Kimberly L. Frock
Director, Human Resources
410-386-2129, fax 410-840-3671
MD Relay 711/800-735-2258
email: klfrock@carrollcountymd.gov

Department of Human Resources
Carroll County Government
225 North Center Street
Westminster, Maryland 21157

Carroll County Defined Benefit Plans
August 9, 2022, 9am, Room 105
Meeting Minutes

In attendance:

Werner Mueller – Retirement Plans Mgr., CCG
Jim Ritchie – President, Bolton Retirement
Luis Sierra – Consultant, Marquette Associates
Lauren Cellucci – Managing Partner, Marquette Assoc.
Rob Burk – CFO, Carroll County Public Schools
Ernesto Diaz – HR Director, Carroll County Public Schools
Ted Zaleski – Director, Management & Budget, CCG
Kimberly Frock – HR Director, CCG
Charlie Beckhardt – Technology Services, CCG
Tim Burke – County Attorney, CCG
Jenny Hobbs – Comptroller, CCG
Bobbi-Jo Fout – Investment Officer, CCG
Tim League – Dir. Fiscal Affairs, CC College

9am – 9:15:
Economy/Market Presentation – Luis Sierra

- In a technical recession (two consecutive quarters of negative GDP growth), but labor market remains strong, though it's typically a lagging indicator.
- Inflation is 9.1% year-over-year through June 2022. Inflation is expected to gradually abate, with tomorrow's reading forecasted to be 8.7%.
- Markets are pricing in interest rate cuts next year, which would be an about-face versus the 2022 interest rate hikes.
- While the US and much of Europe are teetering on recession, China is seeking to grow their economy with significant spending on infrastructure.
- The stock and bond markets have had difficulty so far in 2022. The only asset classes that have posted positive returns from June 2021 to June 2022 are commodities, global infrastructure, energy, and utilities.
- The Bloomberg Aggregate Bond Index had the worst first half of any calendar year since the index's inception back in the mid-1970's.
- The S&P's low (as of now) occurred on June 17, down app. 20-21% from its peak. It's possible the market retests its low as the average Post-WWII bear market had a drop of 31.8%.

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- Luis pointed out the "Market Tracker," showing how every style index is negative for June and year-to-date.

9:15 – 9:45
Using the Pension Plan to Improve Employee Retention – Jim Ritchie

- Solutions to consider in retaining/attracting younger workers include "Communication of Value," i.e., provide statements and online access to participants, enabling them to customize their pension projections and view their pension balance. This is one of the least costly solutions. Another solution geared to younger workers would be a "Cash balance sub-account." For example, if someone has, say, 5 years of service, give he/she the option to access the cash balance.
- Perhaps the most costly (but most effective) solution would be to enhance the Plan Formula, i.e., increase the multiplier, provide extra service for someone if they remain at CCG for X number of years, and/or change the "Average Final Compensation" definition, etc.
- Employee contributions – examples include increasing Interest credit or have a contribution holiday for 1 or more pay periods.
- In-Service Retirement benefit – examples include the ability to "double-dip" upon attaining Age 59 and a half or older, similar to a DROP account.
- Partial lump sum, i.e., in lieu of an annuity, allow a partial lump sum at retirement.
- DROP account. These are quite prevalent in Public Safety pension plans. Similar to an in-service retirement benefit. It allows members to work beyond their Normal Retirement Date (NRD) and convert part of their retirement benefit into a lump sum.
- Raise cost of living adjustment (COLA) to those that stay for an X number of years or remove caps.
- Provide purchase of service to a larger universe of prior employers.
- Considerations must be made in enacting any of these suggestions such as the administrative burden, cost, efficacy, and ease of communication.

9:45 – 10:45
Review of Q2 2022 investments across DB plans, IPS drafts, & Private Equity education – Lauren Cellucci

- CC Pension Plan: $111,420,026, as of 6/30/2022. Portfolio -9.2% in FY22, beating the -10.6% Policy Benchmark. In 23rd percentile when compared to similar size pension plans over the past 5 years.
- CC Public Safety Plan: $34,307,147, as of 6/30/2022. Portfolio -10.4% in FY22, beating the -11.7% Policy Benchmark. In 20th percentile in comparison to similar size Plans over the past 5 years. RREEF Real Estate investment doing well = low vacancy percentages, high occupancy. Overall

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portfolio differs a bit from the CC Pension Plan, primarily due to inability of investing in IFM Infrastructure because of insufficient plan assets.

- OPEB: $180,851,031, as of 6/30/2022. Portfolio -9.9% in FY22, beating the -10.6% Policy Benchmark. In 27th percentile when compared to similar size plan over past 5 years.
- Trades to be done over the next week or so include 1) swapping Vanguard Total International Stock Index Fund to similar Fidelity Fund, due to lower expenses 2) reducing exposure in MS Prime Property 3) increasing the Vanguard 500 index position (and Fidelity International weighting). All trade proposals were met without any opposition from Committee members.
- Investment Policy Statements (IPS) will be updated to reflect new actuarial target rate of return of 6.75% and to adjust the Asset Allocation Policy, which will now include the Global Low Vol position while adjusting targets for other asset classes.
- Private Equity Education –
  1. Investments in private businesses. Private equity funds use capital to acquire control over perceived undervalued businesses.
  2. Growth in private equity owned businesses expected to significantly grow over the next decade.
  3. Over a long time horizon (decades), private equity has delivered higher returns relative to other asset classes.
  4. Pricing is done quarterly but not disseminated until 2 or so quarters later, so there is a lag.
  5. Extremely illiquid. Takes years or decades to liquidate. In the early years, often there is a negative return due to fees and slow deployment of capital. Higher returns are typical in later years as investments mature (“J-curve”).
  6. Fees are high – typically 2% management fee and 8% hurdle rate.
  7. Manager selection is vital – large difference in returns between the top and bottom quartiles of funds.
  8. “Fund-of-Funds” – a manager finds other managers. “Direct Funds” – 1 manager.

Werner will gauge interest from Committee members as to whether or not there is an appetite to pursue private equity investments or additional private equity education.