EMPLOYEES' RETIREMENT SYSTEM

City of Baltimore, Maryland

Lexington Street circa 1925

ERS
EMPLOYEES' RETIREMENT SYSTEM
of the CITY OF BALTIMORE

Popular Annual Financial Report

Year Ended June 30, 2023

Pension Trust of the City of Baltimore

Introduction

We are pleased to present the Popular Annual Financial Report (PAFR) of ERS (Employees' Retirement System of the City of Baltimore). This report is a summary of fiscal year 2023 ACFR (Annual Comprehensive Financial Report). The ACFR was prepared in conformity with GAAP, but the PAFR includes only selected information from the ACFR. The PAFR has been mailed to all retirees, email blasted to all actives and available on our website at ***www.bcers.org/publications/ERS-PAFR.*** *For a detailed copy of our financials, please visit our website at* ***www.bcers.org/publications/ERS-ACFR***.

CONTENTS:

After a bleak year for returns in fiscal year 2022, the ERS rebounded in fiscal year 2023. The ERS return was 6.4%. The ERS outperformed its policy benchmark return of 6.0% and had a very good relative peer group ranking in the top fourth in a universe of over 300 public pension funds. Over the past ten years, ERS has returned 8.0% and ranked 37th. The market value funded ratio for ERS is now 76.2%.
The Board continues to be dedicated to our mission to serve our members, retirees and beneficiaries and protect and grow the fund's assets.

I would like to thank the ERS staff; their dedication has been integral to our achievements.

In closing, I announce that three Board members—Rosemary H. Atkinson, Dorothy L. Bryant, and myself—will not seek reelection. It has been an honor to serve. Thank you to our members for entrusting us to execute the agency's mission and values.

Sincerely,

Deborah Moore-Carter, Chair, Board of Trustees

The ERS staff continues to serve our members, retirees, and beneficiaries as our utmost priority. As we look ahead to the future, we have launched and continue to work toward major system initiatives.

Among those initiatives, we transitioned our accounting system to a new cloud-based platform to improve usability and ensure our staff's secure access to critical data. Efforts toward fossil fuel disinvestment, in line with ordinance 21-043, resulted in a 40% divestment achievement to date. Upgrading our IT systems reduced maintenance costs and enhanced operational efficiencies. The expansion of our retirement services portal now incorporates a secure digital upload feature. Moreover, ongoing enhancements to the new ERP system integration were completed, alongside the successful conversion of members' physical files into a digital format, enriching our document imaging system.

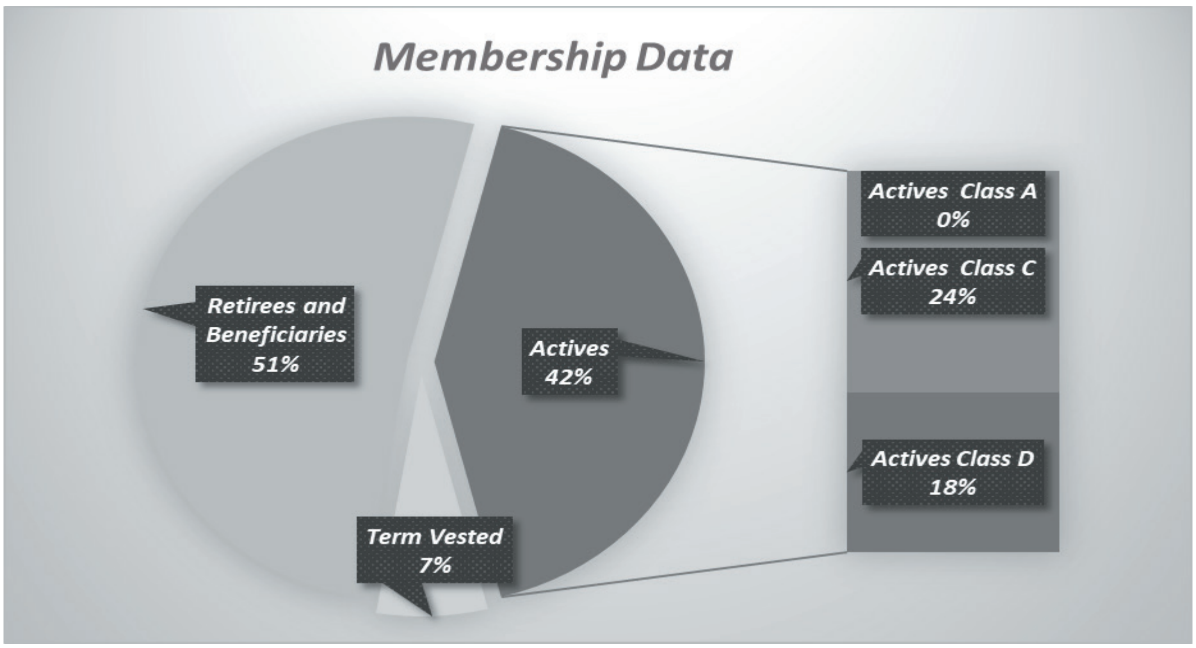
I would like to express my gratitude to our staff for their diligent support. I also want to thank the Board of Trustees for their dedication to overseeing the ERS.

David A. Randall, Executive Director

The Plan

ERS is the administrator of a cost sharing multiple employers defined benefit local government retirement plan (the Plan). The ERS Plan was established effective January 1, 1954, and has been periodically amended. Any regular and permanent officer, agent, or employee of the City except for those required to join the Maryland State or any other Retirement System becomes a member of ERS upon completion of one year of service.

Membership Status as at June 30, 2023	Class A	Class C	Class D	Total
Active Plan Members	4	4,369	3,161	7,534
Retirees and Beneficiaries (currently receiving benefits	292	8,869	24	9,185
Terminated Plan members (entitled but not yet receiving benefits)	-	1,146	46	1,192
Total	**296**	**14,384**	**3,231**	**17,911**



On June 30, 2023, total membership of ERS was 17,911 comprising 7,534 active members, 9,185 retirees & beneficiaries and 1,192 terminated plan members. When compared with 2022, membership in active and retiree categories decreased while terminated vested members increased. Terminated plan members are former employees that are eligible but not yet receiving pension.

Class A active members currently contribute 4% of earnable compensation, C members at 5% and D members at 5%. Earnable compensation is the annual salary authorized for the member not including overtime or other types of pay. Class A members are eligible for retirement at age 60 with 5 years of service or 30 years of membership service while classes C and D are eligible for retirement at age 65 with 5 years of service or 30 years of service regardless of age.

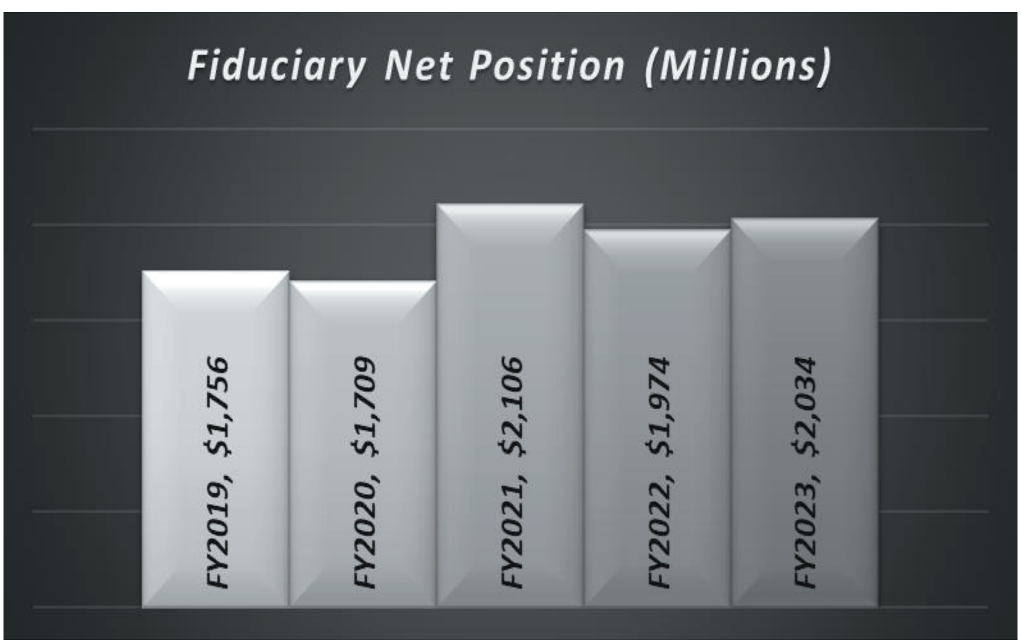
Financials

The net position serves as a useful indicator of the Plan's financial position and is available to meet the plan's ongoing obligation to participants and their beneficiaries. Management believes that the plan remains in a strong financial position to meet its obligations to the members, retirees, and their beneficiaries.

The Plan's total net position restricted for pensions increased by $59.59 million during fiscal year 2023. The increase was due to positive and improved investment returns from all asset classes except real estate that was negative and private equity that was lower than 2022. The negative return from real estate was due to elevated interest rates, lower transaction volumes, and slowed down rent growth.

Fiduciary Net Position	Fiscal Year 2023	Fiscal Year 2022	Increase / (Decrease)	Percentage Increase
Cash and Receivables	$ 74,461,003	$ 76,687,738	$ (2,226,735)	-3%
Investments	1,992,478,515	1,962,765,228	29,713,287	2%
Securities Lending	43,880,992	52,923,003	(9,042,011)	-17%
Capital Assets	336,401	358,660	(22,259)	-6%
Total assets	2,111,156,911	2,092,734,629	18,422,282	1%
Total liabilities	77,259,457	118,431,485	(41,172,028)	-35%
Total net position	**$ 2,033,897,454**	**$ 1,974,303,144**	**$ 59,594,310**	**3%**

The plan's net position restricted for pensions dipped in 2020 from 2019 values, then shot up significantly in 2021. The plan's position in 2022 then dipped from 2021 levels but not as low as 2020 and then increased slightly in 2023 from the reasons stated above.



Financials

The Statement of Changes in Fiduciary Net Position presents information on how the Plan's net position changed during the year. The plan's fiduciary net position for fiscal year 2023 increased by $59.6 million. When compared to fiscal year 2022's decrease of $131.2 million, there was a positive change of 190.8 million.

Changes in Fiduciary Net Position	Fiscal Year 2023	Fiscal Year 2022	Increase / (Decrease)
Employer contribution	$ 94,788,090	$ 98,640,176	$ (3,852,086)
Employee contribution	22,144,404	18,493,368	3,651,036
Net investment income (loss)	120,788,368	(75,899,163)	196,687,531
Net Securities Lending Income	211,475	163,356	48,119
Total additions	237,932,337	41,397,737	196,534,600
Retirement allowances	170,579,131	165,289,884	5,289,247
Administrative expenses	5,068,850	4,460,410	608,440
Refund of member's contribution	1,770,228	1,346,673	423,555
Death benefits	870,469	1,507,307	(636,838)
Lump Sum cash payments	49,349	15,300	34,049
Total deductions	178,338,027	172,619,574	5,718,453
Net increases (decreases)	**$ 59,594,310**	**$ (131,221,837)**	**$ 190,816,147**

Total additions (revenues) for fiscal year 2023 was $237.9 million. Compared to fiscal year 2022's total addition of $41.4 million, there was an increase of $196.5 million. The increase is from net investment income, detracted from, by a decrease in employer contributions.

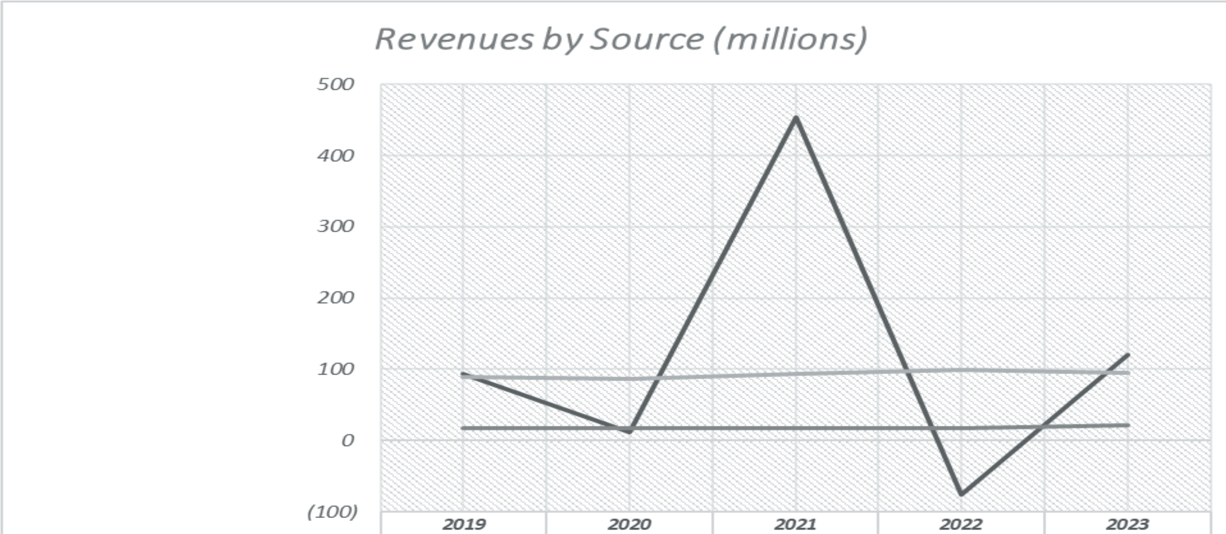
Investments generated an income of $120.8 million in the fiscal year 2023. The change in investment income when compared to 2022 was $196.7 million. The positive income was due to positive returns from all asset classes except for real estate which generated losses in the fiscal year 2023.

Employer contributions decreased by $3.9 million from $98.6 million to $94.8 million. This is attributable to actuarial changes and the City's adopted 20-year plan to reach 100% funding by year 2023. The actuarially determined employer contributions are calculated two fiscal years in advance, that is, the $94.8 million employer contributions for fiscal year 2023 was determined during actuarial valuation for fiscal year 2021.

The employee contributions increased by $3.7 million in 2023. This increase is from the cleanup exercise embarked upon by the agency in fiscal year 2023.

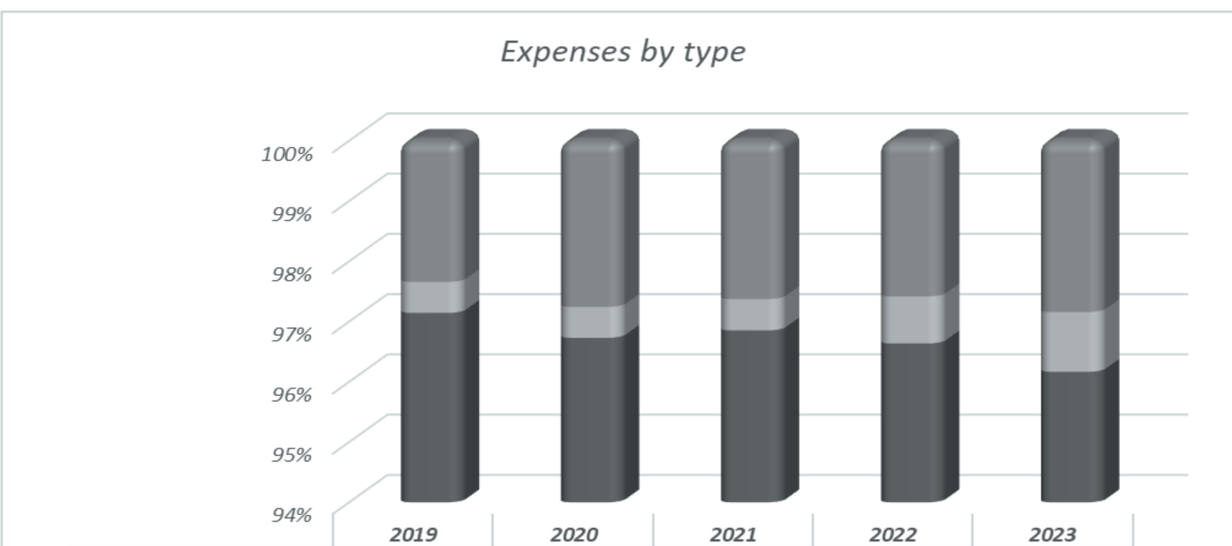
Net securities lending income also increased slightly from increased trades.

Financials



	2019	2020	2021	2022	2023
Net Investment Income (Loss)	93	12	453	(76)	121
Employer Contributions	90	87	93	99	95
Member Contributions	17	18	18	18	22

Total deductions increased from $167.4 million in fiscal year 2021 to $172.6 million in fiscal year 2022. This increase of $5.2 million is mostly attributable to an increase in retirement benefits payments. Retirement pension increased from $160.7 million in fiscal year 2021 to $165.3 million in fiscal year 2022. The increase of $4.6 million was due to cost-of-living adjustments as well as an increase in the number of retirees. Retirees aged 65 and above receive a 2% increase annually while retirees below 65 years receive 1.5% increase. The refund of employee contributions increased by approximately half a million showing that more non-vested employees are leaving the City's employment.



	2019	2020	2021	2022	2023
Administrative expenses	3,716,362	4,495,405	4,397,413	4,460,410	5,068,850
Refunds	815,394	837,540	873,832	1,346,673	1,770,228
Retirement Benefits	154,052,780	157,722,107	162,174,114	166,812,491	171,498,949

Investments

The primary investment objectives of the System are to preserve the capital value of the System assets adjusted for inflation, to ensure adequate liquidity to meet benefit liabilities as they fall due, to meet the actuarial interest rate assumptions, and without unduly jeopardizing the above objectives, to exceed the investment return objective by the astute management of System assets.

The investment return is evaluated against a policy benchmark consisting of a pro rata representation of the asset allocation utilizing indices outlined in the Investment Policy. In addition, the ERS's performance is evaluated relative to the Investment Metrics Public Fund Universe, a universe representing the performance of 64 Public Funds with greater than $1 Billion in assets. Marquette utilizes the Investor Force Performance Reporting network, an advanced and comprehensive analysis and performance management platform, comprised of over 100 different investment consulting firms located throughout the United States.

The goal of the asset allocation structure is to provide a favorable rate of return coupled with a prudent level of risk. The System conducted an asset allocation analysis and added exposure to private credit investments to achieve long term return objectives while reducing risk and diversifying the portfolio. The following table outlines the ERS's investment returns versus benchmarks.

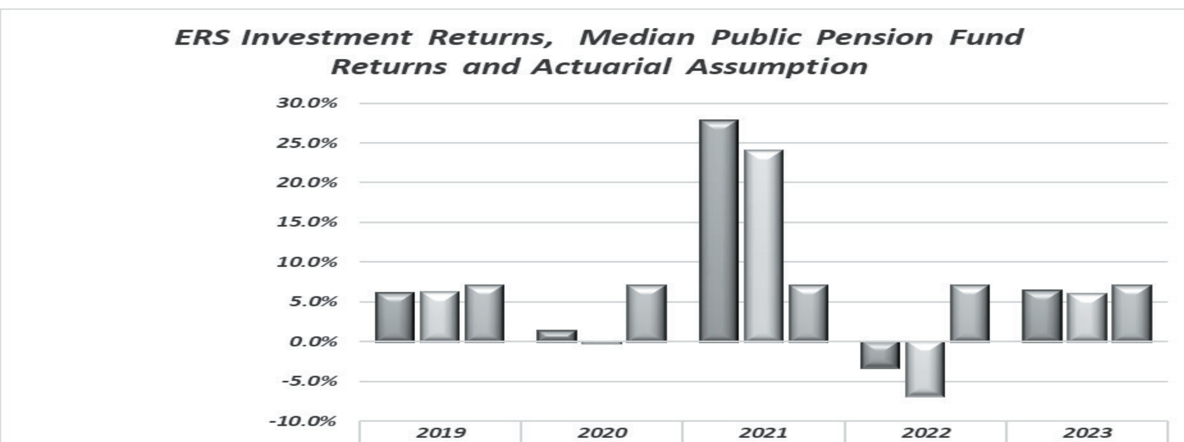
	FY 2023	3 Years	5 Years	10 Years
TOTAL PORTFOLIO	**6.4%**	**9.6%**	**7.2%**	**8.0%**
Median Public Pension Fund	6.0%	7.6%	6.0%	7.1%
Target Rate of Return	7.0%	7.0%	7.0%	7.0%
DOMESTIC EQUITIES	**14.5%**	**11.9%**	**8.9%**	**10.8%**
Russell 3000	19.0%	13.9%	11.4%	12.3%
DEFENSIVE EQUITIES	**13.2%**	**10.8%**	**8.0%**	**-**
CBOE Put Write Index	12.1%	13.6%	6.3%	7.1%
50% S&P 500/50% 91 Day T-Bill	11.9%	8.2%	7.2%	7.0%
INTERNATIONAL EQUITIES	**11.1%**	**7.9%**	**4.2%**	**6.0%**
MSCI ACWI ex-US	13.3%	7.7%	4.0%	5.2%
Xponance	**15.9%**	**9.4%**	**4.4%**	**6.7%**
InvMetrics Public DB ex US Eq Gross Rank	12.7%	7.2%	3.4%	6.1%
FIXED INCOME	**3.9%**	**-1.0%**	**1.8%**	**2.3%**
Barclays Aggregate	-0.9%	-4.0%	0.8%	1.5%
REAL ESTATE	**-11.1%**	**6.5%**	**6.2%**	**8.3%**
NPI	-10.0%	8.0%	6.5%	8.7%
CPI + 5%	8.1%	11.0%	9.1%	7.8%
PRIVATE EQUITY COMPOSITE	**5.8%**	**29.6%**	**21.0%**	**17.6%**
Private Equity Benchmark	-1.5%	22.1%	16.3%	15.5%
CPI + 6%	6.4%	11.6%	10.1%	8.8%
Low Volatility Composite	**5.7%**	**8.7%**	**-**	**-**
S&P 500 Low Volatility	3.9%	10.6%	8.3%	10.0%

Investments

The economy has continued to defy economists' expectations of an impending recession. Interest-rate sensitive sectors (housing, autos, etc.) weighed on the economy in late 2022 and early 2023, but steadied in the last months of the fiscal year amid the stabilization in interest rates. Consumer spending, meanwhile, remained resilient, despite the Q2 slowdown as excess savings accumulated during the pandemic and a tight labor market continues to generate nominal wage growth that is well above its average level seen over the past couple of decades. In this environment, global equities rallied in 2023 on the back of stronger-than-expected economic growth and a respite from U.S. banking concerns. U.S equities topped their international developed and emerging markets counterparts with double digit gains of 19% for the U.S. stock market and 13% for the international stocks. Fixed income markets were mixed, with investment-grade bonds in the red due to higher rates across the yield curve. Sub-investment grade debt, on the other hand, posted gains, with bank loans outperforming high-yield debt given their floating-rate characteristics. Elevated interest rates, lower transaction volume, and slowing rent growth are weighed on real estate valuations during the year, as the core real estate market posted a negative -10% return.

The rates of return are calculated using a time-weighted rate of return methodology based upon market values. The returns are reported on both net of fees and gross of fees to provide comparisons with the appropriate benchmarks. Investment information is reported to the greatest degree possible in conformance with the presentation standards of Global Performance Investment Standards (GIPS) formerly known as AIMR.

For the fiscal year ending June 30, 2023, the System posted a positive gain of 6.4% return which outperformed the policy benchmark of 6.0% but lagged in the peer group. During a period of negative fixed income returns and rising interest rates, exposure to floating rate debt added value to returns. International equity investment strategies also outpaced their respective benchmarks over the fiscal year. Value-oriented managers contributed to strong performance in the prior fiscal year, detracted from returns as growth-oriented investments led.



	2019	2020	2021	2022	2023
ERS Rate of Return	6.1%	1.3%	27.8%	-3.3%	6.4%
Median Public Pension Fund	6.2%	-0.2%	24.0%	-6.9%	6.0%
Actuarial Assumption	7.0%	7.0%	7.0%	7.0%	7.0%

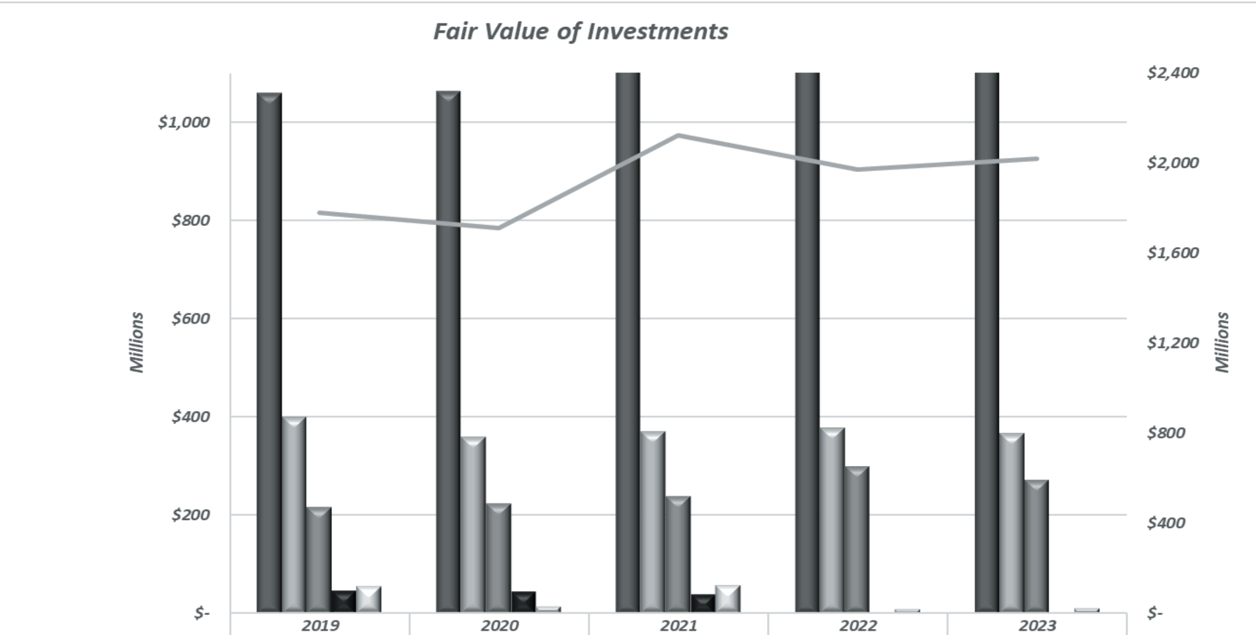
Investments

In June 2016, Ordinance 16-488 was signed into law, which provides for reduction in the actuarial interest rate to 7.5% in fiscal years 2017 and 2018, subsequently to 7.0% for fiscal year 2019 and afterwards.

Diversification is the most important component of reaching long-range financial goals. To assist in meeting the overall objectives, the Board of Trustees approved an asset allocation guideline. The asset allocation guideline enables the plan to diversify its assets and maximize returns by investing in different areas that would each react differently to the same event.

The current ERS asset allocation policy and actual allocation is as stated below:

	Target	Actual
US Equity	22%	20%
US Fixed Income	18%	18%
International Equity	15%	15%
Real Estate	15%	14%
Private Equity	15%	21%
Defensive Equity	7%	7%
Low Volatility	4%	4%
Private Debt	4%	0%
Cash	0%	1%
	100%	100%

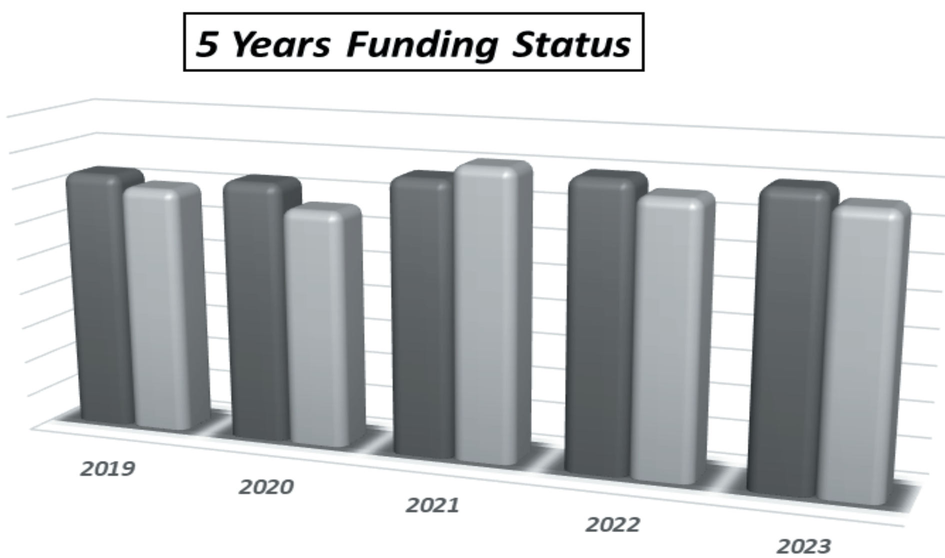


	2019	2020	2021	2022	2023
Equities	$1,061	$1,065	$1,414	$1,286	$1,367
Fixed Income	400	360	372	378	367
Real Estate	218	225	240	299	273
Risk Premia	46	44	40	0	0
Cash	55	16	58	10	12
Total	$1,780	$1,710	$2,124	$1,973	$2,019

Actuarial

The Plan's funding objective is to meet long-term benefit obligations through investment income and contributions, which spread the cost over the employees' service base. ERS' funding status is a key indicator of its financial health because it reflects the percentage of benefits due that the plan's assets can cover.

As of June 30, 2023, the System's funded ratios were 80.0% and 76.2% based on actuarial and market values of assets respectively. The funded ratio based on actuarial value increased by 0.1% while market value increased by 0.3%. This was due to the employer contributing more than the periodic cost because of the 20-year funding to get to 100% by 2032.



	2019	2020	2021	2022	2023
Actuarial	73.0%	73.3%	77.1%	79.9%	80.0%
Market	69.8%	66.6%	81.2%	75.9%	76.2%

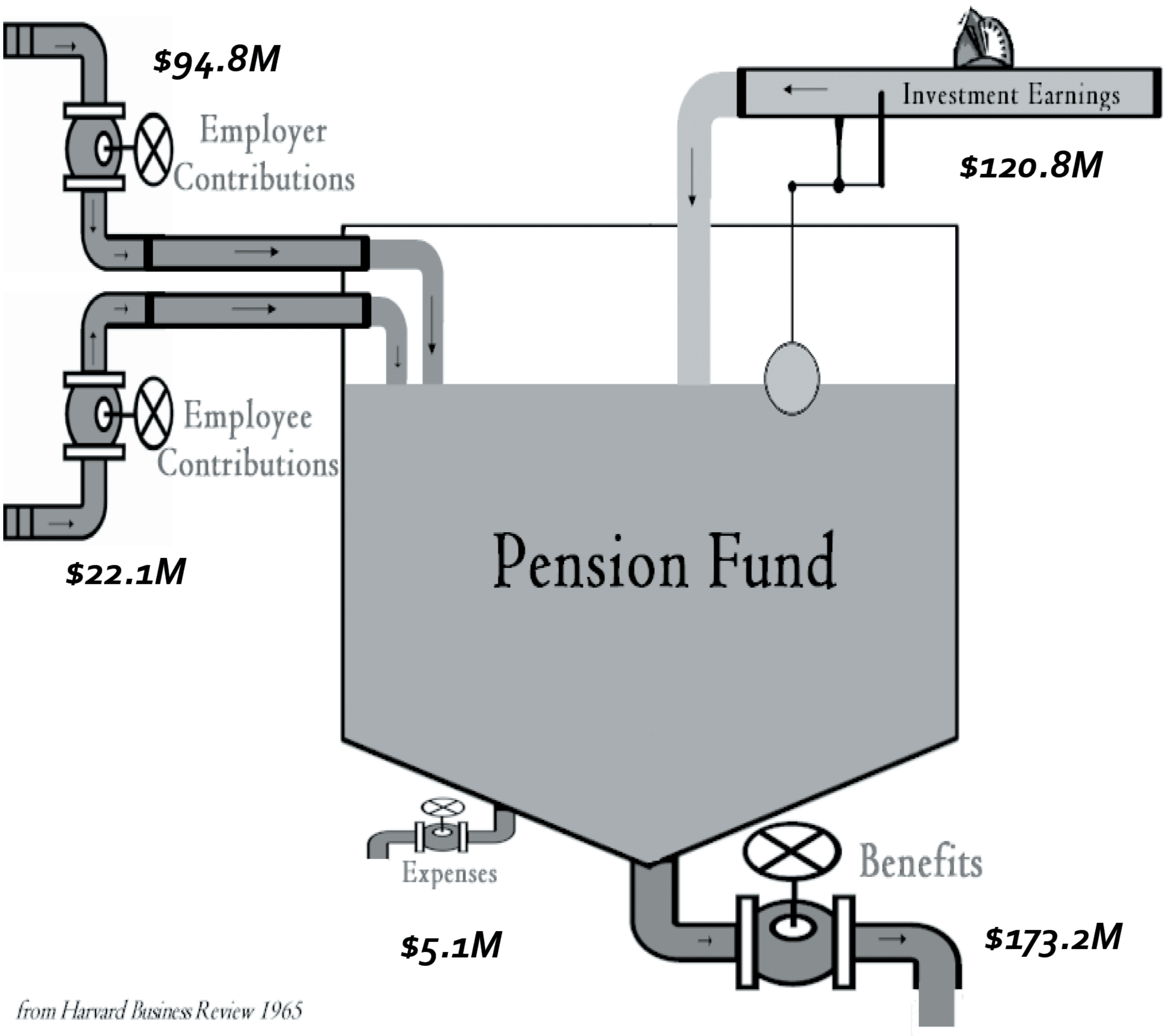
The funding policy adopted by the board provides for the unfunded actuarial liability to be amortized over a fixed period of 20 years targeting 100% funding by fiscal year 2032. A one-year extension was adopted in 2019 and the remaining amortization period is now nine years. The funding method used is the Entry Age Normal Cost method. This method computes level contributions as a percentage of pay over the entire working lifetime of the plan participant.

	2019	2020	2021	2022	2023
Total Pension Liability	$ 2,515,137,395	$ 2,567,398,628	$ 2,593,420,191	$ 2,600,520,742	$ 2,669,719,349
Plan Fiduciary Net Position	1,755,595,585	1,709,154,733	2,105,524,981	1,974,303,144	2,033,897,454
Unfunded Liability	$ 759,541,810	$ 858,243,895	$ 487,895,210	$ 626,217,598	$ 635,821,895

Actuarial

Based on the actuarial valuation performed at the end of fiscal year 2021, the total contributions due from the employer for fiscal year 2023 was $94.8 million. For the past 5 years, the City of Baltimore, which is the employer, has contributed 100% of the actuarially determined contributions to the Plan.

	2023	2022	2021	2020	2019
Actuarially determined contribution	$ 94,788,090	$ 98,640,176	$ 92,637,051	$ 86,953,801	$ 89,866,171
Actual employer Contributions	94,788,090	98,640,176	92,637,051	86,953,801	89,866,171
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 458,637,682	$ 439,326,244	$ 455,219,365	$ 437,242,419	$ 419,686,035
Contributions as a percentage of payroll	20.67%	22.45%	20.35%	19.89%	21.41%



from Harvard Business Review 1965

Government Finance Officers Association

Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting

Presented to

Employees' Retirement System,
City of Baltimore
Maryland

For its Annual Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morrill
Executive Director/CEO

CITY OF BALTIMORE
Employees' Retirement Systems
7 East Redwood Street,
11th, 12th &13th Floor
Baltimore, MD 21202

+1 443-984-3200
+1 877-273-7136

contacters@bcers.org

www.bcers.org

facebook
@bmoreretirement

This Popular Annual Report (PAFR) is a summary presentation of the Employees Retirement System of the City of Baltimore's audited financial statements and other information contained in the Annual Comprehensive Financial Report (ACFR).
The PAFR provides an overview of the System's financial and operating results. The complete audited financial statements and pertinent notes to the financial statements can be found in the 2023 ACFR.