated by the Governmental Accounting Standards Board. The table shown below is a summary of the assets and liabilities of the ERS, RSP, and DCP, and reflects the resources available to pay benefits to members and beneficiaries as of June 30, 2023.

Net Position (Millions)						
	ERS		RSP		DCP	
	2023	2022	2023	2022	2023	2022
Assets:						
Cash and investments	\$ 4,924.5	\$ 5,028.9	\$ 688.3	\$ 612.6	\$ 574.7	\$ 515.6
Receivables	15.0	18.4	1.4	2.3	0.6	1.3
Total assets	4,939.5	5,047.3	689.7	614.9	575.3	516.9
Liabilities	161.2	211.0	—	0.1	—	—
Total net position	\$ 4,778.3	\$ 4,836.3	\$ 689.7	\$ 614.8	\$ 575.3	\$ 516.9

Changes in Fiduciary Net Position for the years ended June 30

This table shown below reflects the financial activity of the ERS, RSP, and DCP for the fiscal year and presents information to illustrate how each plan's fiduciary net position changed as a result of this activity. Contributions from employers and members, as well as net investment earnings, were the main additions to the Plans. The payment of retirement benefits and participant distributions accounted for the majority of deductions from the Plans.

Change in Net Position (Millions)						
	ERS		RSP		DCP	
	2023	2022	2023	2022	2023	2022
Additions:						
Employer contributions	\$ 52.5	\$ 68.1	\$ 23.5	\$ 22.3	\$ —	\$ —
Member contributions	33.5	31.2	11.9	12.2	22.5	23.9
Net investment income	181.9	(257.1)	68.5	(103.6)	71.6	(89.3)
Total additions	267.9	(157.8)	103.9	(69.1)	94.1	(65.4)
Deductions:						
Benefits	310.4	287.0	—	—	—	—
Refunds	12.3	11.7	28.7	22.8	35.8	29.9
Administrative expenses	3.2	3.1	0.3	0.3	—	—
Total deductions	325.9	301.8	29.0	23.1	35.8	29.9
Total change in net position	\$ (58.0)	\$ (459.6)	\$ 74.9	\$ (92.2)	\$ 58.3	\$ (95.3)

EMPLOYEES' RETIREMENT SYSTEM (ERS) including GRIP

The ERS was established in 1965 as a cost-sharing, multiple-employer defined benefit pension plan to provide benefits to the employees of the County and other agencies or political subdivisions that elect to participate. The County Council passed legislation in 2009 enabling the County to establish and maintain the GRIP, a cash balance plan that is part of the ERS, for employees. The ERS is closed to employees hired on or after October 1, 1994, except public safety bargaining unit employees and GRIP participants. ERS benefits are determined based on the participant's years worked, age at retirement, and average final earnings. GRIP benefits are determined based upon the participant's account balance, which includes contributions and earnings.

Membership Data

Membership - Fiscal Year 2023	ERS	GRIP
Active Participants	3,288	2,941
Former Participants	137	631
Retiree & Other Benefit Recipients	6,974	12
Total Membership	10,399	3,584

ERS Average Annual Retirement Benefit	
2023	2022
\$44,437	\$41,201

Funded Status

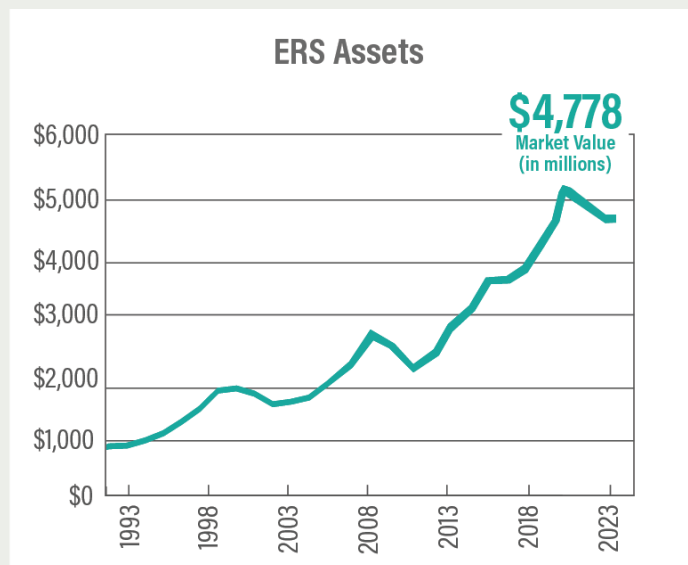
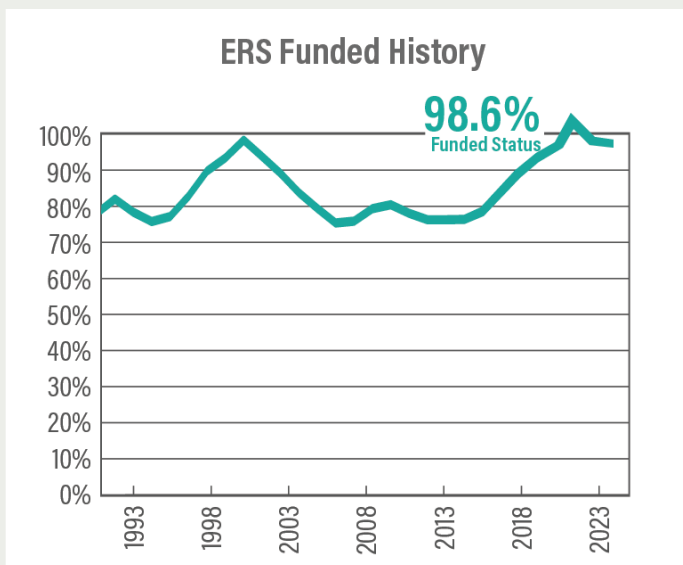
The funded status of a retirement plan measures the progress of accumulating the funds necessary to meet future obligations and is an important indicator of the soundness of a retirement plan. The funded status reflects the asset of the retirement plan available to pay benefit payments.

The funded status is affected by membership experience, as well as demographics, economic changes, and investment performance. The aggregate funded status of the 100 largest U.S. public pension plans was 75.8% as of June 30, 2023*, compared to the ERS funded status of 98.6%.

Growth of Assets

As of June 30, 2023, the market value of the ERS assets was \$4.778 billion, as compared to \$4.836 billion at June 30, 2022. The decrease of \$58 million was attributable to the following:

- An increase of \$86 million from employer and employee contributions
- A increase of \$182 million from investment income
- A decrease of \$326 million due to the payment of benefits to system participants and administrative expenses



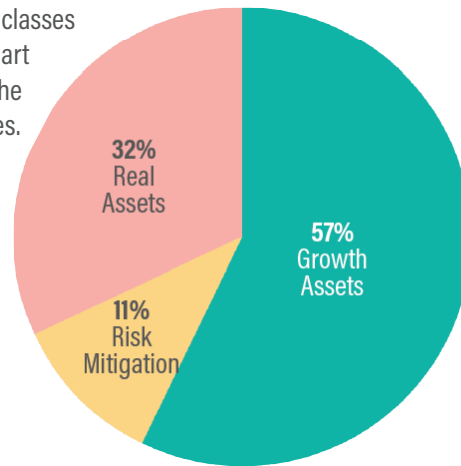
*Milliman Public Pension Funding Index, 2nd Quarter 2023.

EMPLOYEES' RETIREMENT SYSTEM (ERS) including GRIP

Investment Allocation

The Board invests ERS assets across a broad array of asset classes resulting in the June 30, 2023 allocation presented in the chart to the right. 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
- Manage portfolio risk to limit potential downside fluctuations in the value of the total ERS assets
- Realize as high a rate of total return as possible consistent with the above



Growth Assets

10.0% Domestic Equity
11.0% International Equity
3.5% Global Equity
6.2% High Yield
1.3% Emerging Markets Debt
18.6% Private Equity
3.9% Credit Opportunities
2.1% Directional Hedge Funds

Risk Mitigation

8.0% Long Duration and Cash
2.9% Diversifying Hedge Funds

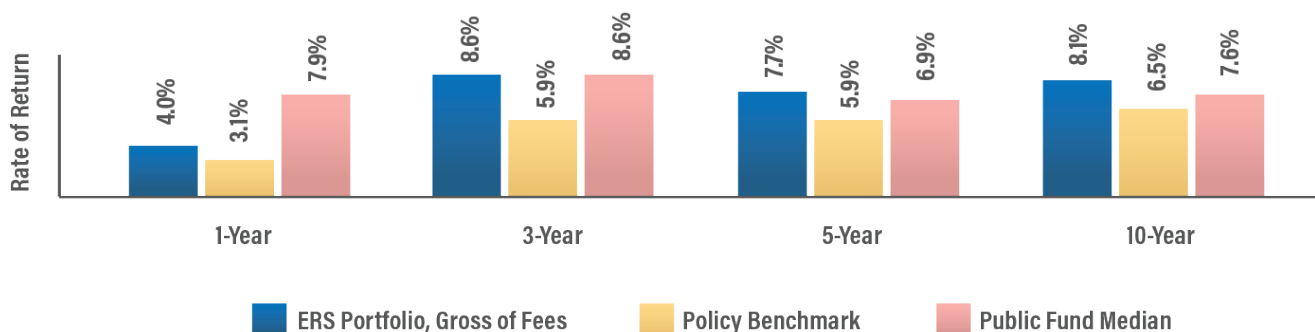
Real Assets

7.6% Public Real Assets
10.5% Private Real Assets
14.4% Inflation Indexed Bonds

Investment Performance Summary

The majority of the average retiree's benefit is paid from investment earnings. The median return among U.S. public pension plans over \$1 billion in size in FY 2023 was a gain of 7.9%, gross of fees. The ERS' return for the fiscal year was a gain of 4.0%, gross of fees, ranking in the universe's fourth quartile. The key drivers of the performance for the twelve-month period ending June 30, 2023 were the ERS' allocations to: private equity, private debt, diversifying hedge funds, and emerging market debt. The ERS' three-year return of 8.6% ranked median for the universe. The five-year return of 7.7% and ten-year return of 8.1% both ranked in the first quartile of the peer group universe. Shown below is a comparison of the ERS' returns to its policy benchmark, which is composed of market indexes with weightings reflective of the ERS' asset allocation targets. Also shown is the public fund peer group comprised of funds with assets over \$1B.

Investment Performance Summary (total fund/benchmark/median)

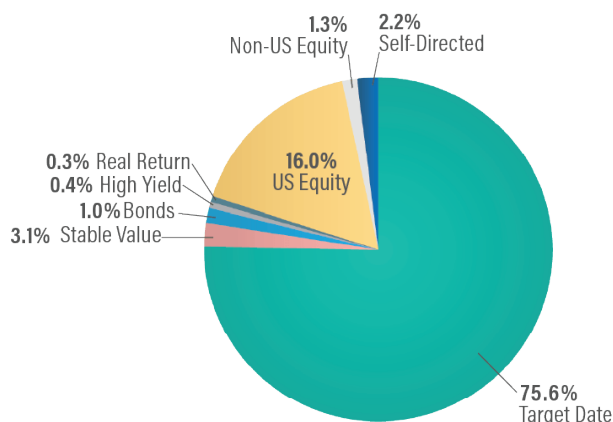


RETIREMENT SAVINGS & DEFERRED COMPENSATION PLANS

Retirement Savings Plan (RSP)

The RSP was established in 1994 as a cost-sharing multiple-employer defined contribution retirement plan to provide benefits to all non-public safety and certain public safety employees hired on or after October 1, 1994. Non-public safety employees contribute 4% of regular earnings up to the Social Security wage base and 8% above the wage base. Public safety employees contribute 3% up to the Social Security wage base and 6% above the wage base. During FY23, the County and participating agency employers contributed 8% of regular earnings for non-public safety employees, and 10% of regular earnings for public safety employees, as required by County law.

Investment Allocation



The Board has established a diversified slate of mutual and commingled funds from which participants may select investment options. The chart to the left depicts the allocation of RSP assets as of June 30, 2023.

Membership - Fiscal Year 2023

Active Members	3,225
Inactive Members	1,246
Total Membership	4,471

Target Date Funds invest in a combination of equities, bonds, and other assets. The asset allocation is adjusted over time to balance risk and return throughout a participant's lifetime. Each strategy is managed with an estimated retirement date, becoming more conservative (less equity exposure) to and through retirement.



Deferred Compensation Plan (DCP)

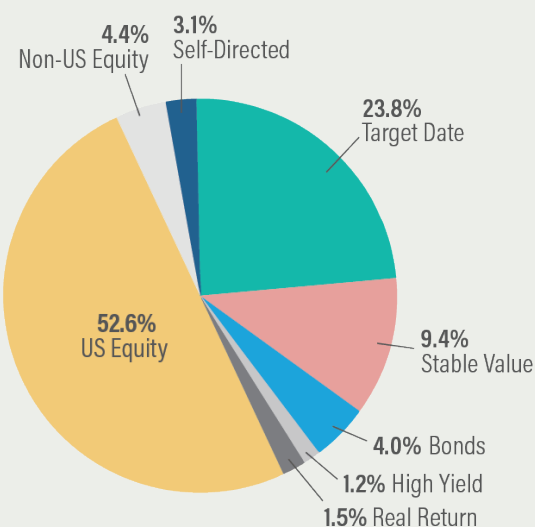
The County established the DCP for employees in 1980. All non-represented employees are eligible to join the DCP at any time, and non-represented employees hired after June 6, 2010 are automatically enrolled in the DCP 60 days after the date they are hired with a 1% contribution unless a written election not to participate is submitted. Employees who are members of Municipal and County Government Employees Organization (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.

The Board has established a diversified slate of mutual and commingled funds, administered by Fidelity, from which participants may select investment options.

Membership - Fiscal Year 2023

Active Members	2,083
Inactive Members	1,404
Total Members	3,487

Investment Allocation



For calendar year 2023, annual contributions are limited to the lesser of \$22,500 or 100% of the employee's eligible compensation. Participants who are age 50 or older may make an additional annual catch-up contribution of \$6,500. In addition, participants may be eligible to participate in the 3-year catch-up option.

RETIREMENT SAVINGS & DEFERRED COMPENSATION PLANS

Investment Counseling

The Board provides one 2-hour investment counseling session annually to all RSP and DCP participants through Cambridge Investment Research at no charge to the participant. These sessions are designed to assist participants with constructing a diversified portfolio to assist them in meeting their retirement savings goals, as well as to provide participants the opportunity to expand their knowledge of investments.

The Board also offers retirement investment counseling services through Fidelity Investments for participants in the RSP, DCP, GRIP, MCGEO DROP, and the police DRSP.

To learn more about available investment counseling options, visit the Board's web site:
www.montgomerycountymd.gov/retirement/investmentcounseling.

✓ FACT

Default investment

Until a participant makes their investment selection, all contributions will be invested in a default target-dated investment fund that is determined based on the participant's date of birth and projected retirement date at age 65.

✓ FACT

Morningstar ratings

50% of the funds offered by the Board have a Morningstar rating of 4-stars or better.

✓ FACT

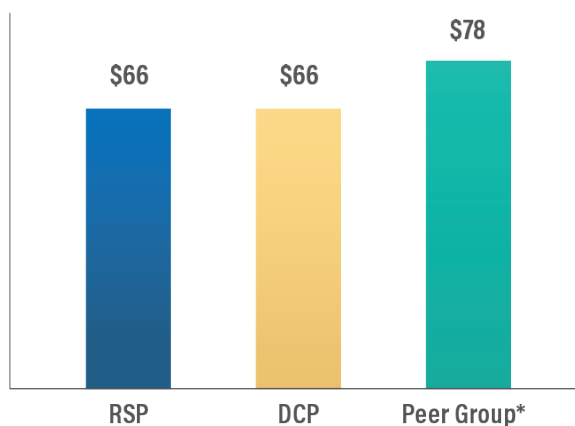
Termination

After termination of employment with the County or a participating agency, participants may leave their account balance in the County Plans (subject to minimum distribution requirements) and continue to benefit from the investment counseling services, strong investment products, and low fees.

Competitive Recordkeeping Fee

In July 2016, the Board negotiated a very competitive, per-account annual recordkeeping fee of \$66 with Fidelity. As shown below, this fee is well below the average market fee of \$78 per participant.

Recordkeeping Fees - 2023

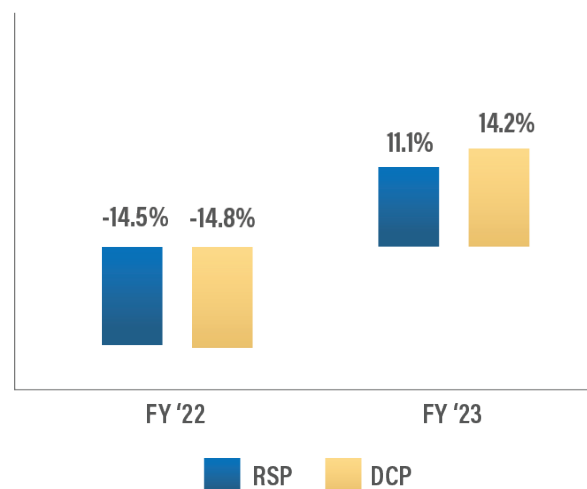


**Peer Group is based on Fidelity Investment's Tax Exempt universe of plans with similar participant levels as of 12/31/2022.*

Investment Performance

The chart below compares the combined investment performance of all participants in the RSP and DCP.

Investment Performance





MONTGOMERY COUNTY

EMPLOYEE RETIREMENT PLANS

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