

Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Employees' Retirement System

The Maryland-National Capital Park and Planning Commission

Popular Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Introduction

This Popular Annual Financial Report summarizes the Maryland-National Capital Park and Planning Commission Employees' Retirement System's (ERS) more detailed 2014 Comprehensive Annual Financial Report (CAFR) which is prepared in conformity with generally accepted accounting principles. The CAFR provides in-depth information about the financial, investment and actuarial aspects of the ERS and is available online at <http://ers.mncppc.org>.

About the Employees' Retirement System

The ERS covers employees of the Maryland-National Capital Park and Planning Commission ("Commission"). The ERS was established in 1972 as a single employer defined benefit pension plan. Today, the ERS consists of five defined benefit pension plans: Plan A, the original plan; Plan B, for non-police and integrated with Social Security; Plans C and D, for park police; and, Plan E, for non-police and appointed officials hired on or after January 1, 2013 and integrated with Social Security.

The ERS provides normal and early retirement benefits, active member death benefits, and post-retirement death benefits for members of the ERS.

The Board of Trustees ("Board") administers the ERS in accordance with the Trust Agreement between the Board and the Commission. The Board's main responsibility is to administer the ERS for the sole benefit of the members and to ensure payment of the promised benefits.

The administrative operations of the ERS are the responsibility of the Administrator and the Staff who are employed by the Board.

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Board Of Trustees



Elizabeth M. Hewlett, Chairman
Prince George's County Commissioner
Term expires: 6/30/2016

Marye Wells-Harley, Vice Chairman
Montgomery County Commissioner
Term expires: 6/30/2017

Khalid Afzal
Montgomery County Open Trustee
Term expires: 6/30/2015

Patricia Colihan Barney, CPA
Executive Director
Ex-Officio

Richard H. Bucher, Ph.D.
Prince George's County Public Member
Term expires: 6/30/2017

Jenetha Facey
Prince George's County Open Trustee
Term expires: 6/30/2015

Josh Ardison
MCGEO Represented Trustee
Term expires: 6/30/2016

Tracy Lieberman
FOP Represented Trustee
Term expires: 6/30/2016

Pamela F. Gogol
Montgomery County Public Member
Term expires: 6/30/2017

Barbara Walsh
Bi-County Open Trustee
Term expires: 6/30/2017

Joseph C. Zimmerman, CPA
Secretary-Treasurer
Ex-Officio

Message from the Chairman

On behalf of the Board of Trustees ("Board") of The Maryland-National Capital Park and Planning Commission Employees' Retirement System (ERS), I am delighted to present the Popular Annual Financial Report ("Annual Report") for 2014. This report summarizes the more detailed Comprehensive Annual Financial Report (CAFR) which is available on the ERS' website, <http://ers.mncppc.org>.

The goal of this Annual Report is to provide information to help our participants understand and verify the financial health of the ERS. Your trustees place the utmost value on accountability and transparency, and we want to assure you that sufficient assets are available to pay the benefits promised to you.

This Annual Report illustrates the recent performance of the fund, and the recovery since the credit market crisis. Investment performance has been strong, with returns of 15.2%, 9.6% and 13% for the 1-year, 3-years and 5-years ending June 30, 2014. The fund has grown by 76.5% - from \$451 million in 2009 to more than \$796 million in 2014 - and the funded ratio has been trending upward from 74.6% in 2009 to 83.1% in 2013. The investment performance and growth of investments are direct results of two portfolio restructurings recommended by the investment consultant to the ERS, and undertaken by the Board and staff. In light of ever-changing market conditions, the Board continues to consider opportunities for the long-term growth of the fund.

We believe this Annual Report demonstrates the financial fitness of the ERS and provides evidence that your benefits remain secure. Equally important to you, however, is charting your future financial needs in order to plan for your retirement security. I encourage you to take advantage of our other resources to understand how your benefits are calculated, when you are eligible for normal and early retirement, and how much you can expect to receive in retirement. These resources are outlined on Page 4 of the Annual Report, under Member Services & Resources, and are also available on our website or by calling the ERS Offices.

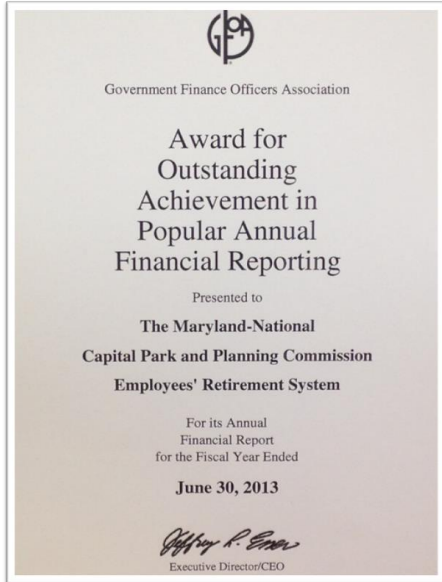
Your ERS benefits play an important role in your retirement security. Please be assured that the trustees are deeply aware of their responsibility to safeguard these benefits. And, please know that you can be confident in the Board's strong commitment to maintaining the highest professional standards in carrying out its mission to prudently manage, protect, diversify and administer the ERS on your behalf.

Kind regards,

A handwritten signature in black ink that reads "Elizabeth M. Hewlett".

Elizabeth M. Hewlett
Chairman, Board of Trustees

Awards for Excellence in Financial Reporting



The Government Finance Officers Association (GFOA) of the United States and Canada presented an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Employees' Retirement System (ERS) for its Popular Annual Financial Report for the fiscal year ended June 30, 2013.

This prestigious national award recognizes annual reports for creativity, presentation, understandability and reader appeal and is valid for a period of one year.

This is the fourth year the ERS applied for and received the Award.

The ERS' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013, was awarded the **Certificate of Achievement for Excellence in Financial Reporting** by GFOA. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. A CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

The ERS received the Certificate of Achievement each time a CAFR was submitted to GFOA for consideration (2008-2013 and previously from 1992-2000). While the ERS is not required to prepare a CAFR, management considers it a "best practice" and plans to annually prepare a CAFR for consideration by GFOA.



The ERS earned the Public Pension Coordinating Council's **Public Standards Award** for the last nine consecutive years (2005-2013). The Public Pension Standards are intended to reflect minimum expectations for public retirement system management, administration, and funding. The Standards serve as a benchmark by which all public defined benefit plans should be measured.

ERS Staff



Andrea L. Rose
Administrator

Heather D. Brown
Senior Administrative Specialist

Member Relations

Antonia L. Lanier
Member Relations Manager

Lisa D. Butler
Senior Retirement Benefits Analyst

Angela Griggs-Montero
Member Relations Assistant

Technical Services

Sheila S. Joynes
Accounting Manager

Ann L. McCosby
IT Systems Manager

Edward D. Sarkar
IT Manager

Mission

The Mission of the Maryland-National Capital Park and Planning Commission Employees' Retirement System (ERS) is to prudently manage, protect, diversify, and administer the funds for the sole benefit of the members and beneficiaries to ensure sufficient assets are available to pay the promised benefits.

Core Values

- Quality Customer Service
- Accountability and Transparency
- Professionalism and Respect
- Trustworthiness and Stewardship

Member Services & Resources

The ERS has a comprehensive membership education program to encourage lifelong retirement planning. The ERS is committed to providing each member with the resources to anticipate future financial needs and to plan for a secure retirement. Please consider taking advantage of the available resources below:

- Onsite Workshops
- One-on-One and Retirement Counseling
- Annual Benefit Statement
- Popular Annual Financial Report
- Comprehensive Annual Financial Report
- Summary Plan Description
- Plan Document
- LifeTimes articles published in the Commission's *Update* Newsletter
- Retirement Benefit Estimate

The ERS' website, <http://ers.mncppc.org>, contains valuable information for active and retired members. Forms and publications are available to download.

The Member Relations Team is available by email or phone to answer retirement related questions. Please consider making an appointment to discuss benefits in person at the ERS Office.

Email: contactERS@mncppc.org
Phone: 301-454-1415

Membership and Benefits

As of July 1, 2013 Actuarial Valuation

Membership		Active Members	
Active Members	2,064	Average Age	47.48
Retirees and Beneficiaries	1,235	Average Service	12.69
Inactive Members ¹	227	Average Annual Salary	\$63,270
Total Membership	3,526	Active Members Eligible for Normal Retirement within the Next 5 Years	683

The ERS is the Commission's primary retirement plan for its employees. The ERS is a defined benefit plan which means the benefit paid at retirement is a guaranteed benefit, based on salary and credited service. The benefits are not determined by employee contributions or investment earnings.

A Summary Plan Description (SPD) is available for each plan and provides a detailed look at the benefit formula, eligibility requirements, contributions, credited service, and death benefits. A copy of the SPD is available on the ERS' website or a hard copy can be requested by calling the ERS.

The chart below shows average monthly benefit payments, average final salary, and average years of credited service for retirees and survivors.

Average Benefit Payments								
Years of Credited Service	0 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 30	>30	Total
Number of Retirees and Survivors	49	146	137	176	243	261	223	1,235
Average Monthly Benefit	\$446	\$698	\$1,064	\$1,605	\$2,687	\$3,441	\$4,545	\$2,524
Average Final Salary	\$40,190	\$45,897	\$48,727	\$55,496	\$66,417	\$65,815	\$72,293	\$60,095
Average Years of Service	3.8	8.2	12.9	18.1	23.1	28.7	33.6	21.8

¹Inactive members have terminated employment with the Commission and are entitled but not yet receiving benefits.

Investment Policy and Asset Allocation

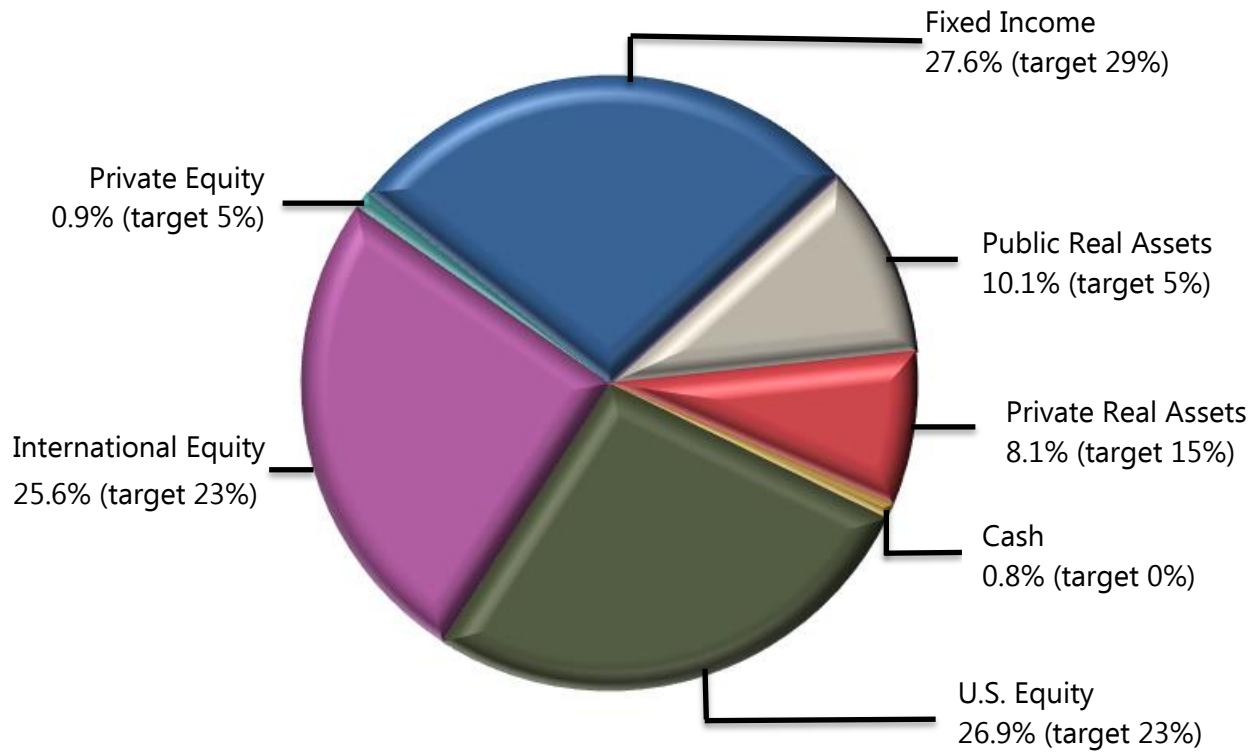
The Statement of Investment Policy outlines the ERS' long-term objectives and investment diversification. A portfolio should be diversified at two levels: between asset classes and within asset classes. This diversification is called Asset Allocation.

Asset Allocation involves dividing the portfolio among different asset classes such as equities, fixed income, and real assets. The goal is to balance the risk and return of the portfolio by including asset classes that move up and down under different market conditions.

The asset allocation policy was amended in the fourth quarter 2013 with an allocation to bank loans and offsetting reduction to the U.S. core fixed income allocation. This asset allocation policy was implemented in the first quarter 2014 with the exception of the private investments which will be funded gradually over time.

Diversification within each asset class is accomplished using multiple investment managers. Each manager has a set of guidelines which outline the manager's mission. The Board regularly reviews each manager's performance against objectives and benchmarks. Please refer to the Investment Manager Matrix on page 7 for a list of investment managers.

**Asset Allocation
As of June 30, 2014**



Investment Manager Matrix

As of June 30, 2014

Manager Name and/or Fund Name	Style	Account Balance \$(000)	% of Fund
U.S. Equity			
Artisan Small Cap Value Fund	Small Cap Value	\$ 23,480	2.9%
Blackrock Equity Index Fund	Large Core	66,666	8.4%
J.P. Morgan Commingled Pension Trust Fund	130/30 Short Extension	29,171	3.7%
Northern Trust Collective Russell 2000 Growth	Small Cap Growth	25,819	3.2%
RhumbLine S&P 500 Pooled Index Trust	Large Core	69,655	8.7%
		<u>\$ 214,791</u>	<u>26.9%</u>
International Equity			
Capital Group All Countries Equity Trust	ACWI ex-U.S.	\$ 102,165	12.8%
Earnest Partners, L.L.C.	ACWI ex-U.S.	102,269	12.8%
		<u>\$ 204,434</u>	<u>25.6%</u>
Private Equity			
Wilshire MNCPPC Employee Retirement System Global, L.P.	Other	\$ 7,035	0.9%
Fixed Income			
C.S. McKee, L.P.	Core	\$ 40,845	5.1%
Eaton Vance Management	Core	40,612	5.1%
Loomis Sayles High Yield Full Discretion Trust	High Yield	30,975	3.9%
Neuberger Berman High Yield Bond Fund, LLC	High Yield	30,155	3.8%
Voya Senior Loan Fund	Bank Loans	30,286	3.8%
Western Asset Global Multi-Sector, LLC	Global Multi-Sector	41,077	5.2%
Oaktree Real Estate Debt Fund, L.P.	Real Estate Debt	1,453	0.2%
Oaktree Opportunities Fund VIII, L.P.	Distressed Opportunities	4,256	0.5%
Other ²		90	0.0%
		<u>\$ 219,749</u>	<u>27.6%</u>
Private Real Assets			
Principal U.S. Property Account	Real Estate	\$ 46,246	5.8%
FLAG Energy & Resources Partners II, L.P.	Real Assets	10,117	1.3%
FLAG Real Estate Partners II, L.P.	Real Estate	6,398	0.8%
FLAG Energy & Resources Partners III, L.P.	Real Assets	1,379	0.2%
FLAG Real Estate Partners III, L.P.	Real Estate	470	0.1%
		<u>\$ 64,610</u>	<u>8.1%</u>
Public Real Assets			
SSgA Custom Real Asset Non-Lending Strategy	Diversified	\$ 80,670	10.1%
Cash		<u>\$ 5,980</u>	<u>0.8%</u>
TOTAL		<u>\$ 797,269</u>	<u>100%</u>

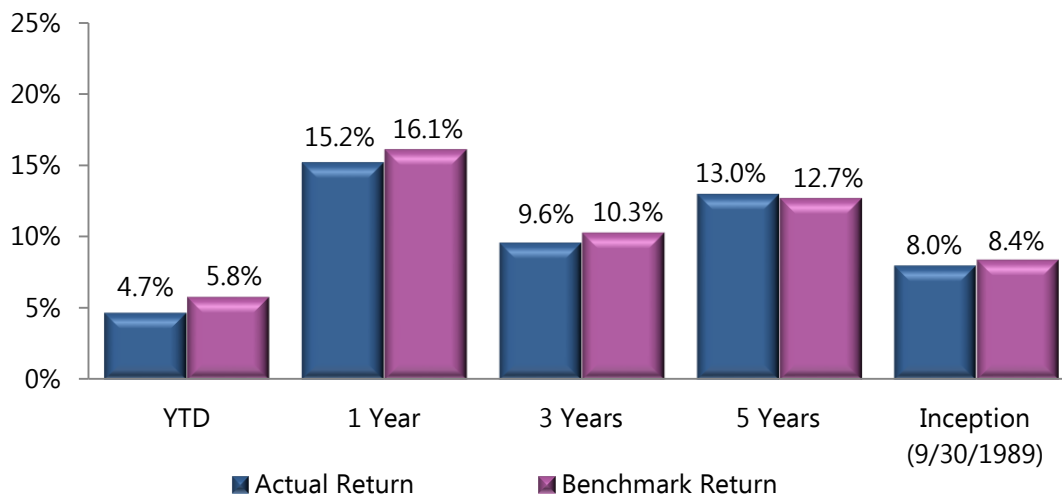
¹ Net of Accrued Income on Investments and Investments Payable

² Adelphia and Century Securities Only

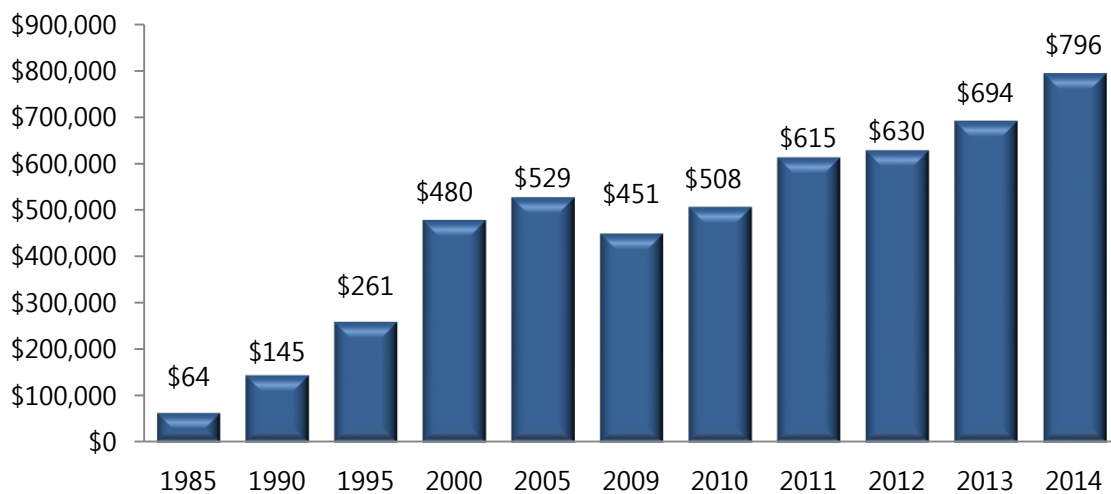
Portfolio Performance

Investment performance and the growth of investments are a direct result of two portfolio restructurings since the credit market crisis in 2008. Investment performance has been strong with absolute returns of 15.2%, 9.6% and 13% for the 1-year, 3-years and 5-years ending June 30, 2014. The portfolio benefited from continued strength in the equity markets with positive results also sourced from both fixed income and real assets. Since 2009, the amount accumulated to pay retirement benefits has steadily grown with a significant increase from \$694 million in 2013 to \$796 million in 2014. Please refer to the Summary Statements of Changes in Net Position on page 11.

**Actual Returns vs. Benchmark Returns
As of June 30, 2014**

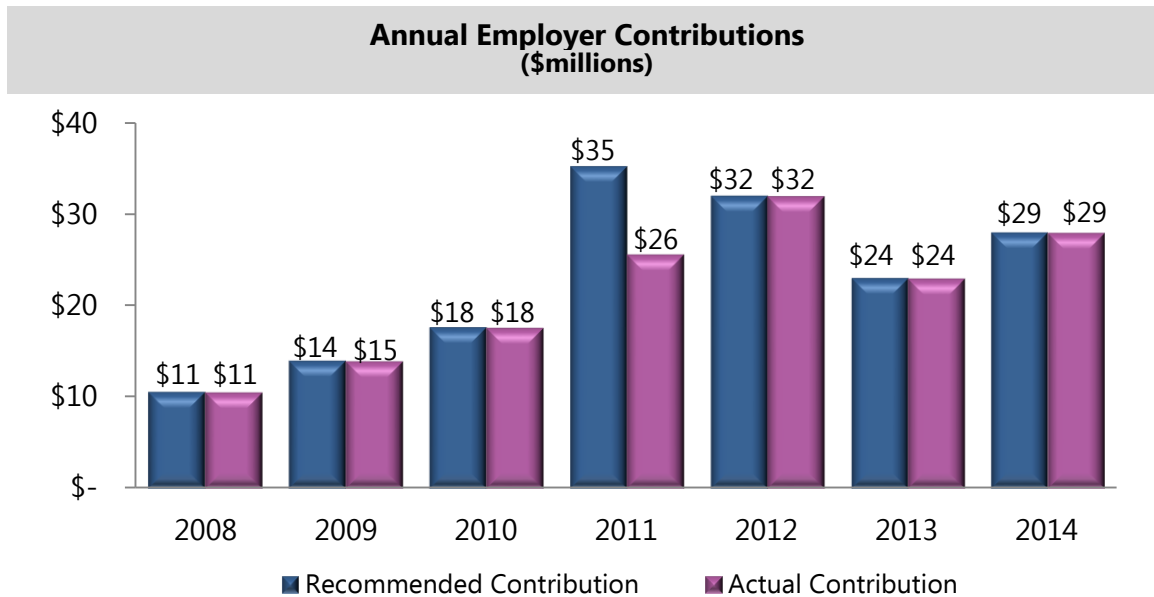


**Growth of Investments
Net Position
(\$millions)**

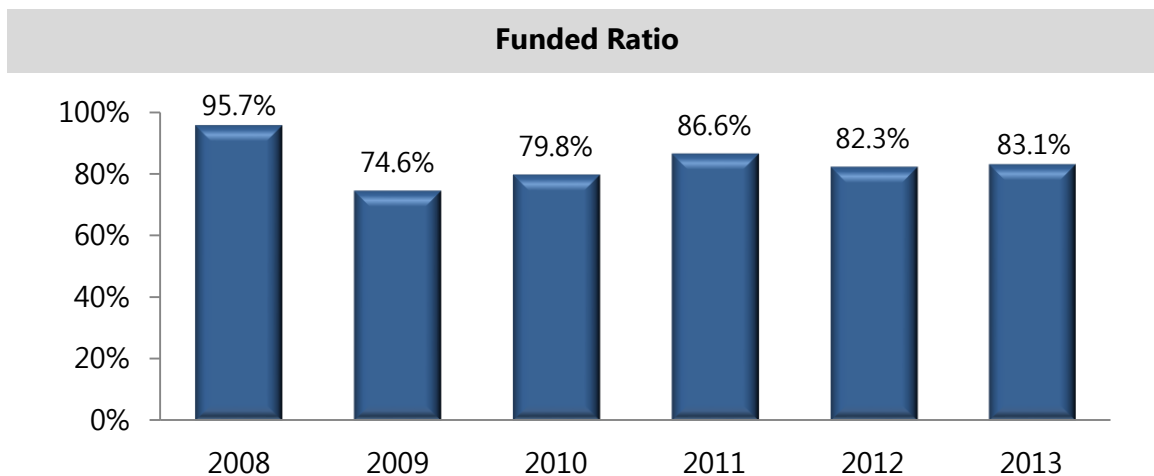


Employer Contributions and Funded Ratio

The ERS retains an independent actuary to perform an annual actuarial valuation to monitor the funded status of the ERS. The purpose of the actuarial valuation is to determine what future employer contributions are required to pay the expected future benefits. Employer contributions can vary based on a number of factors including fluctuations in the market, plan amendments, and changes in actuarial assumptions and employee demographics.

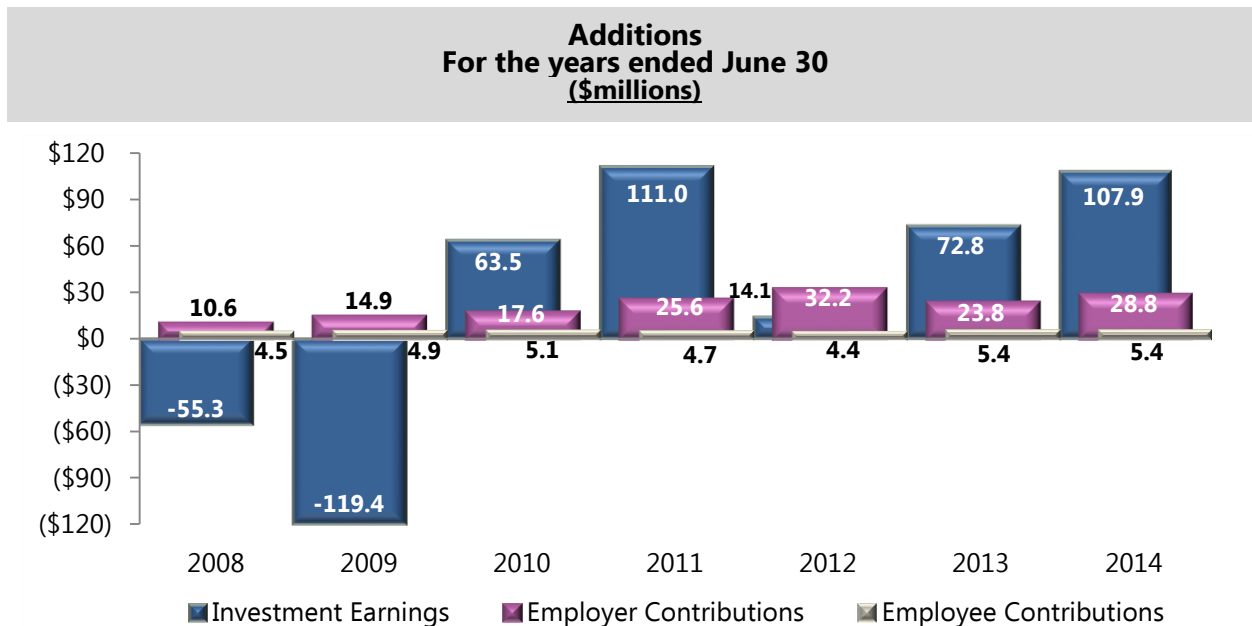


The funded ratio is one measure of a plan's health at a point-in-time and compares assets to liabilities. The funded ratio can change annually based on changes in liabilities, investment returns, actuarial assumptions and employee demographics. Analysis of the trend over time should be viewed in light of the economic situation at the time. The funded ratio dropped significantly following the 2008 credit market crisis; however, the trend since 2009 has been mostly positive.

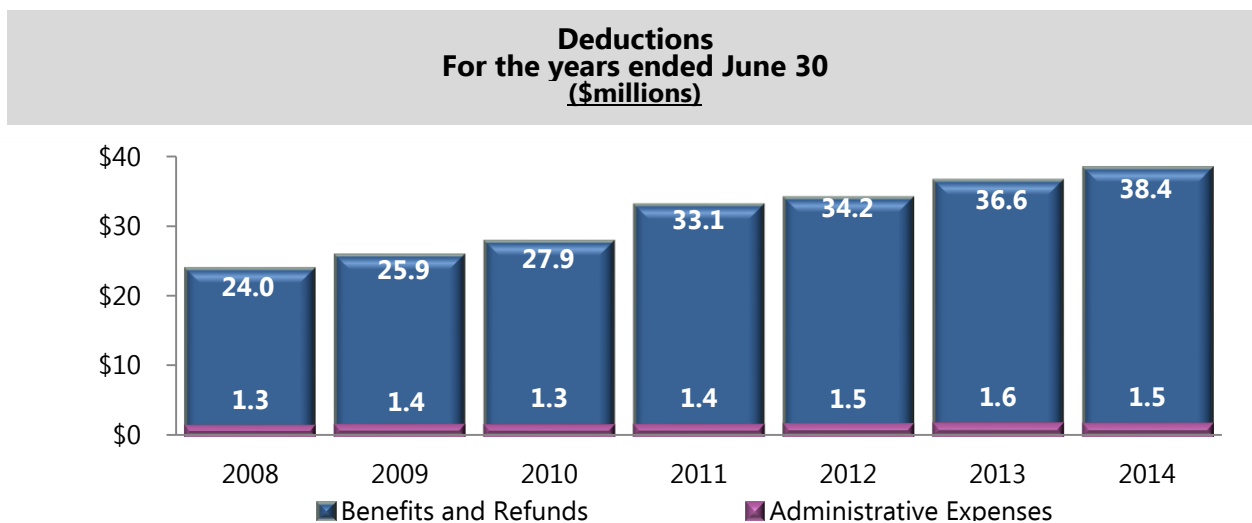


Financial Summary

Employee and employer contributions as well as earnings from investments provide the funds necessary to pay monthly retirement benefits, refund contributions to terminated employees and administer the ERS.



Additions totaled \$142.1 million as of June 30, 2014 and included employee contributions (\$5.4 million), employer contributions (\$28.8 million) and, investment earnings (\$107.9 million). Additions increased primarily due to a significant increase in investment earnings.



Deductions totaled \$39.9 million as of June 30, 2014 and included benefit payments (\$38.2 million), participant refunds (\$237,399) and administrative expenses (\$1.5 million). Deductions increased 4.4% from 2013 to 2014 due to an increase in the number of retirees and a 2.1% cost-of-living adjustment for retirees and survivors.

Summary Statements of Net Position

The Summary Statements of Net Position are a snapshot of what the ERS owned (assets) and what the ERS owed (liabilities), and the difference (net position) that was accumulated to pay for retirement benefits as of June 30, 2014, 2013 and 2012.

	As of June 30, 2014	As of June 30, 2013	As of June 20, 2012
ASSETS			
Investments, at fair value	\$ 797,571,066	\$ 696,165,684	\$ 639,562,731
Receivables	1,351,263	1,456,898	1,714,100
Securities lending collateral	47,700,258	80,072,342	65,088,801
Other assets	21,905	65,546	76,135
TOTAL ASSETS	846,644,492	777,760,470	706,441,767
LIABILITIES			
Payables and accrued liabilities	1,768,357	1,551,267	10,284,307
Payable for securities lending collateral	48,740,548	82,241,046	65,954,799
TOTAL LIABILITIES	50,508,905	83,792,313	76,239,106
NET POSITION	\$ 796,135,587	\$ 693,968,157	\$ 630,202,661

Summary Statements of Changes in Net Position

The Summary Statements of Changes in Net Position are a summary of the flow of money in (additions) and out (deductions) of the ERS as of June 30, 2014, 2013 and 2012.

	As of June 30, 2014	As of June 30, 2013	As of June 30, 2012
ADDITIONS			
Employee Contributions	\$ 5,413,595	\$ 5,354,904	\$ 4,395,720
Employer Contributions	28,750,323	23,806,058	32,182,287
Net investment gain	107,897,795	72,801,688	14,100,657
TOTAL ADDITIONS	142,061,713	101,962,650	50,678,664
DEDUCTIONS			
Benefit payments	38,169,674	36,262,962	33,833,630
Refunds of contributions	237,399	368,762	316,681
Administrative expenses	1,487,210	1,565,430	1,453,094
TOTAL DEDUCTIONS	39,894,283	38,197,154	35,603,405
INCREASE IN NET POSITION	102,167,430	63,765,496	15,075,259
NET POSITION			
BEGINNING OF YEAR	693,968,157	630,202,661	615,127,402
END OF YEAR	\$ 796,135,587	\$ 693,968,157	\$ 630,202,661

The ERS' Net Position grew from \$694.0 million in 2013 to \$796.1 million in 2014 primarily due to a significant investment gain of \$107.9 million.



Employees' Retirement System

The Maryland-National Capital Park and Planning Commission
6611 Kenilworth Avenue, Suite 100
Riverdale, Maryland 20737

Telephone: (301) 454-1415

Facsimile: (301) 454-1420

Email: contactERS@mncppc.org

Visit us on the web at <http://ers.mncppc.org>
or use your smartphone and SCAN HERE

Office Hours

Monday – Friday

8:00 a.m. to 5:00 p.m.



This Popular Annual Financial Report ("Annual Report") is for informational purposes only and provides general information designed to educate employees and retirees about the Maryland-National Capital Park and Planning Commission (Commission) Employees' Retirement System (ERS). The information found in this Annual Report should not serve as the sole or primary basis for making decisions regarding the financial, investment or funding status of the ERS. To the extent any term or figure in this Annual Report varies from the Plan Document or other governing documents, those pertinent documents will control and the information provided in this Annual Report will not. The Plan Document and other governing documents, policies and procedures may be modified or amended from time to time consistent with law and those amendments likewise will control. More generally, in all circumstances the governing documents and policies and procedures, as amended from time to time, will control over any information provided by the ERS, the Commission or any agent or employee of the ERS or the Commission.

