

**ST. MARY'S COUNTY SHERIFF'S OFFICE RETIREMENT PLAN  
BOARD OF TRUSTEES MEETING  
October 23, 2014**

**Members Present:** Dr. Rebecca Bridgett, County Administrator  
Elaine Kramer, Chief Financial Officer  
Lt. Edward Evans, Sheriff's Office Representative  
Dr. Tracy Harris, Citizen Representative

**Others Present:** Susan Sabo, Plan Administrator  
Karen Gates, Recorder  
Jeff Seibel, Morgan Stanley  
Tom Lowman, Bolton Partners

**Members Absent:** Captain Terry Black, Sheriff's Office Representative

**CALL TO ORDER**

The meeting was called to order at 1:05 p.m.

**ACCEPTANCE OF THE AGENDA**

The agenda was revised and accepted as presented by Dr. Bridgett.

**APPROVAL OF MINUTES**

Elaine Kramer made a motion, seconded by Lt. Edwards, to approve the July 24, 2014 meeting minutes. Motion carried.

**BOLTON PARTNERS PRESENTATION – SORP ACTUARIAL VALUATION**

Tom Lowman from Bolton Partners presented a worksheet showing the preliminary actuarial valuation results as of July 1, 2014 (using the new GASB67 accounting standards) compared to the actuarial valuation results as of July 1, 2012.

Mr. Lowman discussed possible changes in funding methods and assumptions and provided the Board members a one-page comparison of the different options: (1) changing the funding method to the GASB method (entry age normal), (2) lowering the 7.5% assumption to 7.0%, and (3) changing the amortization basis from 25 to 20 years.

Mr. Lowman noted that the Plan had an accrued liability of \$113,692 in contribution refunds due to former non-vested members. Mr. Lowman encouraged the Plan to pay out employee contributions to former non-vested members in order to lower the Plan's accrued liability.

Mr. Lowman noted that the Plan's Total Employer Contributions as a Percentage of Payroll decreased from 38% as of July 1, 2012 to 34.8% as of July 1, 2014.

The Board asked Mr. Lowman to revise the valuation using following funding methods and assumptions, keeping the Total Employer Contributions at 38% of Payroll:

- Change the expected rate of returns from 7.50% to 7.25%
- Change Actuarial Cost Method from Projected Unit Credit to Individual Entry Age Normal
- Change amortization from 25 to 20 years

### DROP Program

Lt. Evans asked Tom Lowman about the pros and cons of implementing a Deferred Retirement Option Plan (DROP). He asked if there were any DROP programs that were cost neutral to the Plan without requiring additional funding. Tom Lowman explained the definition of a DROP program. A DROP program is an arrangement under which an employee who would otherwise be entitled to retire and receive benefits under The Sheriff's Office Retirement Plan instead continues working. Instead of having the continued compensation and additional years of service taken into account for purposes of the SORP benefit plan formula, the employee has a sum of money credited during each year of the continued employment to a separate account under the employer's retirement plan. The account earns interest at a rate stated in the Plan. The amount is paid to the employee, in addition to whatever benefit the employee has acquired under the Sheriff's Office Pension Plan based on earlier years of service, when the employee eventually retires.

Mr. Lowman stated there are a lot of aspects of a DROP plan the Board should consider. Basically, it comes down to would a person have worked anyway had there not been a DROP plan in place. Tom Lowman gave several reasons why some agencies have DROP plans and why some do not. Mr. Lowman will provide additional information about DROP programs and a DROP study to Sue Sabo to share with the Board in order to evaluate implementing a DROP plan.

### MORGAN STANLEY UPDATE – 3<sup>rd</sup> QUARTER FINANCIAL REPORT

Jeff Seibel from Morgan Stanley provided a Performance Measurement Report for the period ending September 30, 2014. Mr. Seibel stated that September started out strongly only to roll over sharply in the final weeks. The Combined Account portfolio was down -2.27% for the quarter, the Domestic Equity portfolio was down -2.36% for the quarter, the International Equity portfolio was down -4.89% for the quarter, the Fixed Income portfolio was down -0.77% for the quarter, the Real Estate portfolio was down -3.10% for the quarter, and the Hedge Funds & Private Equity portfolio was up by 0.87%. The beginning market value of the Plan was \$65,312,397 and the ending Market Value of the Plan was \$64,443,467.

Jeff Seibel compared the Plan's policy asset allocation to the actual asset allocation results. The actual asset allocation results are in line with the Plan's policy asset allocation.

Jeff Seibel reviewed the performance of the fund managers and recommended no changes to the Watch list.

Jeff Seibel presented information about the Private Advisors Small Company Private Equity Fund IV (Fund IV) to the Board. Fund IV is a private equity fund of funds that seeks to deliver risk-adjusted private equity returns by constructing a portfolio of underlying private equity fund managers in the "Small Company Market". Mr. Seibel indicated that this fund would give the Plan more diversity in private equity funds.

## Investment Policy Statement

Jeff Seibel presented recommendations for changes to the Investment Policy Statement. The Board reviewed Morgan Stanley's recommendations and agreed upon the amended recommendations:

### Asset Allocation

1. Change Fixed Income asset class % of portfolio from 31% to 28%
2. Change allowable range for Cash asset class from 0% - 15% to 2% - 15%
3. Change Alternative Investments asset class % of portfolio from 17.00% to 20.00%; change allowable range from 0% - 25% to 5% - 27%.
4. Change Real Estate asset class % of portfolio from 2% to 5%; change allowable range from 0% - 10% to 0% - 12%.
5. Change Private Equity asset class allowable range from 0% - 8% to 0% - 10%
6. Change Hedge Funds asset class % of portfolio from 9% to 11%; change allowable range from 0% - 15% to 0% - 20%.

### Section D Alternative Investments

Jeff Seibel recommended adding Section D (Alternate Investments) to the Investment Policy Statement defining the following items:

1. Investment Objective
2. Diversification
3. Permitted Activity
4. Prohibited Activity

Elaine Kramer made a motion, seconded by Lt. Edwards, to change the Investment Policy Statement. Motion carried.

### Review of Private Equity/Cash Flow Projections

Jeff Seibel presented the Board with a handout showing Private Equity/Cash Flow Review. Annual average cash flow remains healthy and positive.

### Evaluate and Discuss Private Advisors Small Company Private Equity Fund

Jeff Seibel discussed the possibility of adding the Private Advisors Small Company Private Equity Fund IV to the Plan's portfolio. Mr. Seibel stated that Fund IV would give the Plan more diversity in private equity funds and noted that this is their 10<sup>th</sup> offering since 1998.

Jeff Seibel recommended allocating \$1 million dollars to the Private Advisors Small Company Private Equity Fund IV fund. Elaine Kramer made a motion, seconded by Tracy Harris, to accept Morgan Stanley's recommendation to allocate \$1 million dollars to the Private Advisors Small Company Private Equity Fund VI.

### Agenda for January 2015 2014 Meeting

- Fourth quarter and year-end review (period ending December 31, 2014)
- Evaluate active small cap managers
- Evaluate private real estate and active real estate managers

**Administrator's Report**

**BILLS PAID SINCE LAST MEETING:**

DATE	PAYEE	TYPE SERVICE	AMOUNT
08/07/14	Bolton Partners	Professional services rendered through 7/31/14. J&S options for Hintze, lump sum distribution calculation for Lloyd, retirement estimate for D. Fenwick.	\$ 428.00
09/09/14	Bolton Partners	Professional services rendered through 8/31/14. Lump sum distribution calculations for W. Gunn and J. Rosado.	\$ 262.00
10/02/14	Whiteford, Taylor & Preston	Consulting services through 9/30/14. Telephone conference with Mary Claire Chesshire regarding line of duty disability.	\$ 70.00
10/16/14	Bolton Partners	Professional services rendered through 9/30/14. Lump sum calculations for A. Butler, P. Franch and retirement estimate for D. Ross.	\$ 481.00
		Preparation of SORP valuation	\$ 12,000.00
		Preparation of Employee Benefit Statements as of July 1, 2014.	\$ 1,353.00
<b>TOTAL:</b>			<b>\$ 14,594.00</b>

**NEXT MEETING**

The next meeting is scheduled for November 20, 2014.

**ADJORNMENT**

The meeting adjourned at approximately 3:20 p.m.

Respectfully submitted,

Karen Gates  
SORP Plan Coordinator

APPROVED:

Dr. Rebecca B. Bridgett  
Chair