

CITY OF ROCKVILLE
Retirement Board

DATE: February 11, 2022

LOCATION: Video/Teleconference on WebEx

TIME: 10:45 a.m.

Board Meeting
MINUTES

PRESENT: Board Members: Mikhail Sukhenko (Interim Chair), Citizen Representative; Greg Satterfield, Union Representative; Paula Perez, AAME Representative; Sgt. Chris Peck, FOP Representative; Karen Marshall, Human Resources representing the City Manager.
Executive Secretary to the Board: Stacey Webster, City of Rockville CFO

ABSENT: Councilmember Beryl Feinberg, Mayor and Council Representative

Also on the call: Tim Peifer and Xiaojing Zhang, Finance; Daisy Harley, Human Resources; Ryan Sherman and Christian Sevier from Segal Marco Advisors; Chung Hei Sing, Rockville resident

The meeting was called to order to 10:47 a.m.

I. Approval of Minutes

Ms. Marshall made a motion to approve the minutes from November 19, 2021, and January 21, 2022. Sgt. Peck seconded the motion. All members voted in favor (5-0-0).

II. DC Plans, Gap Analysis

Mr. Sherman presented a Gap Analysis, highlighting the asset class and style exposure provided by the investment funds across the Defined Contribution Plans. He reminded the Board that Brandywine closed its International Opportunities Bond fund and the Plans' assets in the fund were mapped to the Western Asset Core Plus Bond fund.

Ms. Marshall asked Mr. Sherman if the Board does not replace the Brandywine fund, is the portfolio still balanced. Mr. Sherman noted that participant assets in the Brandywine fund had been modest and that international fixed income exposure is also provided to some extent through the Western investment. Ms. Perez asked how many people chose the Brandywine fund. Mr. Sherman noted reported that it used to be included in the "Target" funds, but when the funds were mapped to the "American Funds" it was dropped. Not many people have chosen Brandywine as a separate investment on their own.

Following further discussion with the Board and Segal Marco, the Board opted not to initiate a search to add another international bond fund to the Plans. The Board agreed that a streamlined investment line-up is better for plan participants.

III. Investment Performance Review

Following an overview of the markets, Mr. Sevier moved to the Pension Fund (beginning on PDF page 27), which returned 14.6% for 2021, and outperformed the Policy Index by over 2%. The asset allocation is in compliance with the guidelines, although slightly underweight to fixed income. Investment gains for the calendar year were approximately \$17.5M, with a December 31 market value of approximately \$137.1M. The managers are performing in line with expectations. The small cap U.S. equity fund managed by SSgA implemented a fee waiver for 2022 that will effectively lower its expense ratio from 0.89% to 0.75%. The fund also saw much improved performance for the year. Additionally, the Fund's exposure to hard/real assets like real estate, commodities, and other inflation sensitive investments were valuable in the inflationary environment.

Mr. Sevier noted the Fund's exceptionally strong performance over the last three calendar years: 18.0% in 2019, 13.0% in 2020 and 14.6% in 2021. Mr. Sherman noted that Segal Marco will conduct an asset allocation study and will make recommendations regarding the asset allocation of the Pension Plan at the May Board meeting. Mr. Sherman noted that 2018 was the last time the Board made asset allocation changes.

For the Thrift and 457 review (beginning on PDF page 109), total Defined Contribution Plan assets total \$96.5M and the American Funds target date series represents about 40% of total assets. Mr. Sevier noted the favorable crediting rate for the Lincoln Stable Value Account relative to the stable value fund universe and other money market funds. The U.S. equity funds are performing in line with expectations, with the exception of the Voya Small Company fund, which has undergone structural changes from a portfolio management standpoint as well as some tweaks to the fund's investment approach. Mr. Sevier indicated that Segal Marco continues to watch the team and fund carefully, and that relative performance seems to have improved somewhat so far in 2022 as the market environment has evolved, and that additional updates will be provided at subsequent meetings.

Mr. Sevier also reviewed performance for the Invesco Developing Markets fund, noting its weak absolute and relative performance for 2021, and providing some performance attribution to help explain this. Segal Marco does not recommend making any changes at this time. Lastly, Mr. Sevier reported that the American Funds Target Date fund series continues to perform well.

For the Retiree Benefit Trust, total assets equal approximately \$12.9M as of December 31, 2021, and had a return of 8.2% for the calendar year. The Trust is overweight global equities, offset by an underweight to fixed income. The Trust underperformed its Policy Index for calendar 2021 but has outperformed since inception. Both current managers have also

outperformed their respective benchmarks since being added to the Trust. Mr. Sherman noted that Segal Marco will prepare an asset allocation study for the next meeting and will have a discussion on whether to rebalance to the target allocation.

Adjournment – Mr. Satterfield made a motion to adjourn. Ms. Marshall seconded the motion. All members voted in favor (5-0-0). The meeting adjourned at 12:09 p.m.