
Board of Investment Trustees



Montgomery County Employee Retirement Plans

Annual Report

Fiscal Year ending June 30, 2023

Overview

December 31, 2023

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, 2023 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 \$4,778.3 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, 2023 the ERS had 6,229 active participants and 6,986 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, 2023 the RSP had \$689.7 million in net assets and 4,471 (3,225 active and 1246 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, 2023 the DCP had \$575.3 million in net assets and 3,487 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, 2023:

Net Position (Millions)							Change in Net Position (Millions)						
	ERS		RSP		DCP		ERS		RSP		DCP		
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	
	Assets:												
Cash and investments	\$ 4,924.5	\$ 5,028.9	\$ 688.3	\$ 612.6	\$ 574.7	\$ 515.6	\$ 52.5	\$ 68.1	\$ 23.5	\$ 22.3	\$ -	\$ -	
Receivables	15.0	18.4	1.4	2.3	0.6	1.3	33.5	31.2	11.9	12.2	22.5	23.9	
Total assets	4,939.5	5,047.3	689.7	614.9	575.3	516.9	181.9	(257.1)	68.5	(103.6)	71.6	(89.3)	
Liabilities													
Total net position	\$ 4,778.3	\$ 4,836.3	\$ 689.7	\$ 614.8	\$ 575.3	\$ 516.9	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)

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

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

Deborah Snead
 Vice-Chair
 Retired Employees
 Representative
 Term Expires March 2024

James Donaldson
 Non-Bargaining
 Unit Representative
 Term Expired 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 Expired March 2023

Brian Swain
 Public Representative
 Term Expired March 2023

Christine Kelleher
 Secretary
 Montgomery County Council
 Representative
 Term Expires March 2024

Barry Kaplan
 Montgomery County Council
 Representative
 Term Expires March 2026

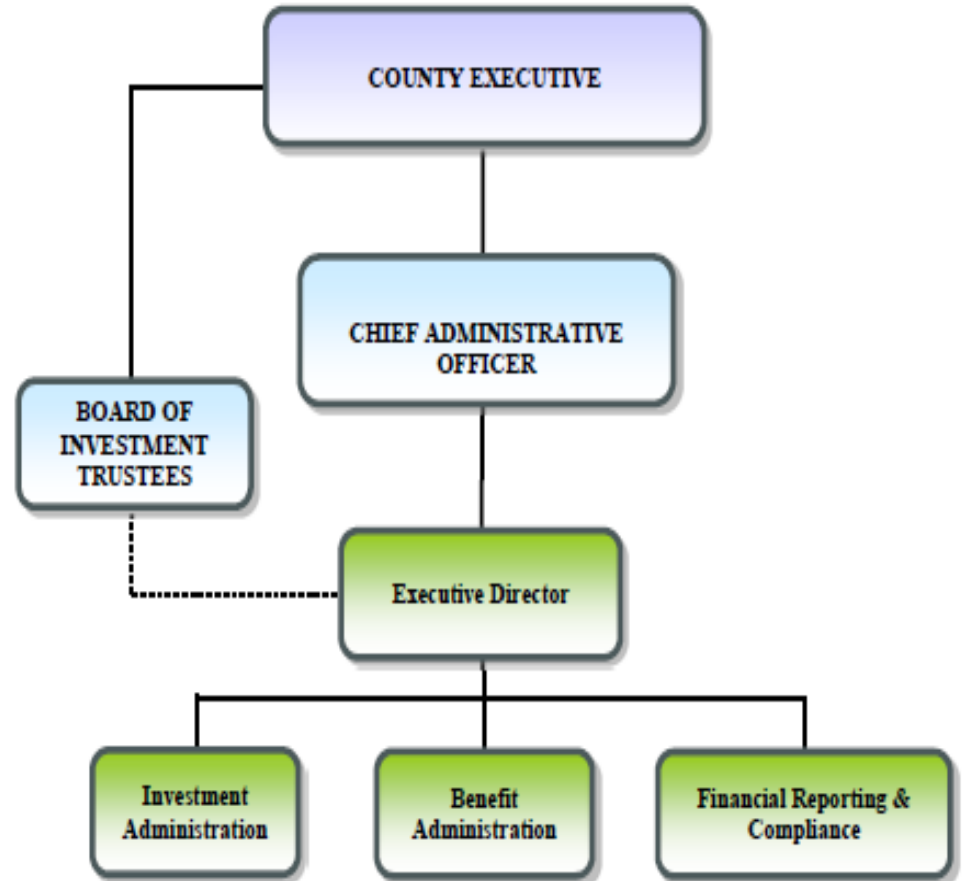
Michael J. Coveyou
 Montgomery County
 Director of Finance
 Ex-Officio Member

Lee Holland
 Police Bargaining
 Unit Designee

Jeffrey D. Buddle
 Fire & Rescue Bargaining
 Designee

Jennifer Harling
 Montgomery County
 Chief Labor Relations Officer
 Ex-Officio Member

Retirement Plans Administrative Organization



Board Actions

- ***Employees' Retirement System (includes GRIP)***
 - *Improved the efficiency and negotiating flexibility for procuring non-investment manager contracts (i.e., software vendors).*
 - *Streamlined reporting and reconciliation efforts by transitioning public managers away from the Group Trust and into their dedicated Plan.*
 - *Submitted the third annual Principles for Responsible Investing (PRI) report outlining initiatives and incorporation of ESG into the portfolio.*
- ***Retirement Savings Plan & Deferred Compensation Plan***
 - *Replaced the PIMCO High Yield Fund with the American Century High Income Fund sub-advised by Nomura.*
 - *Replaced the Invesco Global Fund and mapped the assets in a 50/50 split between the State Street S&P 500 Index Fund and the State Street Global All Cap Equity Ex-U.S. Index Fund which substantially lowered fees.*

Board Achievements

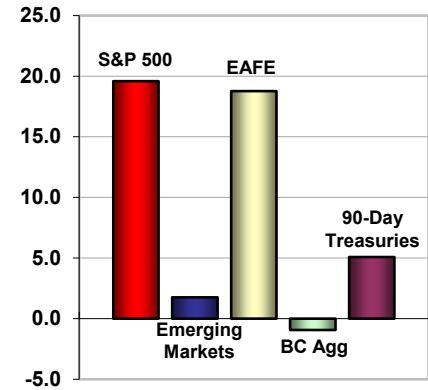
- ***Certificate of Achievement for Excellence in Financial Reporting***
 - *The Government Finance Officers Association (GFOA) awarded the Certificate of Achievement to the Board for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022. The certificate of achievement 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-three years that it has published its own ACFR.*
- ***Employees' Retirement System***
 - *The investment return for the year ended June 30, 2023, was a gain of 4.0%. The return ranked in the bottom 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 quartile.*
- ***Retirement Savings Plan***
 - *As of June 30, 2023, 73% 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 11.1%.*
- ***Deferred Compensation Plan***
 - *As of June 30, 2023, 73% 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 14.2%.*

Market Highlights – ERS Investment Performance

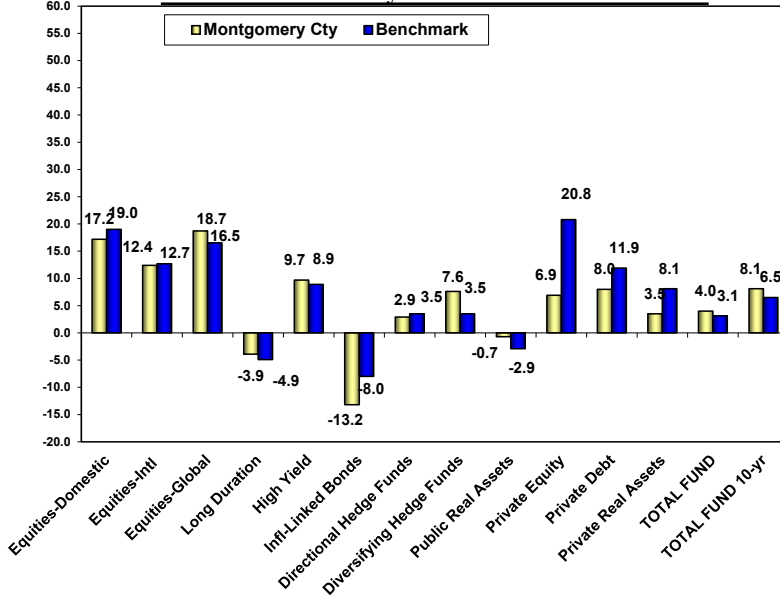
Global economic growth accelerated in the first half of 2023, hitting 2.8%. Up until now, monetary tightening drags had been offset by fading supply shocks following the COVID-19 pandemic and Russia’s invasion of Ukraine. But since 2022, global policy rates have risen by almost 400 basis points (bps), which is impacting interest-sensitive spending and holding back factory output. In the U.S., first and second quarter GDP numbers were up 2.2% and 2.1%, respectively, continuing the positive trend from the second half of 2022. After reaching 8.6% during the first half of 2022, inflation has steadily fallen, ending the fiscal-year period at 3.0%. During the year, the Fed raised rates seven times and the Fed Funds Rate went from 1.50-1.75% to 5.00%-5.25%. Since then, the Fed has raised rates one more time but has also adopted a more dovish monetary policy. The consensus today is that the U.S. will see higher rates for longer, but rate hikes have likely come to an end.

During the fiscal year, the S&P 500 gained 19.6%, driven primarily by strong performance in the information technology, industrials, and consumer discretionary sectors. Energy, healthcare, and financials struggled during the first half of the year, but still ended the 1-year period in positive territory. Real estate was the only sector with negative returns for the year. Emerging markets were up 1.8%, with positive performance in Brazil, India, Mexico, Korea, and Taiwan, offsetting the negative performance in China. International stocks were up 18.8%, driven primarily by Japan which is having one of its best years in a decade. European markets were supported by 51% drop in natural gas prices and a 13% slip in oil prices. 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 6/30/23



Employees' Retirement System
FY 2023 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, 2023: Domestic Equities 10.0%, International Equities 11.0%, Global Equities 3.5%, High Yield 6.2%, Emerging Markets Debt 1.3% , Long Duration 8.0%, Inflation Linked Bonds 14.4%, Public Real Assets 7.6%, Private Equity 18.6%, Private Real Assets 10.5%, Credit Opportunities 3.9%, Directional Hedge Funds 2.1%, and Diversifying Hedge Funds 2.9%. The chart to the left reflects the returns for the fiscal year ending June 30, 2023, 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 2013-2023 fiscal year decade, the annual rate of return on the ERS’ investments was 7.6% after 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?**

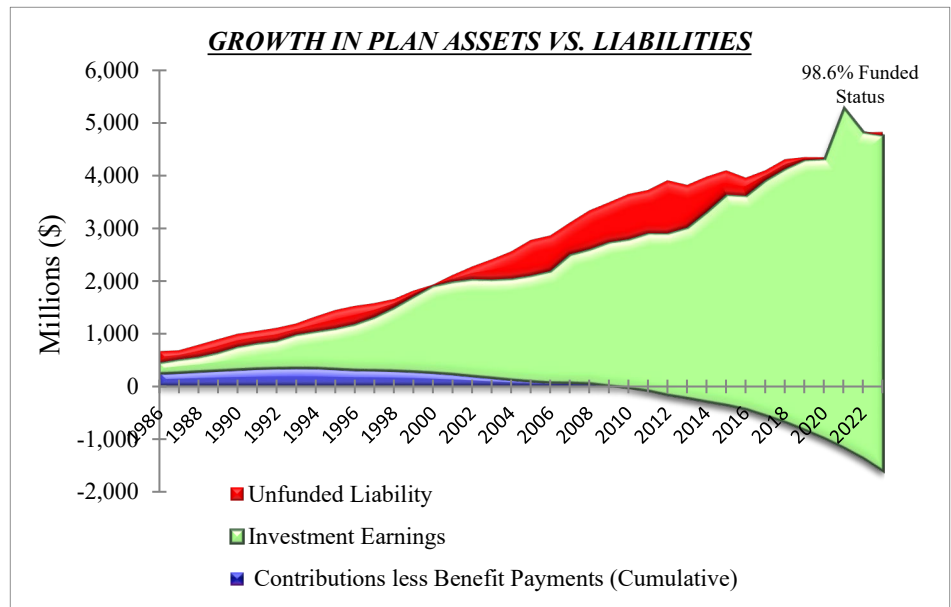
Contact the Montgomery County Employee Retirement Plans at 240-777-8230 or visit our website at www.montgomerycountymd.gov/retirement.

- **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 38-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. Strong financial markets and low inflation in subsequent years resulted in a fully funded status in 2021 and 2022. Primarily, increased sponsor benefits for certain groups within the Plans along with inflation headwinds in 2023 led to substantial retiree cost of living increases and challenging market conditions for stocks and bonds, which caused the funded status to decrease below 100%. 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 FY23, 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, 6th 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, 2023.

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	1.66	1.46	1.74
Income Funds:				
Fidelity Total Bond	★★★★	0.97	(2.21)	1.76
Fidelity Inflation-Protected Bond	★★★★	(1.33)	(0.22)	2.42
SSgA U.S. Bond Index	Not Rated	(0.98)	(4.01)	0.76
American Century High Income Fund	★★★★	9.94	4.25	3.40
Target Date Funds:				
SSgA Target Retirement 2020	Not Rated	4.76	4.46	4.72
SSgA Target Retirement 2025	Not Rated	7.19	5.32	5.63
SSgA Target Retirement 2030	Not Rated	10.02	6.00	6.21
SSgA Target Retirement 2035	Not Rated	11.25	6.73	6.53
SSgA Target Retirement 2040	Not Rated	12.16	7.50	6.81
SSgA Target Retirement 2045	Not Rated	12.99	8.19	7.03
SSgA Target Retirement 2050	Not Rated	13.79	8.61	7.21
SSgA Target Retirement 2055	Not Rated	13.81	8.61	7.21
SSgA Target Retirement 2060	Not Rated	13.81	8.61	7.21
SSgA Target Retirement 2065	Not Rated	13.81	8.61	N/A
SSgA Target Retirement Income	Not Rated	4.05	3.33	3.99
Growth & Income Funds:				
Hartford Dividend & Growth	★★★★★	10.66	15.67	11.03
SSgA S&P 500 Index	Not Rated	19.58	14.58	12.28
Growth Funds:				
ClearBridge Small Cap Growth	★★★	13.49	5.51	6.64
Fidelity Growth Company	★★★★★	33.35	13.93	16.86
Fidelity Low-Priced Stock	★★★★	13.46	15.97	8.31
Fidelity Small Cap Value	★★★★★	10.00	20.87	7.59
SSgA Russell Small/Mid Cap Index	Not Rated	15.31	10.02	6.55
International Stock Funds:				
Harbor International	★★	18.59	10.50	3.51
Invesco Global Fund	★★	23.06	8.19	6.98
SSgA Global All Cap Equity ex US Index	Not Rated	12.95	7.54	3.66
Specialty Funds:				
Fidelity Strategic Real Return	★★★★★	1.77	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, 2023, 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, 6th floor. Additional information is also available at the Fidelity website at

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Funds	Morningstar Rating	Rates of Return		
		1 Year	3 Year	5 Year
Stable Value Funds:				
Fidelity Managed Income	Not Rated	1.66	1.46	1.74
Income Funds:				
Fidelity Total Bond	★★★★	0.97	(2.21)	1.76
Fidelity Inflation-Protected Bond	★★★★	(1.33)	(0.22)	2.42
SSgA U.S. Bond Index	Not Rated	(0.98)	(4.01)	0.76
American Century High Income Fund	★★★★	9.94	4.25	3.40
Target Date Funds:				
SSgA Target Retirement 2020	Not Rated	4.76	4.46	4.72
SSgA Target Retirement 2025	Not Rated	7.19	5.32	5.63
SSgA Target Retirement 2030	Not Rated	10.02	6.00	6.21
SSgA Target Retirement 2035	Not Rated	11.25	6.73	6.53
SSgA Target Retirement 2040	Not Rated	12.16	7.50	6.81
SSgA Target Retirement 2045	Not Rated	12.99	8.19	7.03
SSgA Target Retirement 2050	Not Rated	13.79	8.61	7.21
SSgA Target Retirement 2055	Not Rated	13.81	8.61	7.21
SSgA Target Retirement 2060	Not Rated	13.81	8.61	7.21
SSgA Target Retirement 2065	Not Rated	13.81	8.61	N/A
SSgA Target Retirement Income	Not Rated	4.05	3.33	3.99
Growth & Income Funds:				
Hartford Dividend & Growth	★★★★★	10.66	15.67	11.03
SSgA S&P 500 Index	Not Rated	19.58	14.58	12.28
Growth Funds:				
ClearBridge Small Cap Growth	★★★	13.49	5.51	6.64
Fidelity Growth Company	★★★★★	33.35	13.93	16.86
Fidelity Low-Priced Stock	★★★★	13.46	15.97	8.31
Fidelity Small Cap Value	★★★★★	10.00	20.87	7.59
SSgA Russell Small/Mid Cap Index	Not Rated	15.31	10.02	6.55
International Stock Funds:				
Harbor International	★★	18.59	10.50	3.51
Invesco Global Fund	★★	23.06	8.19	6.98
SSgA Global All Cap Equity ex US Index	Not Rated	12.95	7.54	3.66
Specialty Funds:				
Fidelity Strategic Real Return	★★★★★	1.77	6.06	4.95