

CITY OF ROCKVILLE
Retirement Board

DATE: February 24, 2023

LOCATION: Video/Teleconference on WebEx

TIME: 10:00 a.m.

Board Meeting
MINUTES

PRESENT: Board Members: Mike Walsh, Citizen Representative; Paula Perez, AAME Representative; Sgt. Chris Peck, FOP Representative; Greg Satterfield, Union Representative; Craig Simoneau, Public Works Director representing the City Manager (arrived at 10:10 a.m.); Councilmember Beryl Feinberg, Mayor and Council Representative
Executive Secretary to the Board: Stacey Webster, City of Rockville CFO

ABSENT: None.

Also present: Christian Sevier from Segal Marco Advisors; Jim Ritchie and Colin Slovenkay from Bolton Partners, Inc.; Harry Atlas, Venable; Rob DiSpirito, City Manager; Victor Brito, Chief of Police; Xiaojing Zhang and Tim Peifer, Finance; Daisy Harley, Human Resources; Darryl Parrish, Prospective Member.

Ms. Webster called the meeting to order at 10:02.

Ms. Webster noted that Mr. Craig Simoneau will replace Karen Marshall as the City Manager's designated representative on the Board, and Mikhail Sukhenko's term expired, and he did not seek reappointment.

I. Election of Board Chair

Ms. Webster asked the Board to appoint a new chairperson. Sgt. Peck made a motion to appoint Mike Walsh as the Board Chair. Ms. Perez seconded the motion. All members voted in favor (5-0-0; note: Mr. Simoneau joined the meeting 10 minutes last and was not present for this vote).

II. Approval of Minutes

Sgt. Peck made a motion to approve the minutes from November 18, 2022. Ms. Feinberg seconded the motion. All members voted in favor (5-0-0; note: Mr. Simoneau joined the meeting 10 minutes last and was not present for this vote).

III. Investment Performance Review

Following an overview of the market environment year-to-date, Mr. Sevier from Segal Marco Advisors presented the investment performance updates for the Pension Plan, Thrift/457 Plan, and Retiree Benefit Trust for the period ending December 31, 2022.

Mr. Sevier started with the Pension Fund, noting that the December 31 market value was approximately \$118.5M and the Fund returned 4.9% for the second fiscal quarter vs. the Policy Index return of 5.4%. Mr. Sevier noted that for the fiscal year-to-date the Fund returned 0.1% vs. the Policy Index return of 0.9%. A redemption request of \$3M has been submitted for the Fund's Prudential Real Estate Investors investment and the proceeds will be added to the large cap equity allocation as they are received. Mr. Sevier noted that it could take several quarters or possibly longer for these funds to be distributed, given the real estate fund's large withdrawal queue.

For the Thrift and 457 review, Defined Contribution Plan assets total \$83.2M as of December 31. Mr. Sevier noted that an enhanced crediting rate on the Stable Value investment had been negotiated prior to the recordkeeper transition to Lincoln, and that had been beneficial for participants utilizing the fund. Mr. Sevier also reminded the Board that the Voya Small Company fund was replaced with the Boston Trust Walden Small Cap fund in late January 2023. Mr. Sevier noted improved performance for the Western Asset fixed income investment for the quarter, but that overall returns were still lagging the benchmark. The array of active and passive fixed income options in each asset class was discussed in detail and the Board discussed the importance of communicating the availability of these options to Plan participants.

Ms. Webster asked the Board if they were interested in employee training for investment options/types for the city's DC plans. The Board agreed that this would be a good idea. Ms. Webster said that she and Ms. Harley and Mr. Peifer would discuss this with Lincoln and report back at the next Board meeting.

For the Retiree Benefit Trust, total assets equal approximately \$9.2M as of December 31, 2022. Mr. Sevier noted that the Board had previously decided to add a multi-asset class solutions (MACS) investment manager, and that given that the Invesco option in the Pension Fund would not be accessible to this Plan, Segal Marco had conducted a manager search.

IV. Retiree Benefit Trust (OPEB) Investment Option Search

Mr. Sevier reviewed the three investment managers/strategies included in the MACS manager search book: PIMCO All Asset, Graham Quant Macro (via a John Hancock mutual fund) and Nordea Stable Return (also via a John Hancock mutual fund). Mr. Sevier discussed the differing investment style and investment strategy for each, as well as a detailed performance and risk analysis. Mr. Sevier noted that PIMCO was the most attractive from a fee standpoint at 0.86%, versus 1.31% for Graham and 1.15% for Nordea.

Mr. Sevier explained that based on the intended role for this prospective investment within the broader Retiree Benefit Trust portfolio, and given the meaningful difference in pricing, he was comfortable recommending that the Board add PIMCO All Asset to the Retiree Benefit Trust at the previously agreed upon target of 5% of total assets. Mr. Sevier indicated that he expected this to be somewhere between \$500k-\$600k and would be funded from the Western Asset investment.

Mr. Satterfield made a motion to move approximately 5 percent of the OPEB investment to PIMCO for the multi-asset class strategy (MACS). Ms. Feinberg seconded the motion. All voted in favor (6-0-0).

V. Administrative Changes to the Pension Plan Document

Mr. Harry Atlas, the Board's retirement/pension attorney from Venable, highlighted some administrative changes to the Pension Plan document. Mr. Atlas showed a redlined document with the proposed changes. These changes include

Pension Section 5.4 related to medical insurance premiums. The medical insurance premiums are not being paid from the Plan and therefore should be removed. Mr. Atlas recommended that these be included in the Personnel Policy and Procedures Manual. Board members were worried that language would get lost if it was not captured somewhere else. Mr. Atlas recommended keeping the language in the Pension document until it is formally in the Personnel Policy and Procedures Manual.

Pension Section 7.4d related to a contingent annuitant option. This section does not change the application of how the pension works, it just specified the actions related to a contingent annuitant option.

Pension Section 8.6 clarification on a retired employee death benefits. Clarified form of payment applicable to the retired employee.

Pension Section 9.3 related to employee receiving their own contributions. Language was deleted to clarify who received certain benefits

Thrift Section 15.2 related to the employee mandatory contribution. This makes the mandatory contribution 1 percent if the employee does not elect a contribution a contribution between 1 and 5 percent. There was a robust Board discussion about the 1 to 5 percent, and how that works. Mr. Atlas clarified what is required by the IRS code. Ms. Harley gave some context about what employees are electing.

Mr. Simoneau made a motion to change the mandatory contribution to 5 percent if an employee does not elect a contribution. Sgt. Peck seconded the motion. The motion passed (4-2-0).

Mr. Atlas showed the additions to the Appendix on the Retiree COLA for the past years that were not listed. Councilmember Feinberg asked Ms. Webster to remember to update the Appendix if/when future COLAs were granted by the Mayor and Council.

Councilmember Feinberg moved all recommended changes to the Pension Plan document except for Sections 5.4 and 15.2. Mr. Satterfield seconded the motion. All members voted in favor (6-0-0).

VI. Discussion on DROP for Police

Mr. Jim Ritchie from Bolton Partners discussed the background of the Board's request for a cost neutral DROP benefit for Police. Bolton designed four options to discuss with the Board. These options had different variables: length of DROP (3 years vs. 5 years), eligibility (retirement/early retirement), employee contributions, interest credit, and availability/sunset.

Mr. Ritchie reviewed each option and answered questions on how each DROP could work.

Sgt. Peck said Option 1 and 2 do not make sense to him and his colleagues. He stated that the interest credit of 3.5 percent seems problematic. Sgt. Peck explained he was most interested in Option 3 with self-directed investment accounts and a 3-to-5-year DROP period. Mr. Simoneau concurred with Sgt. Peck's preference.

Ms. Perez asked if this would extend to everyone, not just Police. Sgt. Peck said that it was Mr. DiSpirito's intention to apply this DROP benefit to everyone after a successful implementation for Police.

Councilmember Feinberg asked if benefits would be included in the FY 2024 Compensation and Classification Study. Ms. Webster reported that it was her understanding that the study will cover all salaries and benefits, including retirement benefits.

Chief Brito reported that recruitment and retention has never been more difficult. He explained the competitiveness in the recruitment/retention market and discussed why he supported a DROP Program. He stated it is an important factor when managing transitions and retirements and helps the RCPD to retain and recruit the most talented Police Officers.

Councilmember Feinberg asked for more comparative information and for more cost information related to the modified option.

Sgt. Peck made a motion for Bolton to bring back Option 3 with the following modifications: self-directed investment accounts and a 3-to-5-year DROP period. Mr. Simoneau seconded the motion. All voted in favor (6-0-0).

Ms. Webster announced that the next meeting will be held on May 12, 2023. This meeting will take place in the Black Eyed Susan Conference Room at City Hall. *(NOTE: After this meeting the Board decided to move the meeting from May 12, 2023, to **May 19, 2023**, due to schedule conflicts).*

Adjournment – Councilmember Feinberg made a motion to adjourn. Sgt Peck seconded the motion. All members voted in favor (6-0-0). The meeting adjourned at 12:33 p.m.