

CITY OF ROCKVILLE
Retirement Board

DATE: September 9, 2022

LOCATION: Video/Teleconference on WebEx

TIME: 10:00 a.m.

Board Meeting
MINUTES

PRESENT: Board Members: Mikhail Sukhenko (Interim Chair) and Mike Walsh, Citizen Representatives; Paula Perez, AAME Representative; Sgt. Chris Peck, FOP Representative; Greg Satterfield, Union Representative
Executive Secretary to the Board: Stacey Webster, City of Rockville CFO

ABSENT: Karen Marshall, Human Resources representing the City Manager;
Councilmember Beryl Feinberg, Mayor and Council Representative

Also on the call: Kim Francisco, Tim Peifer, and Xiaojing Zhang, Finance; Daisy Harley, Human Resources; Christian Sevier from Segal Marco Advisors; Jim Ritchie from Bolton Partners, Inc.; Tatiana Hersh and Justin Harvey from Lincoln Financial Group; Kevin Balaod, WithIntelligence. The City Manager, Rob DiSpirito, also joined the meeting at 11:00 a.m.

The meeting was called to order to 10:01 a.m.

I. Approval of Minutes

Ms. Perez made a motion to approve the minutes from May 13, 2022. Sgt. Peck seconded the motion. All members voted in favor (5-0-0).

II. Investment Performance Review

Following an overview of the challenging 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 June 30, 2022.

Mr. Sevier started with the Pension Fund, noting that the underweight in equities would be rebalanced once the Fund's annual contribution is received. The June 30 market value was approximately \$117.3M and the Fund returned -7.6% for the fiscal year vs the Policy Index return of -7.5%. The recent relative underperformance of several managers, including Western Asset and Invesco, was discussed in detail and there were no recommended changes to the portfolio.

For the Thrift and 457 review, Defined Contribution Plan assets total \$80.9M. Mr. Sevier discussed performance for the Invesco Developing Markets fund, noting its continued weakness in the second quarter, and reiterated that Segal Marco will continue to monitor the investment and update the Board at future meetings.

For the Retiree Benefit Trust, total assets equal approximately \$9.2M as of June 30, 2022 and had a return of -15.7% for the second quarter vs the Policy Index return of -10.9%. The Trust remains overweight global equities, offset by an underweight to fixed income. The documents for the new MACS asset class investment with Invesco are being completed and that investment will represent approximately 10% of total Trust assets. Mr. Sevier noted that the combination of challenging performance for equity and fixed income asset classes this year, coupled with relative underperformance for Harding Loevner and Western Asset resulted in poor recent relative performance.

III. Small Cap Core Equity Search for DC Plans

Mr. Sevier explained that following a fundamental change to the Voya Small Company fund investment team and strategy, Segal Marco's equity research team placed a "Sell" rating on the fund. As a result, Mr. Sevier presented a fund replacement search that included other small cap core equity fund options for the Board's consideration.

The small cap core equity fund replacement search included the following funds: Boston Trust Walden Small Cap (BOSOX), Loomis Sayles Small Cap Value (LSCNX) and Touchstone Small Cap (TSFIX). Mr. Sevier reviewed the three firms from an organizational perspective and then noted various key characteristics and differences for the funds. Mr. Sevier commented that he intended to steer the Board towards either the Boston Trust Walden or Loomis Sayles funds, and not the Touchstone fund given its more concentrated approach, shrinking fund size and still challenged longer-term performance.

In response to a question from the Board, Mr. Sevier commented that it was clear that the risk and return track record for Boston Trust Walden was superior to its competition, however Loomis Sayles maintained a value bent in its strategy and relative performance had improved more recently. Additionally, Loomis Sayles' expense ratio was the most attractively priced among the group. Ultimately, Mr. Sevier conveyed that either the Boston Trust Walden or Loomis Sayles funds were suitable options and would fit well into the Plan's existing funds lineup.

After further discussion, Mr. Satterfield made a motion to replace the Voya Small Company fund with the Boston Walden Small Cap fund. Participants with balances in the Voya fund will be mapped to the Boston Walden fund. Mr. Walsh seconded the motion. All members voted in favor (5-0-0).

IV. Discussion of Deferred Retirement Option Program (DROP)

Mr. Jim Ritchie, the Board's actuary from Bolton Partners, Inc., overviewed DROP (deferred retirement option plan). He explained that DROP mimics an in-service retirement, except the DROP funds remain in an account (sometimes with interest) and then the employee receives DROP contributions at retirement. Mr. Ritchie discussed the following pros and cons:

- PROS – encourages retention, assists with succession planning, lump sum at retirement, and potentially reduced training/recruiting costs.
- CONS – potential cost, employees give up increases from pay and service credits in their pension calculation, potentially higher payroll for senior employees, headline risk because of one-time DROP payout.

Mr. Ritchie then discussed the following design elements of a DROP:

- Eligibility (early and/or normal retirement),
- Length of DROP (usually 3-5 years),
- Employee Contributions (no contribution, contributions included in DROP account, or required but not added to DROP account),
- Interest (0% to 3-5% or mirror a 457 type-plan),
- COLAs while in DROP,
- Limit on number of entrants (no limit or a specified percentage of the workforce),
- Inclusion of sick leave (allow accrued sick leave to be part of the DROP calculation or include it at the end),
- Form of payment (lump sum only or annuity options),
- Disability benefits,
- Death benefits,
- Termination provisions, and
- Sunset provisions.

Mr. Webster asked about the elements of plan design that could be cost neutral. Mr. Ritchie showed an example of a program that had a marginal cost. Mr. DiSpirito mentioned that he supported the exploration of the DROP program for Police due to the level of training and succession planning that is needed in the Police Department. All members of the Board supported this approach and requested that Mr. Ritchie come back with a few plan design options that would attempt to achieve a cost neutral DROP program for Police employees.

Ms. Webster will work with Mr. Ritchie on options to be presented to the Retirement Board at a future meeting.

V. Retirement Plan Review

Ms. Tatiana Hersh, the city's representative from Lincoln Financial Group, highlighted Lincoln's role and recent services provided to the City of Rockville participants. These services included

outreach, education, and marketing tools aimed at assisting employees and retirees navigate their benefits.

Ms. Hersh introduced Mr. Justin Harvey who discussed Lincoln's transition from USI to BPAS for the city's Pension Fund. He discussed why the change was happening and what benefits the new provider can offer to the city. Ms. Webster and Mr. Peifer asked some clarifying administrative questions. Mr. Satterfield asked if employees would feel the change. Mr. Harvey reported that the service teams and access points will remain the same. The only change that an employee might see is the background of their benefits information on the secondary and tertiary screens (sample calculations, etc.). Mr. Harvey said that their customer service focus for this transition will be on the employees that are in the process of retiring.

Next, Ms. Hersh reviewed the calendar of events that includes future training and education initiatives. She asked the Board if they had any requests for additional information for city employees. There were no additional requests at this time.

Ms. Webster announced that the next meeting will be on **November 18, 2022**, and that meeting is currently scheduled to be virtual.

Adjournment – Mr. Satterfield made a motion to adjourn. Mr. Walsh seconded the motion. All members voted in favor (5-0-0). The meeting adjourned at 12:07 p.m.