



EMPLOYEES' RETIREMENT SYSTEM
The Maryland-National Capital Park and Planning Commission

BOARD OF TRUSTEES MEETING MINUTES
Tuesday, February 1, 2022; 10:00 a.m.
Upper Marlboro, MD
(Due to COVID -19 Attend via Microsoft Teams)

Due to COVID-19, the Maryland-National Capital Park and Planning Commission (“Commission”) Employees’ Retirement System (“ERS”) Board of Trustees (“Board”) met virtually through Microsoft Teams with CHAIRMAN HEWLETT leading the call in Upper Marlboro, Maryland on Tuesday, February 1, 2022. The meeting was called to order at 10:05 a.m. by CHAIRMAN HEWLETT.

Board Members Present

Elizabeth M. Hewlett, Board of Trustees Chairman, Prince George’s County Commissioner
Gerald R. Cichy, Board of Trustees Vice Chairman, Montgomery County Commissioner
Pamela F. Gogol, Montgomery County Public Member
Caroline McCarthy, Montgomery County Open Trustee
Amy Millar, MCGEO Represented Trustee
Sheila Morgan-Johnson, Prince George’s County Public Member
Elaine A. Stookey, Bi-County Open Trustee
Gavin Cohen, CPA, M-NCPPC Secretary-Treasurer, Ex-Officio

Board Members Absent

Howard Brown, FOP Represented Trustee
Asuntha Chiang-Smith, M-NCPPC Executive Director, Ex-Officio
Vacant, Prince George’s County Open Trustee

ERS Staff Present

Andrea L. Rose, Administrator
Sheila S. Joynes, ERS Accounting Manager

Presentations

M-NCPPC Legal Department – Adrian Gardner, General Counsel
Cheiron – Janet Cranna, FSA, FCA, EA, MAAA and Patrick Nelson, FSA, CERA, EA, MAAA

ITEM 1 APPROVAL OF THE FEBRUARY 1, 2022 CONSENT AGENDA

ACTION: VICE CHAIRMAN CICHY made a motion, seconded by MS. GOGOL to approve the Consent Agenda. The motion PASSED (8-0). (Motion #22-06)

ITEM 2 CHAIRMAN’S ITEMS

The January 4, 2022 meeting adjourned from Closed Session and the action taken was not ratified in Open Session.

ACTION: VICE CHAIRMAN CICHY made a motion, seconded by MS. STOOKEY to ratify the action taken in Closed Session on January 4, 2022. The motion PASSED (7-0). (Motion #22-07) Pam Gogol was away during the vote.

During the Closed Session of January 4, 2022, the following action was taken:

1. Approval of State Street Global Advisor's Tax Reclaim Service with GlobeTax Services, Inc.

ITEM 3 MISCELLANEOUS

No items reported.

ITEM 4 TRUSTEE EDUCATION

- A. M-NCPPC Legal Department
Presentation by Adrian Gardner, General Counsel

Trustees of the ERS Board and Commission's 115 Trust were provided 2022 Fiduciary Ethics Workshop Background Materials for review prior to the training. The training included a discussion of the origins and sources of legal standards, an overview of fiduciary duties including a participant's exclusive benefit, decisional standards, compliance obligations, and prohibited transactions, special problems such as whistleblowing, abuse of public office and gratuities, an interactive game of "Name that Duty", and how to navigate wearing two hats. Ethics training is mandatory and provided annually to trustees.

ITEM 5 MANAGER REPORTS/PRESENTATIONS

- A. Cheiron
Presentation by Janet Cranna, FSA, FCA, EA, MAAA and Patrick Nelson, FSA, CERA, EA, MAAA

At its November 2, 2021 meeting, the Board requested Cheiron survey other retirement systems; provide options to mitigate contribution volatility; and determine whether any changes to the existing methods and tools in the ERS' Pension Funding Policy were warranted.

In terms of funding the ERS, money is set aside during the working life of an employee to cover all future benefit payments. The ERS' funding objectives, in order of importance, are to: 1) Provide sufficient assets to permit the payment of all benefits under the ERS; 2) Maintain equity among generations of taxpayers by establishing improvement in the ERS' funded ratio such that it approaches 100% over time and amortizes the unfunded actuarial accrued liability over fixed periods; and 3) Minimize the volatility of the employer's annual contribution rate as a percentage of covered pay by smoothing investment gains and losses over a period of five years.

The ERS attempts to minimize the volatility of the employers' contribution rate from year to year as a percentage of covered pay by 1) using the Entry Age actuarial cost method; 2) smoothing the actuarial value of assets such that investment gains and losses are recognized gradually; and 3) amortizing the unfunded actuarial accrued liability as a level dollar amount over a rolling 15-year period. If the actuarial value of assets is less than the actuarial liability, the ERS has an unfunded actuarial liability which must be amortized.

Cheiron discussed four different amortization methods. 1) A level percentage of payroll approach may start off with a lower unfunded actuarial accrued liability, but would eventually be higher than the existing level dollar approach; 2) A closed/layered approach amortizes the unfunded accrued liability faster, but may also be more volatile; 3) Varying the amortization beyond 15 years creates issues related to generational equity and may not cover the interest payments resulting in an increased unfunded accrued liability; and 4) A corridor approach developing a corridor around the contribution rate may limit the contribution volatility, but may also lead to over-funding or under-funding of the ERS. Cheiron provided two case studies related to the corridor approach, one successful and one detrimental to the system.

Cheiron recommended the Board adhere to the existing methods and tools in the ERS' Pension Funding Policy which have worked well for the ERS over the years resulting in a funded status of 92.6% as of June 30, 2021. The Board concurred with Cheiron and did not approve any changes to the Pension Funding Policy.

Cheiron suggested providing "worst" case projections for the employer contribution rate that could be utilized to assist the employer in budgeting for contribution volatility.

ITEM 6 COMMITTEE REPORTS/RECOMMENDATIONS

A. Investment Monitoring Group

Presentation by Sheila Morgan-Johnson, IMG Chairman

Sheila Morgan-Johnson presented the Investment Monitoring Group (IMG) Regular Report dated January 18, 2022.

The IMG met with Golub Capital Partners and White Oak for performance reviews. These strategies lend to middle market well-established companies. Golub Capital Partners focuses on companies backed by private equity sponsors and White Oak focuses on the non-sponsored space. These are closed-end funds with a lifespan of 7-8 years. The firms discussed the organization, track record and personnel/team changes. The IMG did not find any material concerns with either manager. The ERS' opportunistic fixed income program for private credit has performed well with an IRR since inception (12/31/2009) of 15.2% versus the peer median IRR of 10.2% from Thompson One.

Wilshire provided an overlap analysis of the holdings of Earnest Partners' separate account and Capital Group's All Countries International Equity Fund. Earnest Partners' total holdings of 57 were compared with Capital Group's 198 holdings. There were 13 holdings (5.10%) in common, which is low and was expected.

ITEM 7 ADMINISTRATOR'S ITEMS

Presentation by Andrea L. Rose, Administrator

A. Administrator's Report dated January 20, 2022.

Melissa Ford, the Prince George's County Open Trustee, resigned from the Commission on January 19, 2021 resulting in a vacancy on the ERS' Board of Trustees. A call for nominations will be advertised to fill the remaining term of the seat which expires June 30, 2024.

The ERS has received inquiries regarding the processing time for retirement checks. Key processing changes were made with implementation of the new pension system which resulted in a slightly longer processing schedule for benefit payments. The duplicate entry of retirement data into the bank's payment system was eliminated and replaced with a file upload and download process. This resulted in daily processing being exchanged for an upload/download process twice per month. As a result of these changes, the average processing time increased from 6-9 weeks to approximately 8-10 weeks. The ERS does not have complete control over the timeline. Staff must adhere to the bank's deadlines and are impacted by the schedules and delays from the Commission's Human Resource and Payroll Departments. Additionally, delays on the average processing time may occur due to the complexity of the calculation and/or the volume and timing of benefits. As staff become more familiar with the new system, the team hopes to find ways to reduce the impact on the processing time. Staff provided a diagram of the average processing time from the last day of employment to receipt of the first retirement check.

B. Memorandum dated January 10, 2022 re: Additional Due Diligence – State Street Global Advisor’s Tax Reclaim Service

At its January 4, 2022 meeting, the Board approved use of State Street Global Advisor’s (“SSGA”) Tax Reclaim Service with GlobeTax Services, Inc., (“GlobeTax”) subject to further due diligence.

In December 2021, SSGA outlined a new value-add service for participants in SSGA’s U.S. Common Trust Fund related to taxes withheld on non-U.S. income. Historically, SSGA assisted participants in filing tax reclaims on income derived in France, German, the Netherlands and Switzerland. This process was managed within SSGA along with the custodian of the funds on a very limited basis. SSGA is now expanding the opportunity in additional jurisdictions. GlobeTax was selected to provide expanded services for a contingency fee, except for reclaims from France, Germany, the Netherlands and Switzerland. SSGA selected GlobeTax, a third party, versus utilizing the custodian further because it is necessary to look through the fund to the underlying participants to determine eligibility on a pro-rated basis and file at that level. This is a specialty of GlobeTax and custodian banks are not typically set up to look through to the underlying investors when it does not exist at the fund level. The 25% contingent fee is non-negotiable and a reduction from the typical contingent fee which SSGA was able to avail. SSGA considered multiple providers; however, GlobeTax’s systems and processes are more mature and defined. Additionally, GlobeTax was willing to service the four markets where SSGA previously provided this service at no cost to investors.

The Board agreed the due diligence was acceptable and instructed the Administrator to move forward with execution of the documents with SSGA.

ITEM 8 CLOSED SESSION

At 12:10 p.m. CHAIRMAN HEWLETT requested a motion to go into Closed Session under authority of the General Provisions Article of the Annotated Code of Maryland Section 3-305(b)(5) for the investment of public funds and Section 3-305(b)(7) to consult with legal counsel.

ACTION: VICE CHAIRMAN CICHY made a motion, seconded by MS. MILLAR to go into Closed Session. The motion PASSED (8-0). (Motion #22-08)

ITEM 9 ADMINISTRATIVE FUNCTIONS

The Board will recess to perform administrative functions not subject to the Open Meetings Act, pursuant to Section 3-104 of the General Provisions Article of the Annotated Code of Maryland.

The Board meeting of February 1, 2022 adjourned at 12:32 p.m.

Respectfully,



Andrea L. Rose
Administrator