

FREDERICK COUNTY EMPLOYEES RETIREMENT PLAN
FREDERICK COUNTY UNIFORMED EMPLOYEES RETIREMENT PLAN

JOINT MEETING OF THE RETIREMENT PLAN COMMITTEES

MEETING MINUTES

July 11, 2023

A joint meeting of the Retirement Plan Committees for the Frederick County Employees Retirement Plan (the “Employees Plan”) and the Frederick County Uniformed Employees Retirement Plan (the “Uniformed Employees Plan”) (jointly, the “Committees” and the “Plans”) was held on Tuesday, July 11, 2023, at 1:00 p.m. in the Winchester Room at Winchester Hall. Present in person were the following members of the Joint Retirement Committees:

- Human Resources Acting Director: Shannon D. Powell
- Finance Director: Erin White
- Retiree Representative: Michael Gastley
- IAFF Representative: John Neary
- Member at Large: Michael Mills

Committee Member(s) attending virtually via Microsoft Teams:

- Member at Large: Daniel Lewis
- FOP 102A (Corrections) Representative: Michael Bird

Committee Member(s) absent from the meeting:

- Retiree Representative: Douglas Browning
- FOP 102 (Law Enforcement) Representative: Jeff Hyatt

Also present at the invitation of the Committee were: Patrick Wing with Marquette Associates (“Marquette”), and Jim Ritchie and Jordan McClane with Bolton, in person; and Mary Claire Chesshire with Whiteford, Taylor & Preston, and Junnor Shin with Marquette, virtually via Microsoft Teams. Additionally, John Peterson, Robert Goff, Susan Keller, and Shanna Gibbons with Frederick County Government; and one guest in person; and two guests virtually via Microsoft Teams. Shannon Powell was Chair and Shanna Gibbons was the Recording Secretary.

The Chair opened the meeting. The Meeting Minutes from the June 13, 2023, meeting was reviewed and approved with two corrections: (1) the date of the meeting says June 16, 2023, in two places but should have been June 13, 2023; and (2) in the second paragraph of the first page Jordan McClane with Bolton was listed as present virtually via Microsoft Teams, it should have been Jim Ritchie. Upon a motion duly made by Michael Mills and seconded by John Neary, there being no opposition this motion was unanimously passed. Michael Bird and John Neary were absent for this motion.

Patrick Wing with Marquette reviewed the *Frederick County - Pension | Background dated July 11, 2023*. Continuing the conversation on the Fixed Income Manager search, the Committee Members were reminded of the considerations when choosing Fixed Income Manager such as the role of this allocation, duration tilt, allocation moving lower when Infrastructure is in place, IPS Guidelines, and the new COLA formula.

Marquette recapped their recommendations from the Committee's June 2023 meeting: consider investment manager replacement search for PIMCO Total Return, moving from a core plus approach to core; add Treasury Inflation-Protected Securities (TIPS) exposure for additional inflation protection; complement TIPS exposure with passive 1-5-year investment-grade exposure; and implementation to include 75% of fixed income to core mandates, 25% of fixed income to passive TIPS and 1-5-year investment grade barbell, and additional inflation protection and approximately duration neutral. The Committee agreed to move forward with the recommendations.

Mr. Wing went on to discuss the *Frederick County - Pension | Active Core Fixed Income Manager Search dated July 11, 2023*, with the Committee. The Committee was reminded that the purpose of the search is for a complementary manager to our current investment grade manager, Segal, Bryant & Hamill (SBH). A high-level overview of the following managers was provided:

- **Baird:** typically maintains neutral duration and focuses more on security selection, and it is managed by a large-sized team, with senior portfolio managers who have worked together for a long time.
 - *Pros* – Mutual fund, strong long-term returns, and strong long-term risk-adjusted returns.
 - *Cons* – High AUM, most expensive option, and poor complement to SBH.
- **C.S. McKee:** selectively allocates to non-benchmark securitized, Treasury and agency securities, and TIPS, the team actively trades the portfolio, leading to

higher turnover than peers, and it is managed by a smaller team of four portfolio managers, who are supported by three analysts.

- *Pros* – Solid long-term returns, returns exhibit low equity risk, and solid complement to SBH.
- *Cons* – Worst long-term risk-adjusted returns, and high turnover.
- **Federated:** its team is managed by a seasoned lead portfolio manager, it leverages the 100+ portfolio managers and research analysts through the standard Federated "Pod" process of sector specialist pods, and the team actively trades the portfolio, leading to higher turnover than peers.
 - *Pros* – Strong long-term returns, strong long-term risk-adjusted returns, returns exhibit low equity risk, and strong complement to SBH.
 - *Cons* – High turnover, and convoluted fee structure.
- **GW&K:** The approach has a focus on quality, and it is managed by a medium-sized team, with the lead portfolio manager supported by three other portfolio managers and seven analysts.
 - *Pros* – Solid long-term returns, and strong complement to SBH.
 - *Cons* – Low number of issues held and returns exhibit highest equity risk.
- **Lord Abbett:** The strategy is quantitative and fundamental in nature as well as being more diversified, more benchmark-aware and higher turnover than its peers, the strategy aims to always be duration-neutral and is managed by a handful of portfolio managers with 20+ research analysts, and the team actively trades the portfolio, leading to higher turnover than peers.
 - *Pros* – Solid long-term returns, solid risk-adjusted returns, and returns exhibit low equity risk.
 - *Cons* – Highest fee for separately managed account options, and poor complement to SBH.

After taking into consideration the information provided and a thorough discussion, the Committee asked that in the discussion a column or section be added with SBH information for comparison and to better identify the best complementary manager. In addition, it was unanimous that the Committee wanted to hear more from Federated. In an unofficial vote the remaining managers received the following ranking: Baird – 5 favored; GW&K – 5 favored; Lord Abbett – 4 favored; and C.S. McKee – 2 favored. Though Federated was the top choice to invite back for a presentation, there was a lot of concern regarding their fee schedule. The Committee asked Marquette to reach out to see if they would be willing to streamline/standardize the fee schedule. If not, they will not

be moving forward in this process. The Committee requested that Marquette ask the top four managers to “save-the-date” for our September 2023 meeting. The Committee will wait to hear the response from Federated at the August 2023 meeting before finalizing who to invite to the September 2023 meeting.

Mr. Wing went on to review the *Frederick County – Pension | Asset Value Update dated July 7, 2023*, with the Committee. As of July 7, 2023, the value of the Plan’s assets was \$882,674,409. No recommendation to rebalance was made at this time.

The floor was then given to Jim Ritchie with Bolton to review their letter to Erin White, dated May 1, 2023, with the subject: *Impact of Proposed Vesting Changes to the Frederick County Employees Retirement Plan*, continuing the discussion regarding the consideration to revert the vesting period of the non-uniformed plan back to a 5-year vesting period. The eligibility criteria for early and normal retirement would remain unchanged. Reverting to a 5-year vesting would have a minimal financial impact to the County. The estimated cost of the FY2024 actuarially determined contribution (ADC) would require a 0.3% of Payroll increase (or approx. \$309,000 at FYE 2024). Members hired after June 30, 2012, which make up about 60% of the covered group, would be impacted by the proposed vesting change. Just under 300 members have between five and ten years of service and would become immediately vested. The Committee recommended that the Plan Attorney, Mary Claire Chesshire, prepare this legislation for recommendation to the County Council through the County Executive

The Chair provided the opportunity for public comment. There was none.

The next Committee meeting will be in-person at Winchester Hall (12 E Church St, Frederick, MD 21701) with a virtual call-in option on Tuesday, August 8, 2023, at 1:00pm.

There being no further business, a motion was made to end the meeting by Michael Mills and seconded by Michael Gastley, there being no opposition this motion was unanimously passed, and the meeting adjourned at 3:07pm.

Respectfully submitted,



Shanna Gibbons
Recording Secretary