Frederick County Employees Retirement Plan and Frederick County Uniformed Employees Retirement Plan

Investment Policy Statement

Prepared for Frederick County by Marquette Associates, Inc.

As significant changes to the Investment Policy Statement occur, the dates will be listed below.

Effective June 8, 1998
Revised April 2000
Revised October 2002
Revised January 2006
Revised February 2011
Revised April 2013
Revised November 2014
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Revised November 2022
Revised December 2024

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Investment Policy Statement

I. Statement of Purpose

The purpose of this Investment Policy Statement (IPS) is to set forth a clear understanding of the investment policy guidelines and objectives for the Frederick County Employees Retirement Plan and the Frederick County Uniformed Employees Retirement Plan ("the Plans").

This IPS shall assist the Retirement Plan Committees for the Frederick County Employees Retirement Plan and the Frederick County Uniformed Employees Retirement Plan ("the Committees") in effectively supervising, managing, and monitoring the investments of the Plans. The Committees have arrived at this IPS through careful study of the returns and risks associated with various investment strategies in relation to the current and projected liabilities of the Plans, after consulting with such outside investment professionals as the Committees deemed appropriate

II. Background & Fiduciary Roles and Responsibilities

A. Background

Frederick County Government ("the County"), acting through the County Executive and County Council, maintain defined benefit plans for eligible employees. The Plan was established on July 1, 1993. On July 1, 2021, the Plan was separated into two plans — the Frederick County Employees Retirement Plan and Frederick County Uniformed Employees Retirement Plan ("the Plans").

The purpose of the Plans is to provide retirement benefits to participants in the Plans at the time of their retirement from employment with the County in accordance with the terms, conditions, and provisions of the Plans, as set forth in the Plan Document, the Trust Agreement, and applicable law.

The Plans are employer-sponsored and employer-directed. The Plans and the benefits provided thereunder, are funded through a combination of investment earnings on the Plans' assets and employer and employee contributions provided in accordance with provisions specified in the Plan Document.

On November 6, 2012, Frederick County citizens voted to change the government of Frederick County from a commissioner-led form of government to a charter government, effective December 1, 2014. As this (IPS) was originally drafted prior to December 1, 2014, all prior references to BOCC or the Commissioners shall be understood to mean the County Executive or County Council.

The Plans is governed by applicable Maryland state law governing fiduciaries of public pension funds.

B. Roles and Responsibilities

Fiduciaries are defined as parties who are in a position of trust and are responsible for ensuring the effective management of the Funds' assets.

The Plans' fiduciaries should comply with fiduciary standards; namely, (a) serving the exclusive interest of the Plans' participants and beneficiaries, (b) acting prudently, (c) providing diversification opportunities, and (d) administering the Plans in a cost-conscious manner.

The Plans provide that the County is empowered with the sole and exclusive power and authority to direct the investment of the Funds. The Committees may make recommendations to the County Executive, which the County Executive may, or may not, act upon. The County Executive may delegate some authority, including the power to acquire and dispose of assets, to the Investment Managers and/or Investment Consultant, subject to the guidelines and limitations contained in this IPS and the Investment Manager's or Investment Consultant's contracts.

Fiduciaries for the Plans include the County Executive, members of the Committees, Investment Managers, and the Investment Consultant.

1. Responsibility of the Committees

The Committees are responsible for administering the investment policies of the Plans and to provide oversight for the management of the Plans' assets. To assist in these functions, the Committees may engage the services of Investment Managers and Investment Consultants, who possess the necessary specialized expertise to assure compliance under the governing laws as may apply to the investment of the Funds.

The Committees retain the responsibility for the removal of Investment Managers or the Investment Consultant. The County retains the responsibility for the hiring of Investment Managers and the Investment Consultant.

2. Responsibility of the Investment Managers

The Committees have retained various Investment Managers and have delegated to each Investment Manager the sole and exclusive authority to manage the assets of the Funds under that Investment Manager's investment control, including the power to acquire and dispose of those assets, subject to guidelines and limitations contained in their contracts, prospectuses, and this IPS.

3. Responsibility of the Investment Consultant

The Committees have retained an Investment Consultant to provide investment performance reporting on the Funds' Investment Managers. The Investment Consultant is also responsible for recommending periodic changes to this IPS, asset allocation strategies, and the investment manager line-up.

The Committees have retained a third-party custodian to hold the Plans' assets. While the custodian does not act in a fiduciary role, the custodian shall be responsible for safekeeping of the assets. This responsibility includes all security transaction settlements and deliveries, recordkeeping, and reporting. Recordkeeping and reporting shall include providing ready access to information by the Committees and staff and any custom recordkeeping, record retention, or reporting reasonably required by the Committees or staff. Nationally accepted asset pricing should be daily and reported not less often than monthly.

The Committees may update this IPS from time to time. All modifications to this IPS shall be formally adopted by the Committees and shall be in writing.

III. Investment Objectives

The Plans' objective is to provide benefits as anticipated through a carefully planned and executed investment program that achieves a reasonable long-term total return consistent with the level of risk assumed.

The risk tolerance of the Plans is moderate given the long-term needs of the beneficiaries. The time horizon for this Plans is long-term, defined as twenty (20) years or more.

The actuarially expected rate of return is as designated in the actuary's annual valuation.

A. The Funds seek to:
    1. Achieve an annualized total rate of return (net of fees)[1] equal to or greater than the actuarial

[1]Net of fee returns represent the Funds' gross of fee return less investment management fees, investment consulting fees, actuary fees, custodian fees, and any other operational/administrative fees paid by the Funds.

discount rate over the long-term.

2. Achieve an annualized total rate of return (net of fees) that meets or exceeds the total rate of return of a policy benchmark, which is defined as the weighted average of the target weighting and the benchmark for each asset class in the Funds.

3. Diversify asset sufficiently, avoiding large specific risks and minimizing the volatility of investment returns to the extent possible.

B. The Funds shall maintain a sufficient liquidity level to meet any near-term obligations and to fund the Trusts' current operations.

C. The Funds shall be administered in a cost-effective manner.

The Committees and the County Executive, or designee, are aware that any investment's past performance is not a guarantee of future returns and that the Plans' investment objectives may not be met each quarter or each year.

IV. Asset Allocation Policy

It is the responsibility of the Committees with the assistance of the Plans' Investment Consultant to review the asset allocation on an ongoing basis. The Funds' Asset Allocation Policy will be based upon capital market expectations consistent with the Funds' investment time horizon, liquidity needs, risk tolerance, funded ratio, and investment objectives.

The following asset allocation policy is intended to address the long-term liability and benefit needs of the Plans through feasible, formalized investment strategies. Target allocations are identified for each asset class. It is important to note that that private market investments will not occur until the Investment Manager(s) partially or fully call committed capital.[2] The asset class targets will be adjusted on an approximately pro-rata basis upon the drawdown of respective commitments. Allowable asset allocation ranges (minimums and maximums) are also assigned to each asset class in recognition of the fact that market volatility will result in shifts away from the target.

It is understood that the choice of asset classes and their respective targets and ranges will be reviewed periodically to ensure that the long-term investment needs of the Plans are being met in the most appropriate and prudent manner.

This policy is expected to provide diversification of assets to maximize investment return to the Funds, consistent with prudent market and economic risk. All the Funds' assets are to remain invested at all times in the asset classes as designated by this policy.

Asset Allocation Policy

Asset Class	Range	Target	Benchmark
Equities	52% to 72%	62%	
U.S. Equities	42% to 62%	52%	Russell 3000 Index
International Equities	0% to 20%	10%	MSCI ACWI ex U.S. Index
Global Infrastructure	0% to 12%	6%	CPI +3%
Fixed Income	21% to 41%	31%	Bloomberg Aggregate Bond Index
Cash	0% to 5%	1%	BoAML 91-Day T-bill Index

[2]Because private markets investment managers invest capital over time, they may not call (i.e., ask for) an investor's full capital commitment immediately; rather, they may call an investor's capital commitment over a period of time as they are ready to invest the funds.

It is understood that some deviation may occur to the above allocations due to capital market fluctuations and liquidity requirements. Portfolio allocations will be assessed monthly and rebalancing back to target may occur at that time. Rebalancing within the allowable ranges may also be conducted to address liquidity requirements. Should rebalancing be required, or requested by the Committees, the Investment Consultant will recommend a rebalancing strategy and the Committees will accept or reject the recommendation.

A formal review of the Asset Allocation Policy shall be conducted periodically to ensure that the asset mix is consistent with the long-term objectives of the Funds and that it reflects any changes to the Funds' liquidity needs, risk tolerance, and/or funded ratio.

V. Investment Policy Guidelines

The policies and procedures of the Funds' investment program guides its implementation and shall consider the following:

A. The financial condition of the Funds;
B. The expected long-term outlook for capital markets;
C. The Funds' risk tolerance;
D. The future growth of active and retired participants; and
E. The expected benefit payments.

Investments shall be made with care, skill, prudence, and diligence under the prevailing circumstances that a prudent investor would use in the administration of a fund of like character and similar goals.

The actual achievement of the stated investment objectives requires a long-term, prudent, and disciplined investment management philosophy.

The following types of investment vehicles are permissible for investment:

- No-load mutual funds;
- Commingled pooled funds; and
- Separate accounts

Mutual fund managers will be expected to manage the Funds' assets as detailed in each mutual fund's prospectus or offering circular.

Managers of Separate Accounts and Commingled Pooled funds shall be governed in accordance with the terms of the agreements between the County and those managers.

Both actively and passively managed investment strategies may be considered.

VI. Asset Guidelines – Separate Account Investment Managers

A. Equities

1. Diversification

   Managers shall pursue an appropriate diversification strategy for their asset class which shall be detailed in their contract with the County. Investment Managers may not invest on a market value basis more than (the greater of): a) eight (8) percent of their assigned portfolio in the security(-ies) of a single corporation or group of directly affiliated corporations or, b) 1.5 times the weighting of a security(-ies) within an Investment Manager's equity benchmark.

2. Quality

All securities held in the portfolio must be publicly traded and have sufficient marketability to permit prompt, orderly liquidation under normal circumstances.

3. Turnover

There are no specific guidelines regarding portfolio activity. By not restricting turnover, the manager is given the flexibility to adjust the portfolio's security selection to changing market expectations.

4. Permissible Universe

- Common and preferred stocks listed on a major U.S. exchange or traded regularly on another established U.S. market or exchange;
- Equity securities of non-U.S. incorporated entities; whereby, the types of securities and the permissible percent of total portfolio holdings are limited by language contained in the contract of each equity manager.
- Securities convertible into common stocks; and
- Other specialized asset classes, as authorized by the Committees

5. Not Permissible

The following categories of securities are not permissible for investment without the Committees' written approval:

- Short sales;
- Put and call options, other than covered call options;
- Margin purchases, lending or borrowing funds;
- Letter stock, private or direct placements;
- Commodities; and
- Securities of the asset manager, their parent or subsidiaries (excluding money market funds and publicly available mutual funds).

B. Fixed Income

1. Diversification

The securities of any one issuer, except for obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities and repurchase agreements collateralized by such obligations, are limited to 10% at cost and 15% at market of each fixed income portfolio. Additionally, no more than 10% of the market value of the portfolio shall be invested in any one specific issue, with the same exclusions as noted previously.

2. Quality

The fixed income portfolio should be, on average, comprised of high-quality issues. The average credit quality of the portfolio must be at least A. No issue may be held whose rating is less than BBB-/Baa3 by at least two of the three credit rating agencies recognized by the United States Securities and Exchange Commission, namely, Moody's Investor Service, Fitch Ratings, and Standard & Poor's, or any successor to one of more of those agencies. In the case of unrated private placements, no obligation of a corporation may be held whose public debt rating is less than BBB-/Baa3 by at least two of the three credit rating agencies referenced in this subsection 2. If any security is rated by only two credit rating agencies, the lower of the two ratings shall be considered for the purposes of meeting minimum quality standards. If an issue is downgraded so as to violate these guidelines, the manager must liquidate the issue judiciously, but in any event within 90 days of the date of the downgrade. Commercial paper must be rated either A1 or P1.

3. Permissible Universe

Except as specifically prohibited in paragraph 4 below, debt instruments of any U.S. entity denominated in U.S. dollars including U.S. dollar denominated sovereign and supranational bonds (Yankee bonds) and MBS (Mortgage-Backed Securities), notwithstanding the prohibition on derivates in Item VI.B.4 below of this IPS.

4. Not Permissible

The following categories of securities are not permissible for investment without the Committees' written approval:

- Securities of the asset manager, their parent or subsidiaries (excluding money market funds and publicly available mutual funds);
- Common stock;
- Inverse floaters;
- CLOs (Collateralized Loan Obligations);
- CBOs (Collateralized Bond Obligations);
- Capped floaters
- Interest-only MBS (Mortgage-Backed Securities) securities;
- Principal-only MBS (Mortgage-Backed Securities) securities;
- Support CMO (Collateralized Mortgage Obligation) or Support MBS (Mortgage-Backed Security) tranches;
- Swap contracts; and
- Derivative securities including futures, options, swaps, and high-risk mortgage derivatives (not permitted for active investment managers; permitted for index fund managers).

C. Infrastructure

1. Diversification

Infrastructure is broadly defined as the essential assets a society requires to facilitate the orderly operation of its economy and can be broken out into three broad categories: transportation, utility, and social.

The infrastructure allocation will consist predominately of core infrastructure strategies/assets. Such assets are generally characterized as having a mature age, steady cash flows, long-term, regulated contracts, low growth opportunities, monopolistic or semi-monopolistic competitive positioning, and a total return profile consisting predominately of cash yield. The underlying infrastructure assets shall be adequately diversified by geography and broad infrastructure sector.

2. Permissible Universe

Infrastructure assets may be held in publicly traded Global Listed Infrastructure companies.

Infrastructure assets may also be held in private infrastructure investments, which will be implemented through open-end commingled fund vehicles.

3. Not Permissible

   Closed-end commingled funds and direct ownership of infrastructure assets are not permissible for investment without the Committees' written approval.

D. Mutual and Other Commingled Pooled Funds

1. Given the nature of mutual and other commingled funds, it is recognized that there may be deviations between the objectives, intent, or specific requirement of this IPS and the stated objectives, intent, or content of any mutual or other commingled fund. However, reasonable efforts shall be made, to the extent practical, prudent, and appropriate, to select mutual or other commingled funds that have investment objectives and policies that are consistent with this IPS.

VII. Responsibilities – Separate Account Investment Managers

The separate account investment managers, in recognition of their role as fiduciaries of the Plans, must assume the following responsibilities as they pertain to:

A. Investment Program

1. Invest assets in accordance with the objectives, goals, and standards of performance, as herein defined.
2. Exercises full discretionary authority as to all buy, hold and sell decisions for each security under management, subject to guidelines as herein defined.

B. Communication – The investment managers are expected to provide:

1. Initially and as necessary thereafter,
   - A written statement acknowledging its acceptance of the performance standards herein stated.
   - A written statement describing, in brief form, what specific investment program will be undertaken to achieve the objectives and goals herein stated.
2. At least quarterly to the County's Investment Consultant and the Chair of the Committees or his or her designee on behalf of the Committees, descriptions of:
   - Portfolio composition showing asset structure for each major class of security;
   - Positions, by individual security, showing both cost and market value (except for commingled assets, in which case, showing the unit position and value);
   - All principal cash transactions, including all buys and sells in sufficient, descriptive detail; and
   - All income cash transactions, including sources and nature of all interest and dividends in sufficient, descriptive detail.
3. At the request of the Committees, investment managers will participate in a review meeting, the agenda of which may include, but not be restricted to:
   - A review and re-appraisal of the aforementioned investment program;
   - A commentary on investment results in light of the appropriate standards of performance as stated herein;
   - An annual audited financial report or a Form ADV Part II;
   - A synopsis of the key investment decisions made by the manager, its underlying rationale, and how those decisions could impact on future investment results;

- A discussion of the manager's outlook, what specified investment decisions this outlook may trigger, and how these decisions could impact future results;
- Recommendations as to changes in the objectives, goals or standards, based upon any material and sustained changes in the capital markets;
- Notice of material changes in the manager's outlook, policy, and tactics; and
- Notice of material changes in the manager's ownership, organizational structure, financial conditions, senior staffing, and management.

C. Proxy Voting

1. Matters of political and public interest as well as corporate governance have long been a part of Annual Meetings and proxy activity in the United States. The Committees adhere to a policy of proxy voting intended to protect the long-term value of the securities represented in each vote, provided said vote, when exercised, would be solely in the financial interest of the Plans' participants.

VIII. Investment Selection

New investment managers may be typically added only after an investment manager search is conducted. A search may be conducted to replace a terminated investment option or to add an investment option in a new or existing asset class. Typically, the Investment Consultant will assist in this process and will recommend selection of new investment options to the Committees. The Committees will recommend the addition of any new investment manager to the County Executive who has authority to enter into contracts with a new investment manager.

The investment selection process begins with the compilation and organization of data on the universe of investment options within an asset class utilizing relevant tools. The Investment Consultant shall use a proprietary screening process to create a list of select options for further review. The screening process shall incorporate metrics such as:

A. Returns. No investment manager or fund shall be considered unless performance information is available covering a minimum of five (5) years. An exception to this rule may be made when a manager starts a product, which is comparable in investment style to a recently closed product from the same investment manager.

1. Separate Account Managers will only be considered if they can provide performance information for the relevant strategy dating back at least five (5) years.

B. Organization. Each investment option should be managed by a bank, an insurance company, a registered investment company (mutual fund), a registered investment advisor (RIA), or a separate account manager.

C. Tenure of the Portfolio Managers

D. Expenses. Generally, investments will not be considered if their expenses are greater than the fund category average. Exceptions may be made on an as-needed basis due to the availability of investment options due either to fund closures or required investment minimums. Separate Account Manager fees should be reasonable for the style of investment and asset class.

E. Size and growth of assets under management.

F. Consistency of investment style and process

G. Consistency of investment performance both on an absolute and a risk-adjusted basis

H. Upside and downside capture of returns and the ratio between upside and downside capture

I. Excess returns relative to the appropriate benchmark for active managers

J. Tracking error of passively managed investment options relative to the appropriate benchmark

These top candidates are then subject to qualitative assessment which may include a review of their investment strategy and meetings with the portfolio managers. The Investment Consultant will review the finalists to make a specific recommendation to the Committees.

IX. Performance Monitoring

The Investment Consultant shall provide the Committees with periodic reports, no less than quarterly, on the performance of the Funds and their Investment Options. Investment performance will be measured on two levels:

A. Against objectives for the total Funds; and
B. Against objectives for the individual investment managers.

Performance of the Funds shall typically be judged over a time horizon greater than five (5) years. Performance of the investment managers and investment options shall typically be judged over a period of five (5) to seven (7) years.

Funds' Performance

The Funds' performance will be measured against a customized policy benchmark, consisting of unmanaged indices weighted in proportion to the Funds' target investment allocation. The Funds' performance will be compared to both the customized policy benchmark, as well as the Plans' actuarial expected rate of return.

Investment Manager Performance

The performance of the Plans' investment managers will be measured against the performance of their respective benchmarks (indices) and their peers. If the Plans employ an investment manager, who utilizes a specific investment style (ex. growth or value), then the appropriate style index should be used when evaluating performance.

Active investment strategies are typically expected to produce returns (net of investment management fees) that exceed the performance of the index (their benchmark) over a 5- to 7-year period. Active investment strategies are also typically expected to generate performance, which meets or exceeds the performance of their median peer (to 50%) in the same style of management over a 5- to 7-year period.

Passive investment strategies (index managers) are expected to generate performance, which closely approximates the performance of their respective benchmarks or indices after taking fees into account (net of fees).

Periodic reviews of investment managers and investment options should also include the identification of key factors affecting investment performance and a review of qualitative factors, such as organizational developments, management team stability, investment process consistency, and regulatory actions.

The Committees and the County Executive, or designee, are aware that past performance is not a guarantee of future returns.

X. Investment Manager Watch List & Removal

The Investment Consultant may place Investment Managers or Investment Options on a watch list for the following factors:

A. Failure to meet performance standards;
B. Departure of one or more key personnel (ex. investment manager);

C. Significant change in ownership or control of the firm;
D. Significant loss of assets under management by the firm or investment option;
E. Significant change or drift in the portfolio management style;
F. Substantive change in portfolio turnover;
G. Any violation of SEC rules or regulations; or
H. Material litigation against the firm or its manager(s).

The severity of these concerns will determine whether the Investment Manager or Investment Option will be recommended for immediate removal or placed on the Watch List. The concerns that result in placement on the Watch List should be addressed and resolved in a timely manner. Watch List additions and removals are handled on a case-by-case basis.

The Committees have the authority and responsibility for removing an Investment Option or Investment Manager from the Funds. Typically, this will be done by accepting the recommendation of the Investment Consultant.

XI. Deferred Retirement Option Program

Uniformed participants may be eligible to participate in a Deferred Retirement Option Program ("DROP"). An eligible participant who elects to participate in DROP will have an account established in an amount as outlined in the Frederick County Uniformed Employees Retirement Plan Document Effective July 1, 2021.

The DROP Account will be invested in one or more investment funds elected by the DROP Participant from among investment options provided by the Committees in their discretion. The DROP account will be adjusted monthly for earnings or losses based on the investment fund(s) selected by the DROP Participant.

The Committees will select, monitor and change the investments as outlined in Sections VIII, IX and X, above.

XII. Review Procedures

The Committees will review this IPS at least annually. Specifically, the review will include the following:

A. Review of the overall IPS. Specifically, short-term changes in financial markets should not require adjustments to the IPS.
B. Review of specific elements of the IPS to ensure that they remain appropriate. These elements may include, but are not limited to the following:
   1. Investment Objectives
   2. Asset Allocation
   3. Benchmarks for each investment and/or asset class

Should the Committees believe at any time that changes, additions, or deletions to either the Plans' investment structure, or this statement are advisable, it will implement those changes on a timely basis.

XII. Acknowledgements

The Investment Policy Statement of the Frederick County Employees Retirement Plan and the Frederick County Uniformed Retirement Plan shall remain in effect until changed or modified in writing.

Adopted this 14 day of January ~~2024~~ 2025

By: Emily Fiftal

Chair, Retirement Plan Committees

Emily C. Fiftal
Division Director, Human Resources