

Subject: Action – Expedited Bill 9-19, Consolidated Retiree Health Benefits Trust – Delegation of Duties
Purpose: Final action – vote expected
Analyst: Robert H. Drummer, Senior Legislative Attorney Committee: GO
Keywords: #MoCoRetireeHealthTrust Other search terms: Board of Trustees, Trust Management Fund

EXPECTED ATTENDEES

Linda Herman, Executive Director of the Retirement Plans

COMMITTEE RECOMMENDATIONS

A Government Operations and Fiscal Policy Committee worksession was held on June 20. Linda Herman, Executive Director of the Board of Trustees, and Senior Legislative Attorney Robert Drummer participated in the discussion. Ms. Herman explained the potential benefits to the Board of delegating the selection of investment managers to staff and concentrating on broader policy issues, such as asset allocation. The Committee recommended (3-0) to approve the Bill as introduced.

DESCRIPTION/ISSUE

Bill 9-19 would permit the Board to delegate duties in its written procedures if it deems it appropriate and consistent with its fiduciary duties. The Bill was requested by the CRHBT Board of Trustees. The goal of the Bill is to provide the Board with the necessary authority to meet its fiduciary duties in overseeing the investment program in the appropriate manner.

This report contains:

Detailed Staff Report

1

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MEMORANDUM

July 11, 2019

TO: County Council

FROM: Robert H. Drummer, Senior Legislative Attorney

SUBJECT: Expedited Bill 9-19, Consolidated Retiree Health Benefits Trust – Delegation of Duties

PURPOSE: Action – Council to vote on Bill

Government Operations and Fiscal Policy Committee recommendation (3-0): approve the Bill as introduced

Expected attendees:

Linda Herman, Executive Director of the Board of Trustees

Expedited Bill 9-19, Consolidated Retiree Health Benefits Trust – Delegation of Duties, sponsored by Lead Sponsor Council President Navarro at the request of the Board of Trustees for the Consolidated Retiree Health Benefits Trust, was introduced on April 2, 2019. A public hearing was held on April 30 at which the lone speaker, Linda Herman testified on behalf of the Board of Trustees.¹ A Government Operations and Fiscal Policy Committee worksession was held on June 20.

Bill 9-19 would allow the Board of Trustees to delegate certain duties as set forth in its written policies. The Bill would permit the Board to delegate duties if it deems it appropriate and consistent with its fiduciary duties. This would better align the roles and responsibilities of the Board and its Staff in the oversight of the investment program and further enhance the efficiency of the operation of the program. The goal of the Bill is to provide the Board with the necessary authority to meet its fiduciary duties in overseeing the investment program in the appropriate manner.

Background

Bill 24-12, Board of Investment Trustees – Consolidated Retiree Health Trust Board of Trustees – Delegation – Attendance, authorized the Board of Investment Trustees, which oversees the investment program for the County’s retirement plans, to delegate its duties to the Executive Director or a similarly situated County employee. Bill 9-19 would provide the same enabling authority for the Board of Trustees for the Consolidated Retiree Health Trust Board. OMB estimated that the Bill would not have a fiscal impact on the County (©5-6). Finance estimated

¹#MoCoRetireeHealthTrust

Other search terms: Board of Trustees, Trust Management Fund

the Bill would have no economic impact on the County (©7). The County Attorney's Office found no legal issues with the Bill (©9).

Public Hearing

The lone speaker at the April 30 public hearing, Linda Herman, Executive Director of the Board of Trustees, supported the Bill on behalf of the Board (©8).

Committee Worksession

Linda Herman, Executive Director of the Board of Trustees, and Senior Legislative Attorney Robert Drummer participated in the discussion. Ms. Herman explained the potential benefits to the Board of delegating the selection of investment managers to staff and concentrating on broader policy issues, such as asset allocation.

The Committee recommended (3-0) to approve the Bill as introduced.

Discussion

1. How does the Board operate?

County Code §33-160 establishes the Consolidated Retiree Health Trust Board of Trustees CRHTBT as a 19 member Board with the 13 members of the Board of Investment Trustees (BIT) who oversee the retirement plans investments with an additional 6 members from Montgomery County Public Schools and Montgomery College. The following members of the BIT are also on the CRHTBT:

- a. the Director of Management and Budget;
- b. the Director of Finance;
- c. the Director of Human Resources;
- d. the Executive Director of the County Council;
- e. a representative nominated by the union representing employees in the OPT and SLT bargaining units (MCGEO);
- f. a representative nominated by the union representing fire and rescue employees (IAFF);
- g. a representative nominated by the union representing police employees (FOP);
- h. an active employee who is not a member of a bargaining unit;
- i. a retired County employee;
- j. 2 members of the public recommended by the Council who are knowledgeable in pensions, investments, or financial matters; and
- k. 2 members of the public recommended by a citizens group in the County who are knowledgeable in pensions, investments, or financial matters.

The additional members of the CRHTBT are:

- (A) a designee of the MCPS Superintendent;

- (B) an active employee of the Montgomery County Public Schools who is a member of a bargaining unit;
- (C) a retiree of the Montgomery County Public Schools;
- (D) a designee of the President of Montgomery College;
- (E) an active employee of Montgomery College who is a member of a bargaining unit; and
- (F) a retiree of Montgomery College.

The Board is supported by a professional staff that includes an executive director and 3 Co-Investment Officers, 1 portfolio manager, 1 investment analyst, and 1 compliance analyst. Each of these staff members (except for the compliance analyst and the investment analyst who has passed level 1 of the CFA certification) are chartered financial analysts. See the organization chart for the County Retirement Plans at ©19. The Board also retains various independent consultants for investment advice and receives legal advice from the County Attorney's Office and outside counsel. The Board has adopted written policies governing investments and the procurement of other service providers. The Board currently oversees the investment of approximately \$1 billion.

The current division of responsibilities for governance between the Board, the staff, and independent consultants is described at ©22. The current division of responsibilities for investment decisions is described at ©21. Investment decisions begin with the Board's adoption of general investment policies and strategies for asset allocation. Implementing the asset allocation requires the selection of investment managers. The largest impact the Board has on the investment program is through setting the asset allocation. The Board estimates that approximately 86% of returns over the last 10 years were due to asset allocation rather than investment manager selection. See ©14.

Investment of retirement assets has grown more complicated in recent years as additional asset classes have been added to the portfolio. In 2008 when the Trust was created, the Board had investments across 4 different asset classes. In 2019, the list of asset classes and strategies used by the Board had grown to 10. See ©15. As the number of asset classes and investment strategies has grown, the amount of expertise needed to make investment choices has grown. The Board has responded by delegating certain tasks to the professional staff while still retaining the final approval of new investment managers. In 2008, the Board delegated authority to the professional staff to select a new investment manager for final Board approval.

2. What type of authority would the Board consider delegating if the Bill is enacted?

The Bill is an enabling act that would permit, but not require, the Board to delegate duties it deems prudent, consistent with its fiduciary duty. If the Bill is enacted, the final decision on what types of decisions should be delegated to professional staff would be made by the Board and documented in a written policy. The Board has already delegated some decisions to its professional staff, including the negotiation and execution of contracts. This would be consistent with some of the larger pension systems, such as the Maryland State Retirement and Pension System, and the County's pension system, as well as many corporate, endowment, and Taft Hartley

plans. The Board of Trustees for the Maryland State System has delegated the decision to hire and fire individual investment managers to the Chief Investment Officer.²

Each trustee has a fiduciary duty to “act with the care, skill, prudence, and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes.” See Code §33-163(a). This duty of prudence may require a fiduciary to delegate certain duties to a person with specialized expertise, retaining oversight, if the fiduciary lacks the expertise to make an informed decision. The growing complexity of the investment universe may be placing unreasonable requirements on a Board member who is not an investment professional, absent the authority to delegate certain decisions. The method used by the Board to select a new investment manager is described at ©20. The Board recognized the complexity of this decision in 2008 when it authorized the professional staff to select a new manager for final approval by the Board rather than interviewing a short list of finalists selected by the professional staff. Bill 9-19 would authorize the Board to take the final step to delegate this decision to the professional staff. **Committee recommendation (3-0):** approve the Bill as introduced.

This packet contains:	<u>Circle #</u>
Expedited Bill 9-19	1
Legislative Request Report	3
Fiscal and Economic Impact statement	5
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² See the Maryland Investment Policy Manual at:
<http://www.sra.maryland.gov/Agency/Investment/Downloads/InvestmentInterimPolicyManual.pdf>

Expedited Bill No. 9-19
Concerning: Consolidated Retiree Health
Benefits Trust – Delegation of Duties
Revised: March 26, 2019 Draft No. 2
Introduced: April 2, 2019
Expires: October 2, 2020
Enacted: _____
Executive: _____
Effective: _____
Sunset Date: None
Ch. _____, Laws of Mont. Co. _____

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Council President Navarro at the Request of the Board of Trustees for the
Consolidated Retiree Health Benefits Trust

AN EXPEDITED ACT to:

- (1) authorize the Board of Trustees to delegate certain duties to certain County employees in its written policies and procedures; and
- (2) generally amend the laws governing the management of the Consolidated Retiree Health Benefits Trust.

By amending

Montgomery County Code
Chapter 33, Personnel and Human Resources
Sections 33-160 and 33-162

Boldface	<i>Heading or defined term.</i>
<u>Underlining</u>	<i>Added to existing law by original bill.</i>
[Single boldface brackets]	<i>Deleted from existing law by original bill.</i>
<u>Double underlining</u>	<i>Added by amendment.</i>
[[Double boldface brackets]]	<i>Deleted from existing law or the bill by amendment.</i>
* * *	<i>Existing law unaffected by bill.</i>

The County Council for Montgomery County, Maryland approves the following Act:

Sec. 1. Sections 33-160 and 33-162 are amended as follows:

33-160. Board of Trustees.

* * *

(e) *Written policies.* The Board must establish written policies to administer and invest the funds created by this Article and to transact the business of the Trust Fund. Any delegation of duties by the Board under Section 33-162 must be specified in written policies and procedures.

* * *

33-162. Trust Fund management.

* * *

(k) *Delegation of Duties.* The Board may delegate its duties to the Executive Director or a similarly situated County employee as it deems appropriate and consistent with its fiduciary duties in a written policy and procedure. If the Board has prudently delegated its duties and monitored the delegation, the trustees must not be liable for an act or omission made by its delegate.

Sec. 2. Expedited Effective Date.

The Council declares that this legislation is necessary for the immediate protection of the public interest. This Act takes effect on the date on which it becomes law.

Approved:

Nancy Navarro, President, County Council

Date

Approved:

Marc Elrich, County Executive

Date

LEGISLATIVE REQUEST REPORT

Expedited Bill 9-19, Consolidated Retiree Health Benefits Trust – Delegation of Duties

DESCRIPTION: The Bill amends the law governing the Consolidated Retiree Health Benefits Trust to allow the Board of Trustees, which oversees the investment program, to delegate certain duties as it deems appropriate and consistent with its fiduciary duties in written policies and procedures.

PROBLEM: The Bill would permit the Board to delegate duties if it deems it appropriate and consistent with its fiduciary duties. This would better align the roles and responsibilities of the Board and its Staff in the oversight of the investment program and further enhance the efficiency of the operation of the program.

GOALS AND OBJECTIVES: The goal of the Bill is to provide the Board with the necessary authority to meet its fiduciary duties in overseeing the investment program in the appropriate manner.

COORDINATION: The Board of Trustees and the County Attorney's Office have reviewed this Bill.

FISCAL IMPACT: Office of Management and Budget

ECONOMIC IMPACT: Finance

EVALUATION: To be done.

EXPERIENCE ELSEWHERE: Bill 24-12, permitted the Board of Investment Trustees, which oversees the investment program for the County's retirement plans, to delegate its duties to the Executive Director or a similarly situated County employee. The County's Chief Administrative Officer, in his role as Plan Administrator, currently has the authority within the Code to delegate his duties.

SOURCE OF INFORMATION: Linda Herman, Board of Trustees
Amy Moskowitz, Office of the County Attorney

**APPLICATION
WITHIN
MUNICIPALITIES: N/A**

PENALTIES: N/A

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Fiscal Impact Statement
Expedited Bill XX-19 Consolidated Retiree Health Benefits Trust - Delegation

1. Legislative Summary.

The proposed bill amends the County's retirement law to allow the Board of Trustees, which oversees the investment programs for the Consolidated Retiree Health Benefits Trust, to delegate certain duties to the Board's Executive Director as it deems appropriate and consistent with its fiduciary duties and its written policies and procedures.

2. An estimate of changes in County revenues and expenditures regardless of whether the revenues or expenditures are assumed in the recommended or approved budget. Includes source of information, assumptions, and methodologies used.

The bill is not estimated to have a fiscal impact.

3. Revenue and expenditure estimates covering at least the next 6 fiscal years.

See #2.

4. An actuarial analysis through the entire amortization period for each bill that would affect retiree pension or group insurance costs.

Not applicable.

5. Later actions that may affect future revenue and expenditures if the bill authorizes future spending.

Not applicable.

6. An estimate of the staff time needed to implement the bill.

No additional staff time is needed to implement the bill.

7. An explanation of how the addition of new staff responsibilities would affect other duties.

No new staff responsibilities are created as a result of this bill.

8. An estimate of costs when an additional appropriation is needed.

Not applicable.

9. A description of any variable that could affect revenue and cost estimates.

Not applicable.

10. Ranges of revenue or expenditures that are uncertain or difficult to project.

Not applicable.

11. If a bill is likely to have no fiscal impact, why that is the case.


The delegation provision has no impact on revenues and does not generate any additional expenditures.

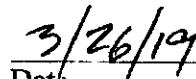
12. Other fiscal impacts or comments.

Not applicable.

13. The following contributed to and concurred with this analysis:

Corey Orlosky, Office of Management and Budget


Richard S. Madaleno, Director
Office of Management and Budget


Date

Economic Impact Statement
Bill xx-19 Consolidated Retiree Health Benefits Trust

Background:

Expedited Bill xx-19 would:

- (1) allow the Board of Trustees to delegate certain duties as set forth in its written policies and procedures; and
- (2) generally amend the laws governing the Consolidated Retiree Health Benefits Trust.

The Bill would permit the Board to delegate duties if it deems it appropriate and consistent with its fiduciary duties, resulting in a better alignment of the roles and responsibilities of the Board and its Staff in the oversight of the investment program and to further enhance the efficiency of the operation of the program.

1. The sources of information, assumptions, and methodologies used.

There were no sources of information, assumptions, or methodologies needed in the formulation of this economic impact statement.

2. A description of any variable that could affect the economic impact estimates.

There are no variables that could affect the economic impact estimates from this legislation. The goal of the legislation is to provide the Board with the necessary authority to meet its fiduciary duties in overseeing the investment program in the appropriate manner.

3. The Bill's positive or negative effect, if any on employment, spending, savings, investment, incomes, and property values in the County.


The Bill will have no effect on employment, spending, savings, investment, incomes, or property values in the County.

4. If a Bill is likely to have no economic impact, why is that the case?

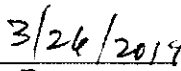
Please see paragraph 3.

5. The following contributed to or concurred with this analysis:

David Platt, Dennis Hetman – Department of Finance.



Alexandre Espinosa, Director
Department of Finance



Date

**TESTIMONY FOR EXPEDITED BILL 9-19E, CONSOLIDATED RETIREE
HEALTH BENEFITS TRUST – DELEGATION OF DUTIES**

Good afternoon, for the record, I am Linda Herman, Executive Director of the Montgomery County Employee Retirement Plans. I am here today on behalf of the Board of Trustees, who oversee the assets of the Consolidated Retiree Health Benefits Trust (CRHBT), to testify in support of Bill 9-19E.

The proposed Bill would amend the County Code to permit the Board to delegate its duties as the Board deems appropriate and consistent with its fiduciary duties and its written policies and procedures. In 2012 the Council approved similar legislation for the Board of Investment Trustees who oversee the County's retirement plans.

The County Code establishes the Board of Trustees and provides the Board the power to invest the assets of the CRHBT and describes other actions to be taken. The Board has been advised by its legal counsel that the delegation of its duties is permitted under common law. However, the Board's counsel has advised them that the delegation authority should be provided in its governing document, the County Code. Numerous retirement plans, including the County's retirement plans and the Maryland State Retirement and Pension System, currently provide for the Boards, overseeing the investment of trust fund assets, to delegate certain functions to staff. This bill would allow for a similar delegation of duties by granting the Board the authority to delegate as it deems appropriate and consistent with its fiduciary duties and its written policies and procedures. The Board will retain the authority to grant or remove the delegation as it deems prudent.

We look forward to working with the Council in its deliberations on this legislation.



OFFICE OF THE COUNTY ATTORNEY

Marc Elrich
County Executive

Marc P. Hansen
County Attorney

MEMORANDUM

TO: Linda Herman, Executive Director
Montgomery County Employee Retirement Plans

THRU: Edward Lattner, Chief *EL*
Division of Government Operations, OCA

FROM: Amy Moskowitz, Associate County Attorney *AMK*

DATE: April 4, 2019

RE: Bill 9-19E

Our office was asked to comment on Bill 9-19E which permits the Board of Trustees of the Consolidated Retiree Health Benefits Trust to delegate its duties to the Executive Director or a similarly situated employee.

Per your request and the Board of Trustees' action, our office prepared the Bill. Council staff made no changes. There are no legal issues.

cc Robert Drummer, Senior Legislative Attorney
Marc Hansen, County Attorney
Dale Tibbitts, Special Assistant to the County Executive
Tammy Seymour, OCA
Lisa Austin, OCE



Governance – Delegation

March 2019

Consolidated Retiree Health Benefits Trust

Delegation Overview

- What is a delegation?
 - Delegation is the act of empowering one party to act for another party.
- Delegation ≠ abdication
 - Fiduciary duty to monitor and appoint delegates prudently.
- Fiduciaries should consider delegating due to:
 - Complexity of investments;
 - Lack of time for full consideration of all aspects of an investment;
 - Lack of experience/education with respect to investments; or
 - Administrative purposes (ex: signatory authority).
- An “effective delegation” means that the delegator is only responsible to ensure that the delegate acted appropriately.
 - According to the County Code: “If the Board has prudently delegated its duties and monitored the delegation, the trustees must not be liable for an act or omission made by its delegate.”

Duty of Prudence – County Code

Montgomery County Code 33-163a3 - A fiduciary must discharge the fiduciary's duties regarding the trust with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Adherence to this statute includes:

- Focusing on conduct - how was the investment chosen & what the process was rather than what was the result.
- Examining the scope and diligence of the fiduciary's investigation.
- Requiring the standard of one familiar with the topic under consideration, not the standard of a lay person.
- Requiring the fiduciary to seek expert advice if a fiduciary lacks experience/education with regard to a particular matter.

Prudent Delegation

- Determining what to delegate?
 - Prior Board discussions:
 - Signing legal agreements/modifications
 - Hiring/termination of investment managers
 - Hiring re-up managers

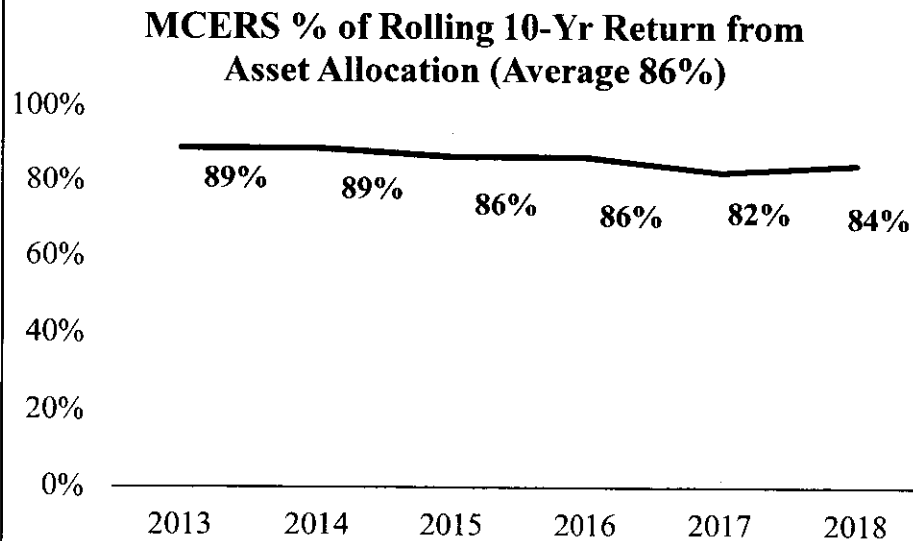
 - Evaluating a delegate
 - Executive Director with unanimous IC approval (ERS only)

 - Establishing processes and procedures
 - Processes, procedures and reporting are in place for delegation as the ERS Board has delegated the hiring/firing of investment managers to the Executive Director since 2013.
 - CRHBT delegated signing for all contracts to the Executive Director in 2017.

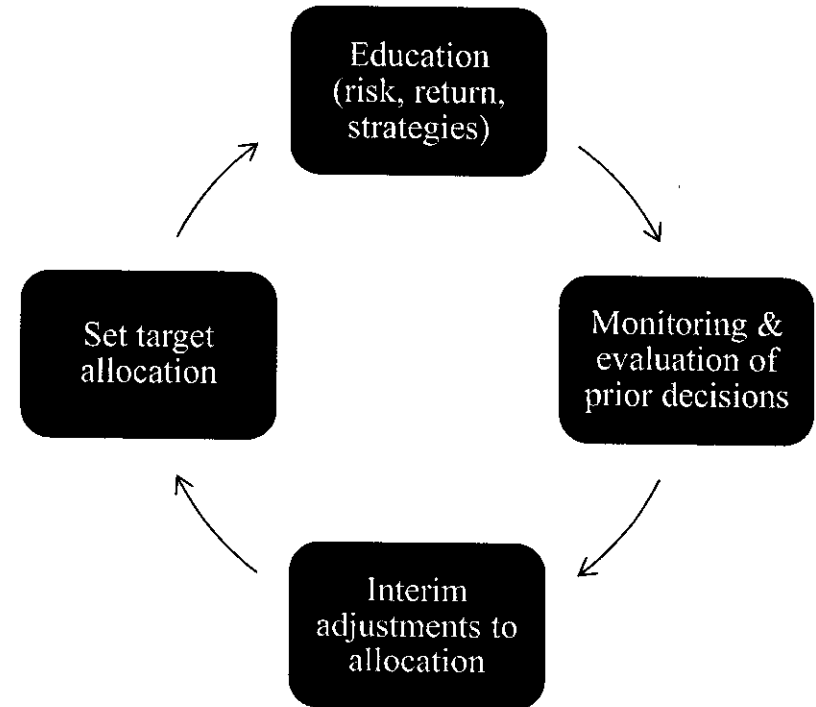
 - Independent monitoring
 - The delegation includes a requirement that the investment manager cannot be hired without concurrence from the consultant.
-

Impact of Decisions

- Based on the ERS, the largest impact the Board has on the investment program has been through setting the asset allocation.



- Although the asset allocation decision is made only periodically, the effort must be ongoing and iterative to maximize the likelihood of a good decision:



Trustee Challenges

- Over the past ten years the Board has added numerous asset classes and strategies as shown in the table below:

	<u>At</u> <u>June 30, 2008</u>	<u>At</u> <u>December 31, 2018</u>
Equities	X	X
Fixed Income		X
Inflation-Linked Bonds	X	X
Commodities		X
Private Equity		X
Private Real Assets		X
Private Debt		X
REITs	X	X
MLPs/Infrastructure		X
Hedge Funds		X

These additions result in the following challenges:

- Expanded knowledge of asset classes and markets*
- Increased manager evaluation & monitoring*
- Enhanced technical nature of investments places less emphasis on in-person presentations.*
- Acting quickly due to the volatility in investments and opportunities*

Delegation Benefits

- Delegating manager selection/termination to the Executive Director will:
 - Allow the Board to focus on strategic initiatives such as:
 - Investment Policies
 - Asset Allocation/Risk Budget
 - Governance Monitoring and Evaluation
 - Investment Monitoring and Evaluation
 - Provide both investment and operational staff the flexibility to plan their work flow based on manager's fundraising schedules. This will allow for a better allocation of staff work effort and minimize the risk of missed opportunities such as:
 - Whitehorse
 - Kimmeridge
 - Juniper Fund III (allocation cut)
 - Indemnify the Board from being required to identify the best manager within challenging strategies (i.e. aircraft leasing, preferred secondaries capital, Canadian residential development, global mining, and sector specialists within healthcare and technology).

Staff – Roles & Responsibilities

Executive Director/Staff Investment Committee/Staff

- Provides required reporting to the Board as outlined in the Governance Documents
- Hires, monitors and fires external investment managers with input from Board consultants (ERS only)
- Establishes investment guidelines for external investment managers
- Discretionary rebalancing back to allocation targets established by the Board
- Executive Director executes all agreements and amendments to agreements (both Boards)

Board Counsel – Internal & External

- Reviews all investment manager agreements and amendments to agreements as to form and legality and signs all documents acknowledging the approval
- Provides Board with quarterly report on all executed contracts and amendments (ERS only)

Consultants/Custodian Bank/Other Vendors

- Acts independently and reports directly to the Board
 - Board assigns work plan, monitoring and reporting requirements
 - Works with Staff in the evaluation of asset allocation, strategies, and managers.
-

Staff Investment Committee

Composition:

- Executive Director (*Linda Herman*)
- CFO (*Yan Yan*)
- Compliance Manager (pending approval)
- Compliance Analyst – (*Priti Mehta*)
- 3 Co-CIOs–(*Marc Esen, John Feketekuty, Pat Paoli*)
- Investment Officer – (*Kevin Killeavy*)
- Investment Analyst (*Darrin Arbaugh*)

Structure:

- Elected Officers (quarterly)
 - Chair sets agenda, formulates materials w/members & conducts the meetings
 - Secretary takes minutes that are later reviewed by all members
 - Staff member presents issues related to their portfolios
- Meeting Format
 - Agenda and materials provided to committee members at least 2 days prior to meeting
 - Meets weekly
 - Board Consultants input as needed

Roles and Responsibilities:

- Policy Recommendations
- Risk Management
- Rebalancing & Liquidity Management
- All members provide feedback on all projects
- Asset Allocation/Strategy Recommendations
- Review of investment manager hiring/termination recommendations or adjustment of the assets under management of a current manager

Experienced Team

- **Investment Team** -Deep team of experienced investment professionals with an average of 14 years of experience in the investment industry.

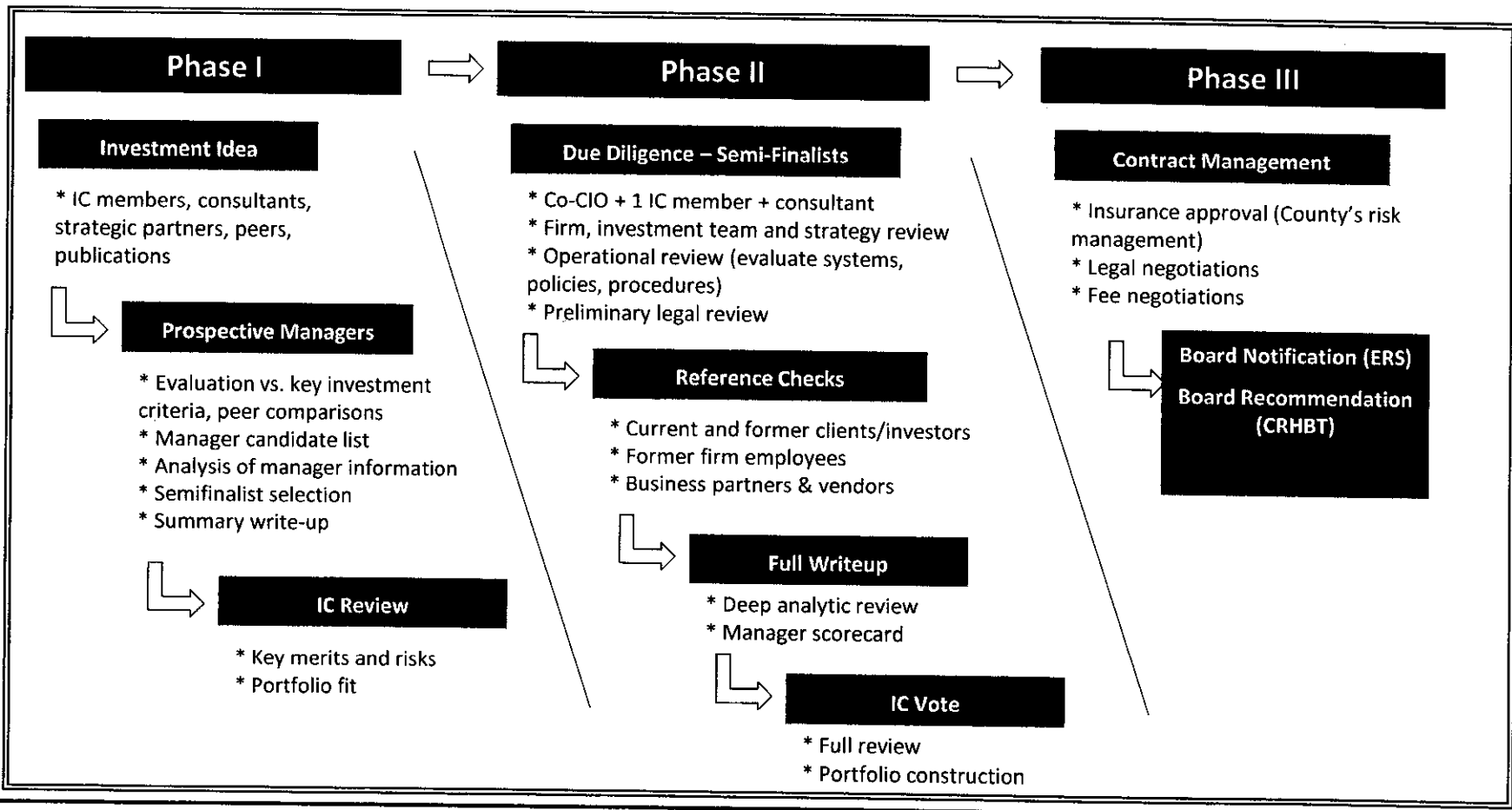
	Years Exp.	Professional/Educational Designations
Marc Esen	25	MBA, Certified Investment Management Analyst (CIMA)
John Feketekuty	13	Chartered Financial Analyst (CFA)
Pat Paoli	11	MBA, Chartered Financial Analyst (CFA)
Kevin Killeavy	11	Chartered Financial Analyst (CFA), Chartered Alternative Investment Analyst (CAIA)
Darrin Arbaugh	11	Level 2 Candidate for Chartered Financial Analyst (CFA) Program

- **Operations Team** -Deep team of experienced operations and accounting professionals with an average of 14 years of experience.

	Years Exp.	Professional/Educational Designations
Yan Yan	15	Masters in Accounting, CPA, Level 2 Candidate for CFA Program
Priti Mehta	17	Masters in Accounting, CPA, Level 1 Candidate for CFA Program
Ge Lee	10	Certified Public Accountant (CPA)
Olga Batkhan	10	Masters in Accounting, CPA

Staff Investment Committee

Investment Management/Fund Process



Roles & Responsibilities – Investment

AREA	ROLE	BOARD	STAFF	OTHER
Policy Decisions	Determine investment objectives and benchmarks	Approves	Recommends	Input (consultants)
	Set target asset allocation and ranges/rebalancing policy	Approves	Recommends	Input (consultants)
	Establish risk budget for beta and alpha	Approves	Recommends	Input (consultants)
	Custodian and consultant selection	Approves	Assist in Evaluation	Input (counsel/consultants)
Implementation	Manager hiring/terminations (Current)	Approves	Recommends	Recommends (consultants)
	Manager hiring/terminations (Proposed)	Monitors	Approves (Executive Director)	Recommends (consultants)
	Contract execution/guideline modifications (Current)	Approves (Board Chair)	Recommends	Input (consultants)
	Contract execution/guideline modifications (Proposed)	Monitors	Approves (Executive Director)	Input (consultants)
	Execution of rebalancing and liquidity management programs	Reviews	Approves	Input (consultants)
	Evaluation of investment policy decisions (attribution, risk budgeting)	Reviews	Reports	Reports (consultants)
Monitoring and Evaluation	Investment performance evaluation (overall, sector-level, manager-level)	Reviews	Reports	Reports (consultants)
	Investment manager oversight (both investment and compliance)	Reviews	Reports	Reports (consultants)

Roles & Responsibilities – Governance

AREA	ROLE	BOARD	STAFF	OTHER
Policy Decisions	Determine governance/roles and responsibilities	Determines and Approves	Input/Facilitate Discussion	Input (consultants/counsel)
	Approve fund operating budget	Approves	Recommends	Input (County OMB)
Monitoring and Evaluation	Contract review/vendor evaluations	Reviews	Transmits	Reports (all vendors)
	Budget review	Reviews	Reports	n/a
	Approval of outside counsel	Responsible	Reports	Reports (counsel)

Current Process – ERS Manager Hire/Fire

- Advise Board via memos on all hiring/firing decisions with consultant's concurrence
- If consultant does not concur, the decision to hire or fire is brought to the Board



BOARD OF INVESTMENT TRUSTEES

MEMORANDUM

TO: Members, Board of Investment Trustees
FROM: Executive Director
SUBJECT: Investment Manager Hiring – Lyme Forest Fund V, L.P.

Attached is the analysis and evaluation of Lyme Forest Fund V, L.P. an investment manager recommended for hiring to manage assets for the Employees' Retirement System by the Staff Investment Committee.

I concur with the Committee's recommendation and hereby certify that the process utilized in the sourcing and evaluation of this investment manager was in full compliance with the Board's Statement of Investment Policy & Objectives and the Board's Governance Manual.

BY: Linda Herman
Executive Director

DATE

As an independent consultant advisor to the Board of Investment Trustees acting as a fiduciary to the Retirement Plans, I concur with the Executive Director's decision to hire Lyme Forest Fund V, L.P. to manage assets for the Employees' Retirement System and confirm that the investment meets the criteria set forth in NCERS' Statement of Investment Policy & Objectives.

BY: James Gasperoni
Aberdeen

DATE

I certify that there were no unresolved legal impediments to completion of the investment and that the legal documents associated with this investment have been approved as to legal form.

BY: Amy S. Moskowitz
General Counsel

DATE

Current Process – ERS Contracts Executed

- Board Attorney reports to the Board all contracts executed or amended since the last Board meeting.

MEMORANDUM

TO: Board of Investment Trustees
 FROM: Amy S. Moskowitz
 DATE: July 19, 2018
 RE: Execution of Contracts

Background

The Board's Delegation of Authority to the Executive Director for execution of legal agreements requires the Board's counsel to report all contracts and amendments executed by the Executive Director since last reported at the May 19, 2018 Board meeting:

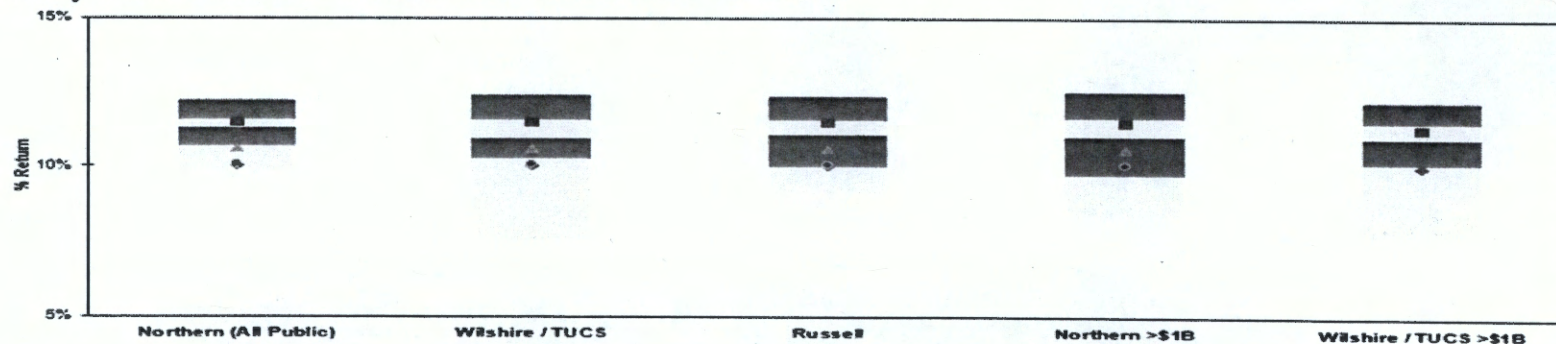
Service Provider	Document	Purpose	Date	Approved as to Legal Form
Fidelity Workplace Services	Amendment to Recordkeeping Agreement (RSP, DCP, Police DROP, MCGEO DROP, EOP)	Amend Fee Schedule	April 1 (effective)	Yes, May 16
WNG Aircraft Opportunities, Fund II, L.P.	Subscription Agreement and side letter	Limited partner in private equity fund	May 25	yes
LBA, IV, L.P.	MFN election	Elect MFN provisions for side letter	June 5	yes
HarbourVest International Private Equity V-Direct	consent	Extend partnership for one year	June 11	yes
Center Rock Capital Partners Fund, I	Amendment	Increase cap of commitments from Limited Partners	June 13	yes

Independent Reporting – Northern Trust (Custodian)

Monthly Performance Report - Total Fund, Asset Class and Managers vs. Benchmarks

Rates of Return By Manager												
Account	Ending Market Value	% Wt	Target Wt	One Month	Three Months	Fiscal YTD	Calendar YTD	One Year	Three Years	Five Years	Ten Years	
Total Fund	945,693,343	100.0	100.0	-4.78	-3.62	-2.52	-1.05	1.82	6.76	6.70	9.08	
<i>RHBT Policy Benchmark</i>				<i>-3.68</i>	<i>-3.08</i>	<i>-1.59</i>	<i>-1.25</i>	<i>1.58</i>	<i>6.28</i>	<i>5.21</i>	<i>8.50</i>	
JP Morgan	42,696,767	4.5	4.1	-9.13	-5.21	-0.94	1.04	5.56	10.83	11.43	N/A	
<i>LACM</i>	<i>22,542,176</i>	<i>2.4</i>	<i>2.0</i>	<i>-6.41</i>	<i>-1.90</i>	<i>1.55</i>	<i>2.88</i>	<i>6.30</i>	<i>12.10</i>	<i>12.09</i>	<i>N/A</i>	
<i>S&P 500</i>				<i>-6.84</i>	<i>-3.25</i>	<i>0.35</i>	<i>3.01</i>	<i>7.35</i>	<i>11.52</i>	<i>11.34</i>	<i>N/A</i>	
<i>Sands</i>	<i>31,137,874</i>	<i>3.3</i>	<i>3.1</i>	<i>-13.63</i>	<i>-8.39</i>	<i>-7.24</i>	<i>12.59</i>	<i>13.31</i>	<i>12.35</i>	<i>N/A</i>	<i>N/A</i>	
<i>Russell 1000 Growth</i>				<i>-8.94</i>	<i>-3.43</i>	<i>-0.59</i>	<i>6.62</i>	<i>10.71</i>	<i>13.67</i>	<i>N/A</i>	<i>N/A</i>	
BHMS	32,291,615	3.4	3.1	-7.55	-5.75	-2.28	-3.29	0.75	8.67	N/A	N/A	
<i>Russell 1000 Value</i>				<i>-5.18</i>	<i>-3.59</i>	<i>0.23</i>	<i>-1.46</i>	<i>3.03</i>	<i>8.88</i>	<i>N/A</i>	<i>N/A</i>	
Eagle Asset Management	20,435,581	2.2	2.0	-12.65	-5.64	-2.92	9.63	13.00	14.88	11.11	N/A	
<i>Russell 2000 Growth</i>				<i>-12.65</i>	<i>-9.39</i>	<i>-7.83</i>	<i>1.11</i>	<i>4.13</i>	<i>10.72</i>	<i>8.75</i>	<i>N/A</i>	
Wellington Small Cap	20,294,192	2.1	2.0	-10.64	-9.52	-7.01	-3.30	-1.14	7.31	7.09	N/A	
<i>Russell 2000 Value</i>				<i>-8.95</i>	<i>-9.10</i>	<i>-7.49</i>	<i>-2.46</i>	<i>-0.59</i>	<i>10.52</i>	<i>7.18</i>	<i>N/A</i>	
BlackRock Russell 1000 Fund	18,766,146	2.0	1.8	-7.08	-3.52	-0.19	2.71	7.02	11.38	11.05	N/A	
<i>Russell 1000</i>				<i>-7.08</i>	<i>-3.51</i>	<i>-0.18</i>	<i>2.67</i>	<i>6.98</i>	<i>11.31</i>	<i>11.05</i>	<i>N/A</i>	
U.S. Equity Aggregates	188,164,351	19.9	18.2	-9.68	-5.83	-2.84	3.04	6.34	11.03	10.74	13.46	
<i>Russell 3000</i>				<i>-7.36</i>	<i>-3.95</i>	<i>-0.76</i>	<i>2.43</i>	<i>6.60</i>	<i>11.27</i>	<i>10.81</i>	<i>13.35</i>	

Quarterly Peer Universe - Total Fund Performance vs. Peers



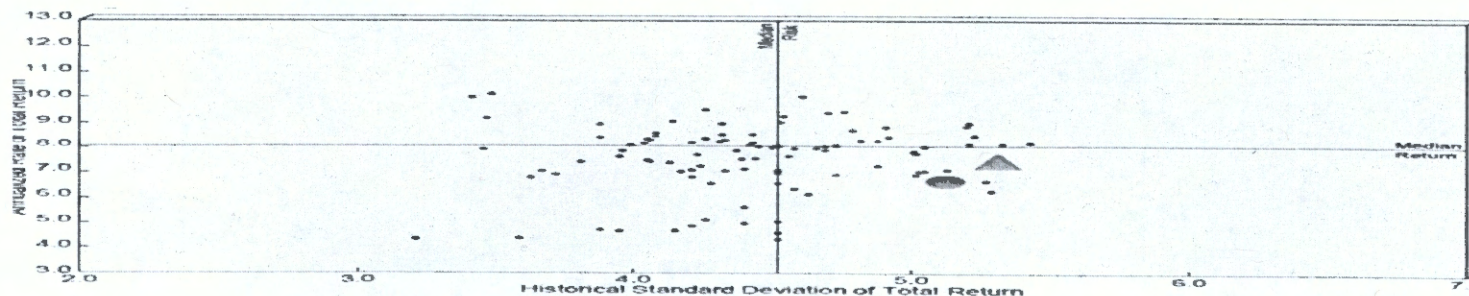
	Northern (All Public)	Wiltshire / TUCS	Russell	Northern >\$1B	Wiltshire / TUCS >\$1B
■ MCERS	11.5%	11.5%	11.5%	11.3%	11.3%
◆ MCERS Policy	10.0%	10.0%	10.0%	10.0%	10.0%
▲ CRHBT	10.6%	10.6%	10.6%		
● CRHBT Policy	10.1%	10.1%	10.1%		
1st Quartile	11.5%	11.5%	11.5%	11.6%	11.5%
Median	11.3%	10.9%	11.0%	11.0%	11.0%
3rd Quartile	10.7%	10.3%	10.0%	9.7%	10.1%
Number of Observations	28	147	86	123	65

Independent Reporting – Wilshire (Consultant)

- Quarterly Performance Report - Total Fund, Asset Class and Managers vs. Benchmarks

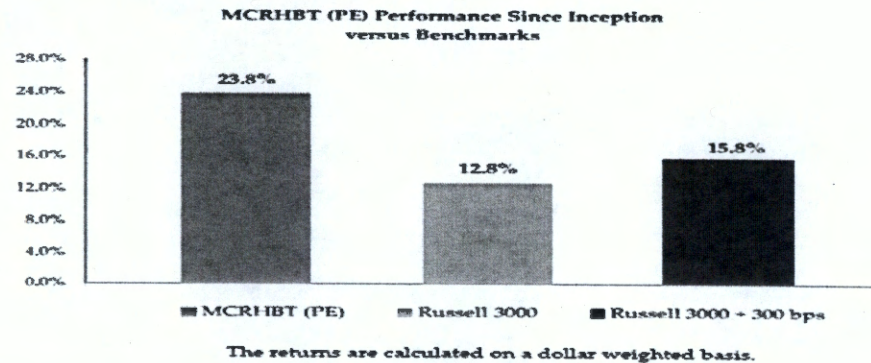
	ASSETS		INVESTMENT RETURNS - Net of Fees				THREE-YEAR EXCESS	
	Value (000's)	Allocation	Quarter	One Year	Three Years	Five Years	Expected	Actual
TOTAL FUND COMPOSITE*	\$993,157	100.00%	2.26	7.92	9.68	6.94		
<i>Policy Index</i>			2.18	6.73	9.32	6.62		
GROWTH COMPOSITE	\$616,452	62.07%	4.41					
<i>Policy Index</i>			4.33					
US Equity Composite	\$211,530	21.30%	7.50	19.91	17.43	13.35	1.3	0.4
<i>Russell 3000 Index</i>			7.12	17.58	17.07	13.46		
Non-US Equity Composite	\$178,541	17.98%	0.49	2.39	9.74	5.25	2.1	-0.3
<i>Policy Index</i>			0.55	1.77	10.01	4.06		
Global Equity Composite	\$40,618	4.09%	5.35	10.86	13.36	5.42	1.4	-0.1
<i>MSCI ACWI Index</i>			4.28	9.77	13.40	8.66		
High Yield Composite	\$107,923	10.87%	1.89	2.75	--	--	--	--
<i>Merill Lynch HY Index</i>			2.42	2.93	--	--		
Private Equity Composite	\$68,087	6.86%	<i>Time-Weighted Returns Shown in Attribution</i>				--	--
<i>Venture Econ 2Q Lagged</i>								
Private Debt Composite	\$9,753	0.98%	<i>Time-Weighted Returns Shown in Attribution</i>				--	--
<i>Merill Lynch HY Index + 300bps</i>								
RISK MITIGATION COMPOSITE	\$147,026	14.86%	-0.48					
<i>Policy Index</i>			-0.41					
Long Duration	\$145,407	14.64%	-0.65	-3.05	--	--	--	--
<i>Bloomberg Long G/C Index</i>			-0.47	-2.73	--	--		
Cash	\$2,221	0.22%	0.46	1.43	0.74	0.45	0.0	-0.2
<i>91-Day T-Bill</i>			0.52	1.70	0.89	0.55		
REAL ASSET COMPOSITE	\$229,077	23.07%	-1.44					
<i>Policy Index</i>			-0.38					
Global IL Bonds Composite	\$105,792	10.65%	-3.69	4.08	--	--	5.0	--
<i>Policy Index</i>			-2.33	2.84	--	--		
Public Real Asset Composite	\$89,995	9.06%	-0.38	4.12	4.43	--	1.3	0.2
<i>Policy Index</i>			0.02	3.75	4.24	--		
Private Real Asset Composite	\$33,290	3.35%	<i>Time-Weighted Returns Shown in Attribution</i>				--	--
<i>Seasonally-Adjusted CPI +5%</i>								

- Total Portfolio Risk/Return Analysis



Independent Reporting – Franklin Park (Consultant)

- Asset Class Performance vs. Benchmark



- Manager Performance by Vintage Year

VINTAGE	2013	2014	2015	2016	2017	2018
NET IRR	24.3%	24.3%	22.8%	24.9%	NMF	NMF
	FP Venture 2013 24.3%	Altaris III 29.6%	Clearlake IV 34.0%	DW Healthcare IV 46.4%	Altaris Constellation NMF	Altaris IV NMF
		Thoma Bravo XI 25.4%	Siris III 17.0%	Thoma Bravo Discover 31.3%	BV IX NMF	Center Rock I NMF
		K2 24.2%	FP Venture 2015 12.2%	K3 20.9%	FP Intrnl 2017 NMF	Clearlake V NMF
FUNDS		KPS IV 23.5%	FP Intrnl 2.8%	JF Lehman IV 17.9%	FP Venture 2017 NMF	FP Intrnl 2018 NMF
		Atlas II 20.6%		FP Intrnl 2016 11.5%		FP Venture 2018 NMF
		FP Venture 2014 15.3%		FP Venture 2016 7.3%		Gryphon V NMF
				Sirionone Partners I 2.5%		Thoma Bravo Discover II NMF

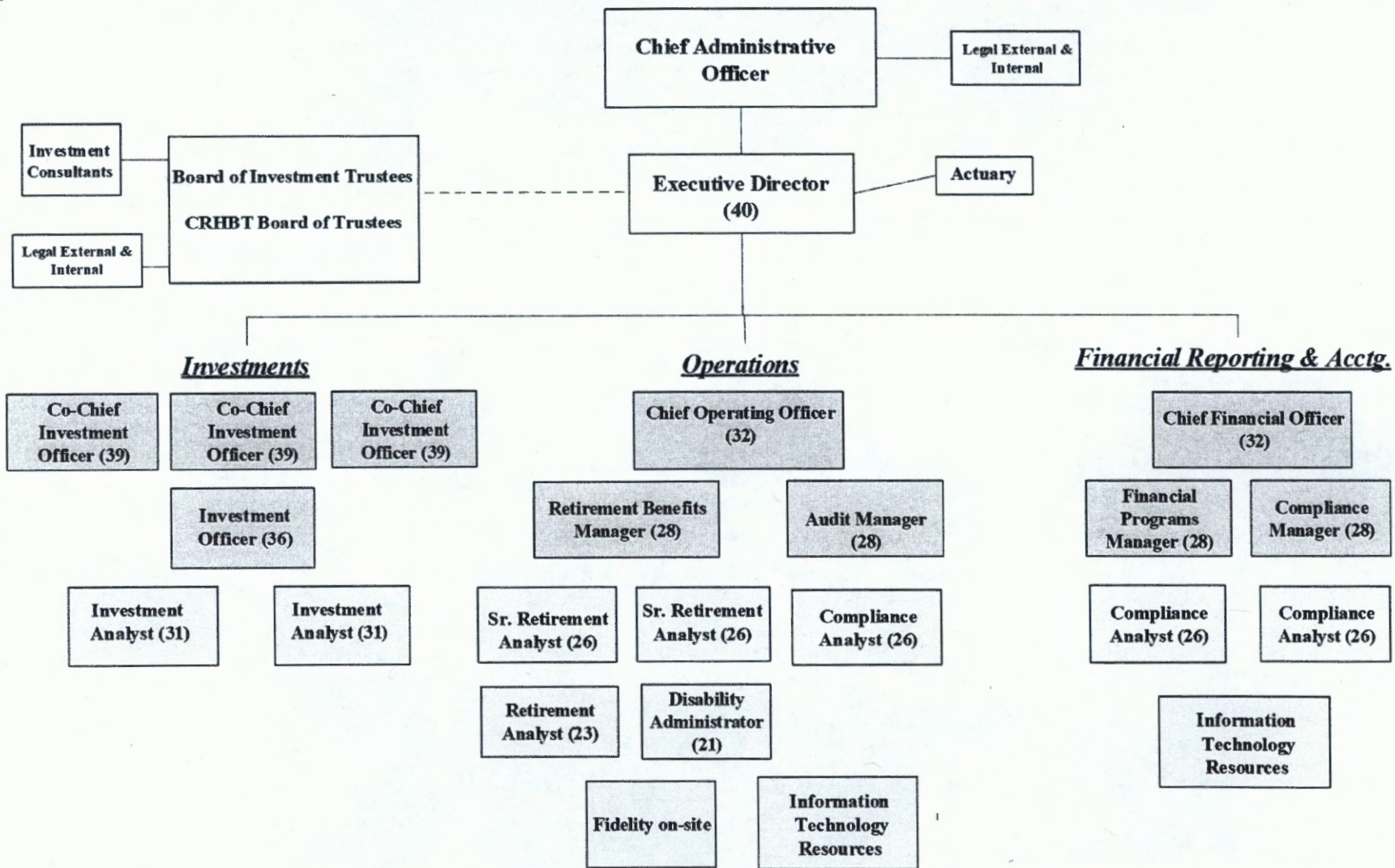
Independent Reporting – AberdeenStandard (Consultant)

■ Asset Class Performance vs. Benchmark vs. Peers

Investment Fund	Vintage Year	Total Commitment (\$)	Invested Capital (\$)	Remaining Market Value (\$)	Distributions (\$)	Multiple of Cost	IRR	Quartile Ranking** (IRR)	Quartile Ranking** (TVPI)	CPI ¹ + 500bps	Public Index Performance
Aberdeen Energy and Resources Partners III*	2013	3,000,000	2,520,000	2,580,600	651,197	1.3x	12.2%	2	2	6.9%	-1.3% ³
Aberdeen Real Estate Partners III*	2013	3,000,000	1,830,000	1,720,441	232,553	1.1x	3.7%	3	3	7.0%	2.2% ⁴
Lime Rock Resources III	2013	3,000,000	3,114,643	3,228,346	479,359	1.2x	5.6%	3	3	6.7%	-4.7% ³
LBA Realty Fund V	2014	3,000,000	2,781,954	2,812,162	901,160	1.3x	13.5%	3	2	6.8%	1.3% ²
Meridian Realty Partners II	2014	3,500,000	1,718,555	1,922,054	59,439	1.2x	6.8%	4	4	7.0%	2.1% ²
Lyme Forest IV	2015	3,500,000	3,500,000	3,927,125	231,212	1.2x	11.6%	3	3	7.1%	3.7% ³
Homestead Capital I	2015	2,000,000	1,908,227	1,841,760	79,035	1.0x	0.2%	4	4	7.0%	0.9% ³
Juniper Capital II	2015	2,000,000	1,329,799	1,877,801	-	1.4x	26.1%	1	1	7.2%	6.5% ³
Resource Land Fund V	2016	3,000,000	1,020,000	1,079,007	-	1.1x	5.3%	4	3	7.4%	5.8% ³
Lime Rock Resources IV	2016	3,000,000	1,176,344	1,313,869	15,926	1.1x	10.2%	3	3	7.4%	3.7% ³
Homestead Capital II	2016	3,000,000	1,332,303	1,192,479	118,464	1.0x	-1.9%	4	4	7.4%	2.3% ³
Kimmeridge Energy III	2016	1,000,000	974,986	-	1,925,235	2.0x	201.3%	1	1	7.6%	2.1% ³
Federal Capital Partners III	2016	3,000,000	2,536,547	2,180,438	1,116,876	1.3x	29.0%	1	1	7.4%	-1.4% ²
EMR Capital Resources II	2016	2,000,000	1,237,208	1,482,328	268,771	1.4x	59.9%	1	1	6.9%	-0.8% ³
Kimmeridge Mineral Fund	2016	2,000,000	1,535,178	2,026,376	-	1.3x	29.4%	2	1	7.5%	4.1% ³

Appendix

Montgomery County Employee Retirement Plans

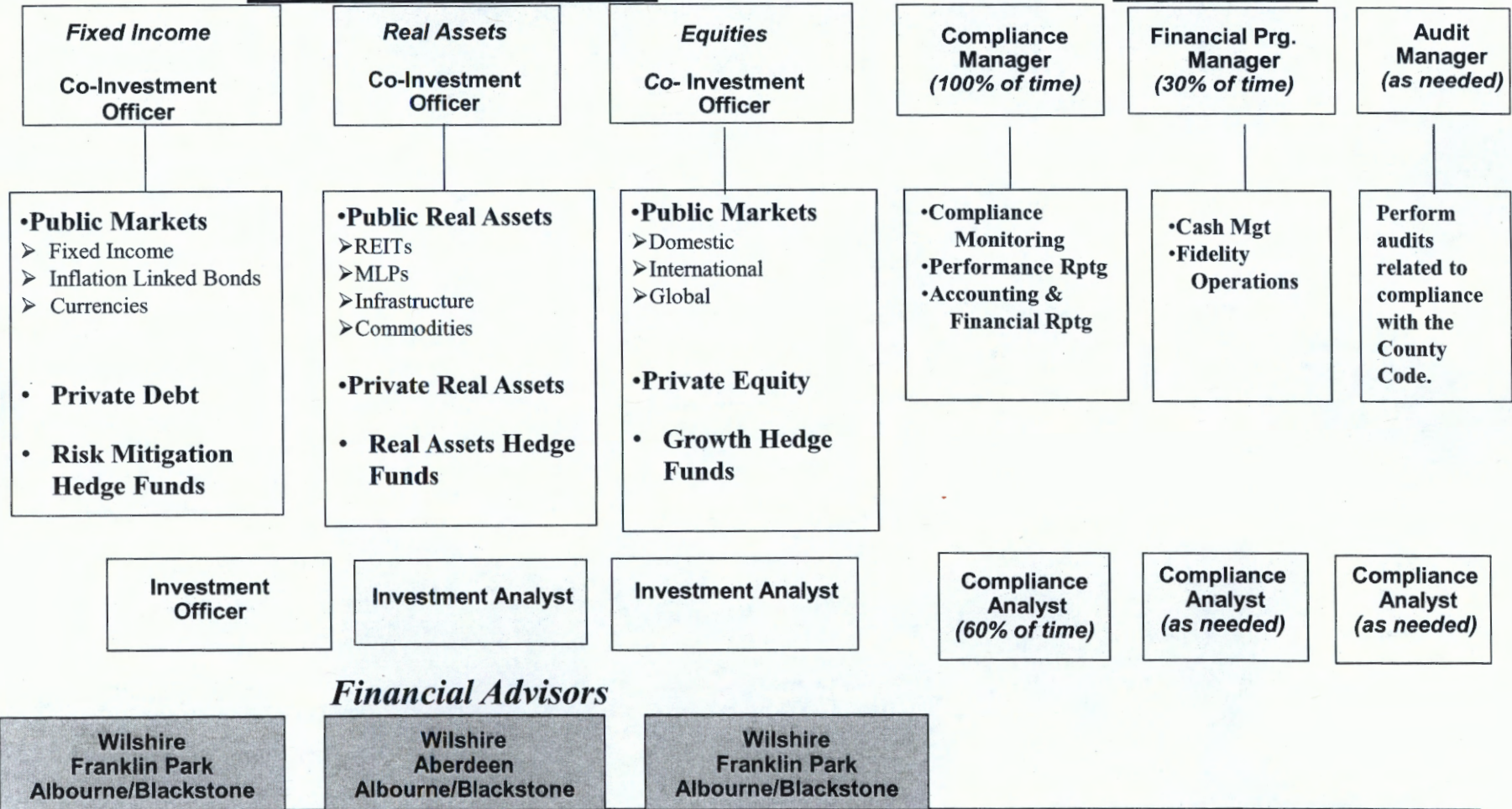


Investment Programs - Staffing

Executive Director

Investment Management

Operations



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