

CITY OF ROCKVILLE
Retirement Board

DATE: September 22, 2023
LOCATION: Video/Teleconference on WebEx
TIME: 10:00 a.m.

Board Meeting
MINUTES

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

ABSENT: None.

Also present: Christian Sevier and Ryen Sherman from Segal Marco Advisors; Jim Ritchie and Jordan McClane from Bolton Partners; Barack Matite, Acting City Manager; Xiaojing Zhang and Tim Peifer, Finance; Colette Anthony and Daisy Harley, Human Resources; Leela Fireside, City Attorney's Office

Mr. Walsh called the meeting to order at 10:01.

I. Approval of Minutes

Councilmember Feinberg made a motion to approve the minutes from May 19, 2023. Mr. Satterfield seconded the motion. All members voted in favor (5-0-0). Note: Mr. Simoneau and Sgt. Peck arrived after this vote.

II. 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 June 30, 2023.

Mr. Sevier began with the Pension Plan, noting that the Plan returned 2.3% for the second quarter of 2023, performing in line with the Plan's benchmark. The Plan returned 6.4% for the fiscal year ended June 30, trailing the benchmark return of 6.9%. The asset allocation remains in compliance with the stated investment guidelines, although underweight large cap equities and fixed income. The managers are performing in line with expectations.

For the Thrift and 457 review, the Thrift Plan ended the quarter with assets of \$52.7M and the 457 plan had assets of \$39.0M. Both plans are up from the start of the year mostly due to investment gains but had positive cash flow as well. The American Funds target date series are the most utilized investment options for both plans. The stable value fund has the second highest allocation. Mr. Sevier then reviewed performance of the investment funds. He noted that Segal Marco will continue to monitor performance for the J.P. Morgan SMID Cap Equity fund, and if that performance does not improve by year end, he expects to have a follow up discussion with the Board about potential alternative managers in the U.S. mid cap equity space.

Mr. Sevier also suggested that Segal Marco present a detailed analysis of the Plans' American Funds target date funds series at an upcoming meeting because they are underperforming in recent years. Mr. Sevier stated that the target date funds series are still a good option, but we should see what else is available. The Board concurred.

For the Retiree Benefit Trust, the fund ended June with assets of just over \$10M and returned 4.8% for the second quarter, which bested the Plan's benchmark. Mr. Sevier noted the improved recent relative performance for both the Harding Loevner global equity and Western fixed income funds.

III. Pension Fund Asset Allocation Review

Mr. Sevier reviewed Segal Marco's asset allocation report for the Pension Plan. He commented that long term expected returns for equities had increased in 2023 vs 2022, and that projected fixed income returns were notably higher given the increase in cash yields resulting from the Federal Reserve's interest rate hikes. The Trustees were shown two alternative asset allocation scenarios in which the allocation to fixed income would be increased to take advantage of higher bond yields. Mr. Sevier noted that there was no discernable benefit to altering the Plan's asset allocation from a risk adjusted return perspective, and ultimately the Board chose to retain the Plan's current asset allocation, which projects a long term (20 year) geometric return of 6.7%, consistent with the Plan's actuarial assumed rate of return of 6.75%, and with a projected standard deviation of 11.8%.

Mr. Sevier noted that the annual contribution to the Plan of \$4.9M, along with the anticipated quarterly distribution from the Plan's real estate fund of approximately \$480K, would be used to rebalance the asset allocation closer to the Policy targets.

IV. Retiree Benefit Trust Asset Allocation Review

Mr. Sevier then reviewed the asset allocation analysis for the Retiree Benefit Trust. He commented that the Trustees had initiated an allocation to multi asset class strategies ("MACS") of 5%, but that the intent over a longer period of time had been to increase the

allocation. Therefore, Mr. Sevier recommended adopting asset allocation scenario Alt 1, which increased the MACS allocation from 5% to 10%, and funding the increase with a proportional decrease to the global equity allocation (from 55% to 50%). The projected long term (20 year) geometric return remained consistent at 6.4%, with a decrease in the projected standard deviation from 11.8% to 11.2%.

Mr. Simoneau made a motion to increase the MACS allocation to 10% by lowering the global equity allocation to 50%. Councilmember Feinberg seconded the motion. All members voted in favor (7-0-0).

V. Final Average Earnings for Police Employees

Ms. Webster provided background that the City Manager requested that Bolton analyze the impact of a potential change to the City of Rockville Pension Plan for Police employees. Mr. Ritchie was responsible for measuring the cost of changing the five-year Final Average Salary determination to a three-year Final Average Salary for Police. The impact of the plan change on July 1, 2022 key valuation results was discussed.

Mr. Ritchie reported that the plan change would increase the contribution by approximately \$74,805, or 1.42% of police payroll. If the police were to entirely pay for the cost of the change, their contribution should increase to approximately 9.92% for 15 years (8.50% + 1.42%) and to approximately 9.00% after 15 years (9.92% - 0.92%).

Mr. Ritchie mentioned that they performed a similar study 2 years ago, but assumptions have changed since then due to the results of the city's interim experience study. The change in assumptions for the salary scale was the main driver in the change/increase of the results from 2 years ago compared to this study.

Ms. Webster gave an overview of the pension contributions by employee group. She explained that Police, ASFCME, and administrative employees all contribute differently. Sgt. Peck gave some background on neighboring jurisdictions and the city's current Plan.

The Board agreed to review an updated calculation based on the latest data that Bolton is using for the July 1, 2023, valuation. Mr. Ritchie will return in December with that information, which will inform the Board's next steps.

VI. Outcome of Mayor & Council Discussion of Police DROP Benefit

Ms. Webster reported that on September 18, 2023, the Mayor and Council directed staff to return with a Pension Plan amendment to allow for the proposed DROP benefit for Police. She thanked Mr. Walsh, Sgt. Peck, and Mr. Simoneau for attending the Mayor and Council meeting. Next steps will be to convene a subcommittee of the Board to work with the actuary to develop specific requirements. After the plan requirements are drafted, staff will meet with legal to

draft the Pension Plan language. The Mayor and Council will then need to approve a Pension Plan amendment. Staff will also work with the city's Retirement Provider, Lincoln Financial, to set up a system of subaccounts for the DROP.

Sgt. Peck, Ms. Perez, and Mr. Matite volunteered to be on the subcommittee.

Ms. Webster announced that the next meeting will be held on **December 1, 2023**, at 9:30 AM in the Black Eyed Susan Conference Room. This is a change from the previously scheduled November 17, 2023, meeting.

(Note: after this meeting was held, the date of the December meeting was moved to December 8, 2023.)

Adjournment – Sgt. Peck made a motion to adjourn. Mr. Satterfield seconded the motion. All members voted in favor (7-0-0). The meeting adjourned at 11:41 a.m.