

POPULAR ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2016

EMPLOYEES' RETIREMENT SYSTEM

The Maryland-National Capital Park and Planning Commission

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For the Fiscal Year Ended June 30, 2016

Introduction

This Popular Annual Financial Report summarizes the Maryland-National Capital Park and Planning Commission Employees' Retirement System's (ERS) more detailed 2016 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.

The CAFR can be viewed online or downloaded from the ERS' website at <http://ers.mncppc.org> under the Forms and Publications tab.

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: 6/30/2019

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

Khalid Afzal
Montgomery County Open Trustee
Term expires: 6/30/2018

Patricia Colihan Barney, CPA
Executive Director
Ex-Officio

Sheila Morgan-Johnson
Prince George's County Public Member
Term expires: 6/30/2017

Alicia J. Hart
Prince George's County Open Trustee
Term expires: 6/30/2018

Amy Millar
MCGEO Represented Trustee
Term expires: 6/30/2019

Howard Brown
FOP Represented Trustee
Term expires: 6/30/2019

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

Dear Members, Retirees and Beneficiaries:

On behalf of the Board of Trustees ("Board") of The Maryland-National Capital Park and Planning Commission Employees' Retirement System (ERS), I am pleased to present the Popular Annual Financial Report ("Annual Report") for 2016. This Annual Report is intended to provide information to help you better understand the financial health of your ERS, and summarizes findings from the more detailed Comprehensive Annual Financial Report (CAFR), available at <http://ers.mnccppc.org>.

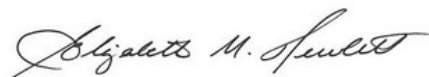
The Board remains firmly committed to maintaining the highest professional standards in carrying out our mission to prudently manage, protect, diversify and administer the ERS on your behalf – during whatever market challenges may occur. Fiscal year 2016 was another challenging year from a performance perspective for all investors, including the ERS. The one-year return for the year ending June 30, 2016 was -.03%, which was significantly short of the long-term investment assumption of 7.25%. However, since long-term performance is a more relevant measure of overall financial health, over the last 27 years, the ERS had a return of 7.4% - which exceeds the long-term assumption.

Over the last few years, the Board has recognized the trend for lower long-term performance expectations and actuarial assumptions. Differences between experience and assumptions can result in actuarial gains and losses, which ultimately affect the funding of the plan. The results of a recent Actuarial Experience Study revealed the necessity to reduce the ERS' economic assumptions. A 7% investment assumption (down from 7.25%) was approved along with reductions in the inflation, wage growth and salary assumptions for fiscal year 2017. We are confident that this proactive approach will ultimately protect the long-term funding of the ERS.

As an additional measure, an Asset/Liability Study explored alternative structures to better diversify the ERS' portfolio. Ultimately, the Board determined the existing portfolio was most efficient. Further Board actions, consistent with the existing portfolio structure, included approval of a \$90 million custom real assets strategy and a \$45 million private equity commitment, and the addition of a 10% global infrastructure allocation to the existing real asset strategy.

Please know that the Trustees are deeply aware of the important role ERS benefits play in your retirement security, and that we take our responsibility to safeguard these benefits very seriously. We are committed to proactively protecting and growing your ERS, and to challenging our consultants and advisors to do the same. Thank you for the opportunity and honor to serve you.

Sincerely,



Elizabeth M. Hewlett
Chairman, Board of Trustees

Awards for Excellence in Financial Reporting



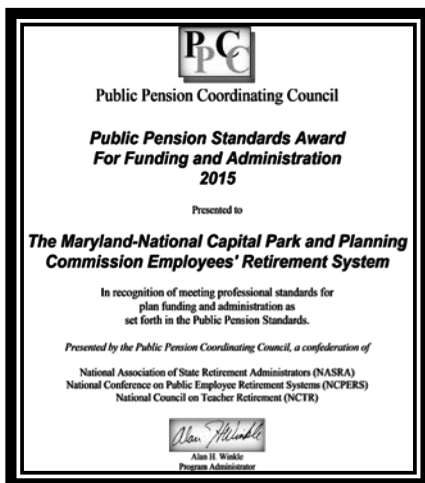
The Government Finance Officers Association (GFOA) of the United States and Canada presented an **Award for Outstanding Achievement in Popular Annual Financial Reporting** to the Employees' Retirement System (ERS) for its Popular Annual Financial Report for the fiscal year ended June 30, 2015.

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 sixth consecutive year the ERS applied for and received the Award.

The ERS' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2015, 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 (2008-2015 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 Funding and Administration** for the last eleven consecutive years (2005-2015). 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

Eleanor Dagirmanjian
Retirement Benefits Analyst

Christopher Baysmore
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
- News Articles published in the Commission's Update Newsletter - ERS Lifetimes
- 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 or schedule an appointment for a retirement counseling session.

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

Membership and Benefits

As of July 1, 2015 Actuarial Valuation

Membership	
Active Members	2,104
Retirees and Beneficiaries	1,324
Inactive Members ¹	260
Total Membership	3,688

Active Members	
Average Age	47.62
Average Service	12.60
Average Annual Salary	\$68,341
Active Members Eligible for Normal Retirement within the Next 5 Years	705

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 Monthly Benefit Payments

As of July 1, 2015

Years of Credited Service	0-5	6-10	11-15	16-20	21-25	26-30	>30	Total
Number of Retirees and Survivors	58	161	147	192	260	303	203	1,324
Average Monthly Benefit Payments	\$467	\$703	\$1,166	\$1,733	\$2,772	\$3,578	\$4,761	\$2,580
Average Final Salary	\$42,664	\$48,314	\$53,111	\$58,300	\$67,077	\$67,205	\$76,338	\$62,064
Average Years of Credited Service	3.9	8.1	13.0	18.2	23.1	28.6	33.4	21.4

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.

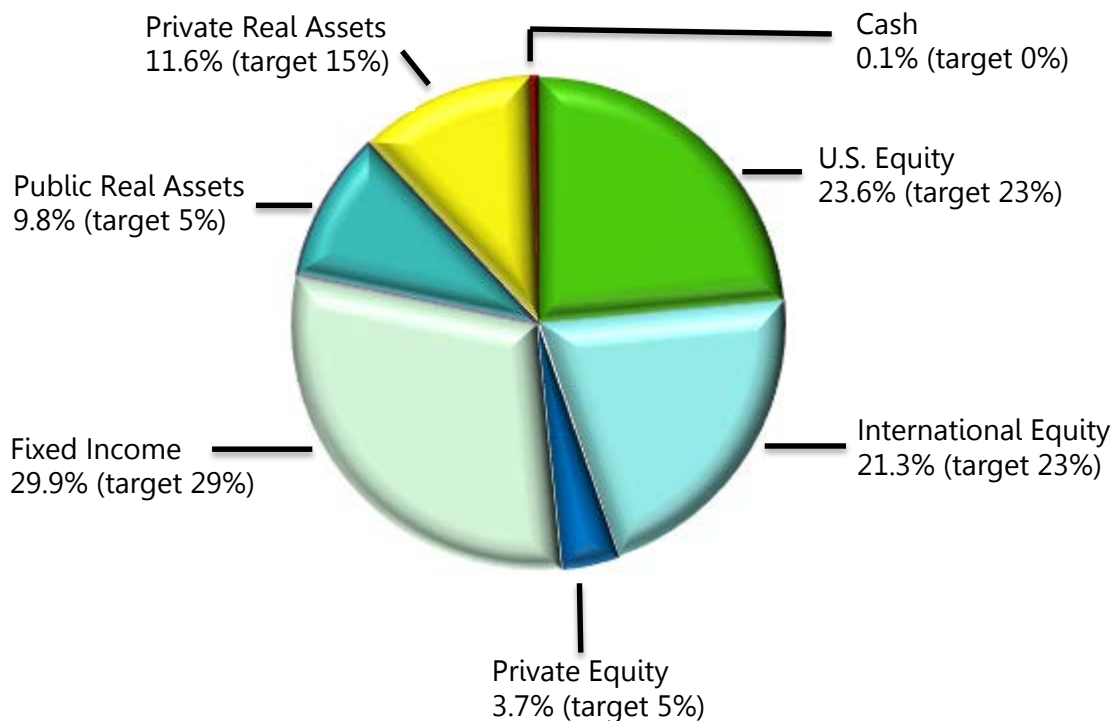
Asset allocation involves dividing the portfolio among different asset classes such as equities, fixed income, and real assets. The goal is to balance the risk and return of the portfolio by including asset classes that move up and down under different market conditions.

Diversification within each asset class is accomplished using multiple investment managers. Each manager has a set of guidelines which outline the manager's mission, objectives, benchmarks, authorized investments and restrictions. Annually, the Board reviews each manager's performance against these guidelines. Please refer to the Investment Manager Matrix on page 7 for investments as of June 30, 2016.

During FY2016 the Board approved a \$90 million custom real assets strategy; a \$45 million private equity commitment; and, the addition of a 10% global infrastructure allocation to the State Street Global Advisors Custom Real Asset Strategy. An asset liability analysis was conducted; however, the Board approved maintaining the current asset allocation policy which was implemented in the first quarter 2014, with the exception of the private investments which will be funded gradually over time.

Asset Allocation

As of July 1, 2016



Investment Manager Matrix

As of June 30, 2016

Manager Name and/or Fund Name	Style	Market Value \$(000)	% of Fund
U.S. Equities			
Blackrock Equity Index Fund	Large Core	\$ 64,540	8.3%
J.P. Morgan Commingled Pension Trust Fund	130/30 Short Extension	21,475	2.8%
Chicago Equity Partners	Small Cap Value	17,056	2.2%
Northern Trust Collective Russell 2000 Growth	Small Cap Growth	16,515	2.1%
RhumbLine S&P 500 Pooled Index Trust	Large Core	63,757	8.2%
		\$ 183,343	23.6%
International Equities			
Capital Group All Countries Equity Trust	ACWI ex-U.S.	\$ 83,072	10.7%
Earnest Partners, L.L.C.	ACWI ex-U.S.	82,320	10.6%
		\$ 165,392	21.3%
Private Equities			
Wilshire MNCPPC ERS Global, L.P.	Other	\$ 28,956	3.7%
Fixed Income			
C.S. McKee, L.P.	Core	\$ 37,628	4.8%
Eaton Vance Management	Core	37,724	4.9%
Golub Capital	Middle Market Direct Lending	17,500	2.3%
Loomis Sayles High Yield Full Discretion Trust	High Yield	30,518	3.9%
Neuberger Berman High Yield Bond Fund, LLC	High Yield	30,579	3.9%
Voya Senior Loan Fund	Bank Loans	33,698	4.3%
Western Asset Global Multi-Sector, LLC	Global Multi-Sector	40,162	5.2%
Oaktree Real Estate Debt Fund, L.P.	Real Estate Debt	2,510	0.3%
Oaktree Opportunities Fund VIII, L.P.	Distressed Opportunities	1,910	0.3%
Other ²		6	0.0%
		\$ 232,235	29.9%
Private Real Assets			
Principal U.S. Property Account	Real Estate	\$ 58,720	7.6%
Aberdeen Energy & Resources Partners II, L.P.	Real Assets	11,099	1.4%
Aberdeen Real Estate Partners II, L.P.	Real Estate	6,935	0.9%
Aberdeen Energy & Resources Partners III, L.P.	Real Assets	9,208	1.2%
Aberdeen Real Estate Partners III, L.P.	Real Estate	3,809	0.5%
		\$ 89,771	11.6%
Public Real Assets			
SSgA Custom Real Asset Non-Lending Strategy	Diversified	\$ 76,530	9.8%
Cash		\$ 1,113	0.1%
TOTAL		\$ 777,340¹	100%

¹ Net of Accrued Income on Investments and Investments Payable

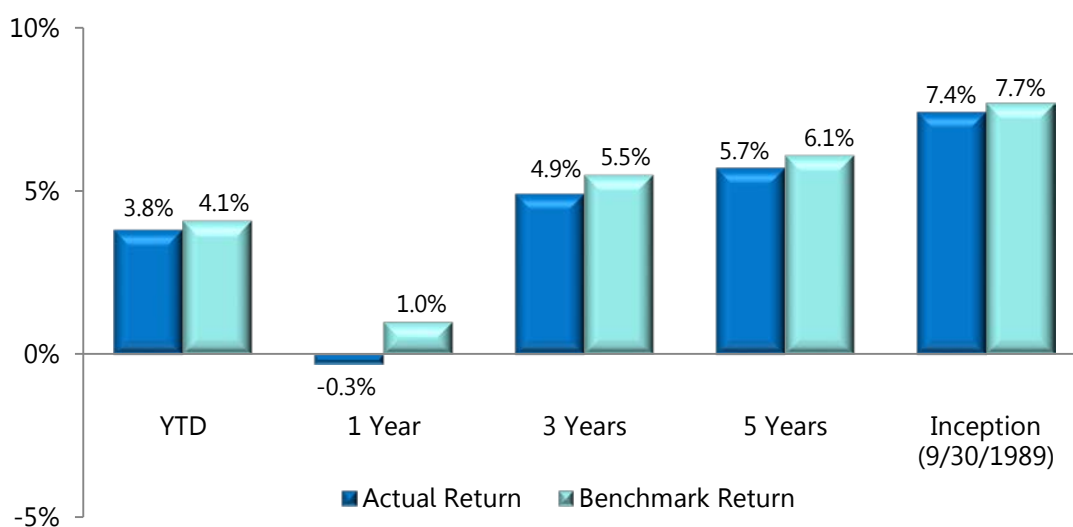
² Adelphia and Century Securities Only

Portfolio Performance

Investment performance for the one-year ending June 30, 2016 was -0.3% versus the policy index of 1.0%. Despite this period, total portfolio results over longer-term periods have continued to be positive and represent substantial gains. Total portfolio returns were 4.9%, 5.7%, and 7.4% over the three-year, five-year, and since inception periods, respectively. Strong domestic equity markets combined with a continued recovery in the private real estate market have contributed to absolute returns during these longer-term periods.

Actual Returns vs. Benchmark Returns

As of July 1, 2016



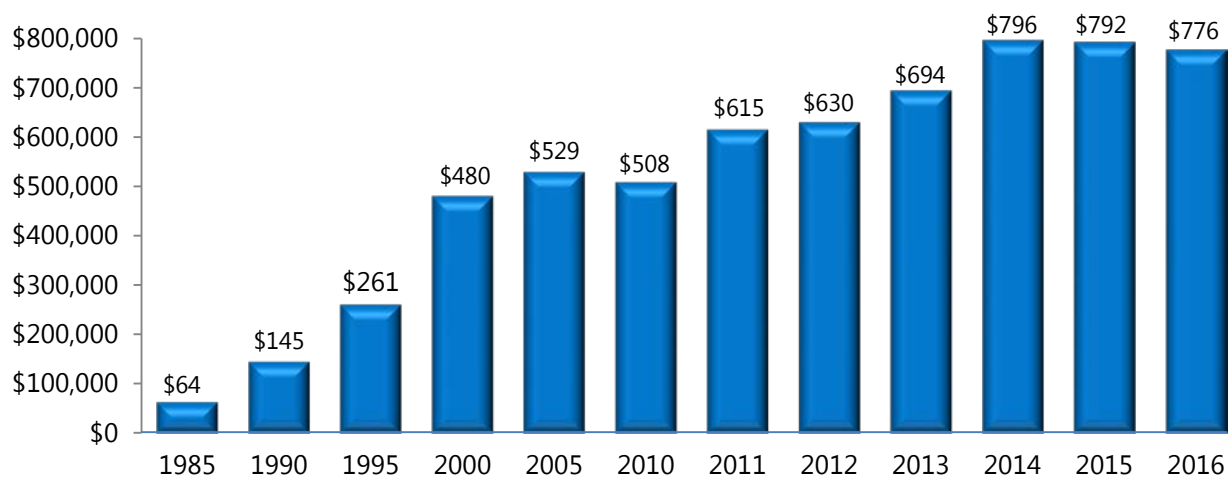
During 2016, the amount accumulated to pay retirement benefits decreased by (\$15.7) million from \$792 million in 2015 to \$776 million in 2016 due to investment losses and increased benefit payments. Please refer to the Summary Statements of Net Position on page 11.

Growth of Investments

Net Position

As of July 1, 2016

(\$millions)

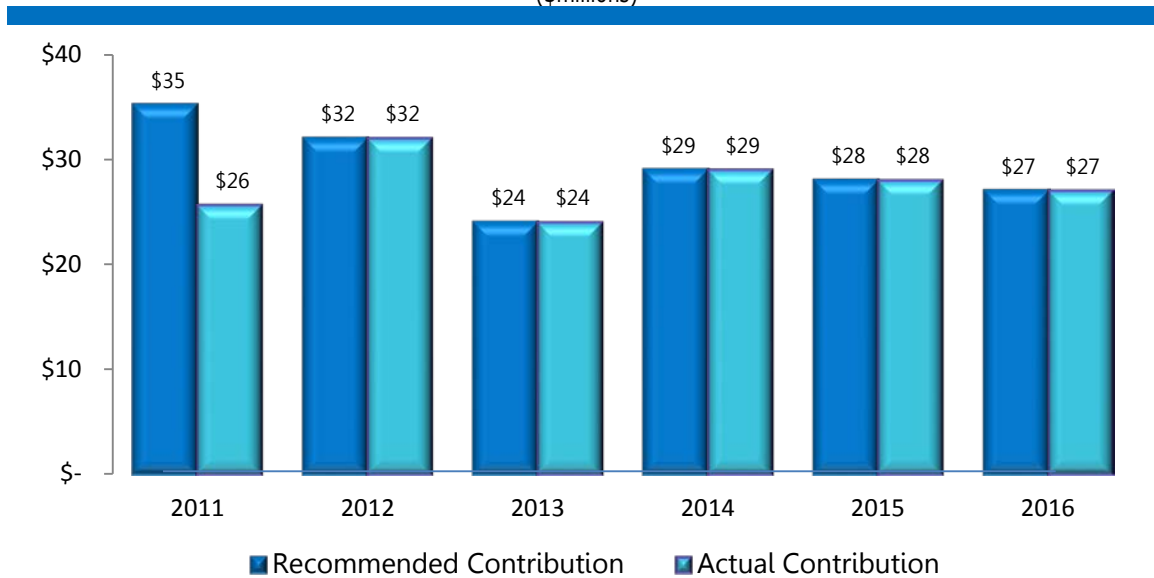


Employer Contributions and Funded Ratio

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.

Annual Employer Contributions

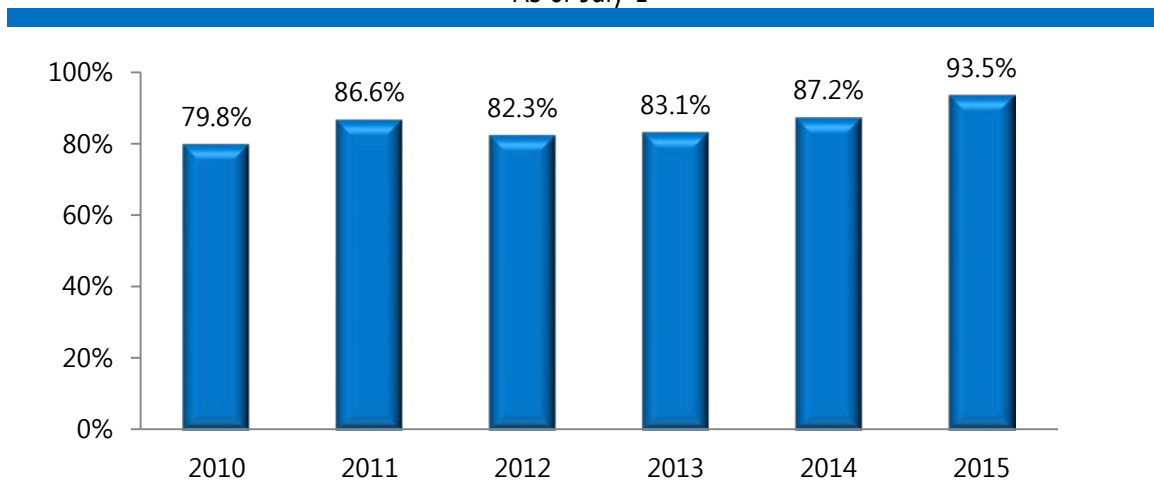
As of June 30
(\$millions)



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 2008/2009 credit market crisis; however, the trend has been mostly positive since the crisis.

Funded Ratio

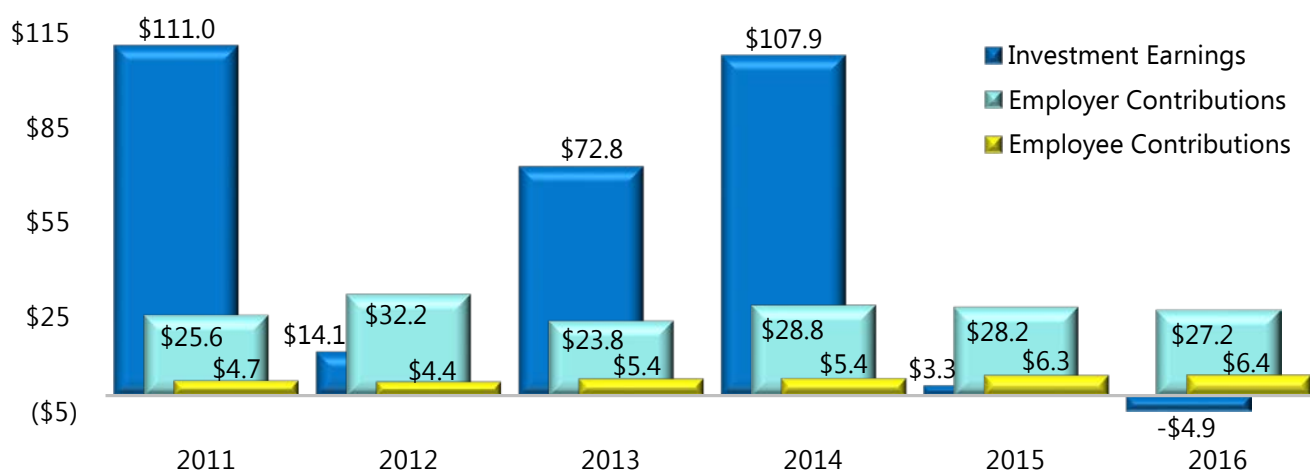
As of July 1



Financial Summary

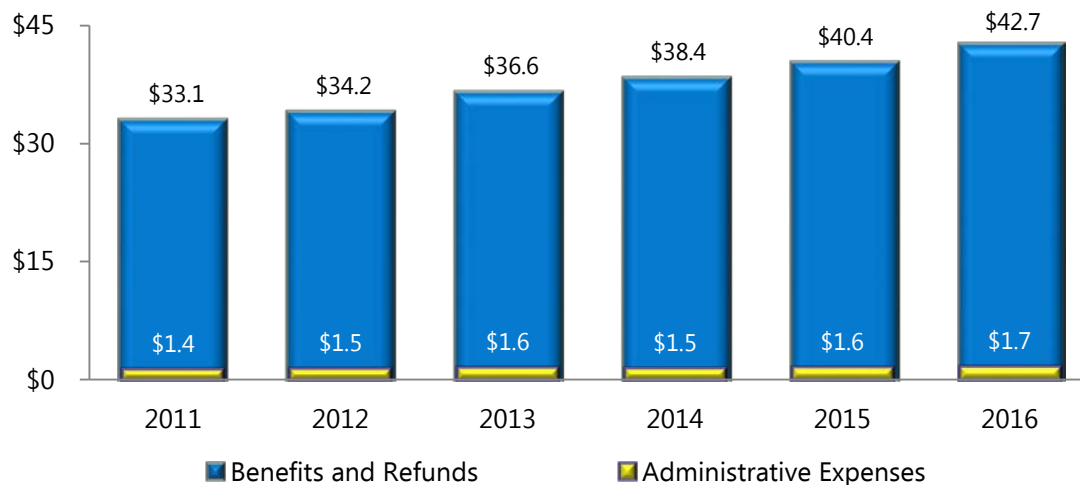
Employee and employer contributions as well as earnings from investments provide the funds necessary to pay monthly retirement benefits, refund contributions to terminated employees and administer the ERS.

Additions As of June 30 (\$millions)



Additions totaled \$28.7 million as of June 30, 2016 and included employee contributions (\$6.4 million), employer contributions (\$27.2 million) and a net investment loss (-\$4.9 million). Additions decreased primarily due to investment losses and a decrease in the employer contribution.

Deductions As of June 30 (\$millions)



Deductions totaled \$44.4 million as of June 30, 2016 and included benefit payments (\$42.3 million), participant refunds (\$461,116) and administrative expenses (\$1.7 million). Deductions increased 5.8% from 2015 to 2016 due to an increase in the number of retirees and a 1.6% 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, 2016 and 2015.

	As of June 30, 2016	As of June 30, 2015
ASSETS		
Investments, at fair value	\$ 778,359,636	\$ 813,877,720
Receivables	1,014,852	1,208,130
Securities lending collateral	38,265,355	33,103,308
Other assets	51,800	15,939
TOTAL ASSETS	817,691,643	848,205,097
LIABILITIES		
Payables and accrued liabilities	2,482,677	22,251,828
Payable for securities lending collateral	38,870,542	33,957,643
TOTAL LIABILITIES	41,353,219	56,209,471
NET POSITION	\$ 776,338,424	\$ 791,995,626

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, 2016 and 2015.

	As of June 30, 2016	As of June 30, 2015
ADDITIONS		
Employee Contributions	\$ 6,418,154	\$ 6,339,732
Employer Contributions	27,191,305	28,149,976
Net investment (loss)/gain	(4,851,526)	3,340,520
TOTAL ADDITIONS	28,757,933	37,830,228
DEDUCTIONS		
Benefit payments	42,257,685	39,992,189
Refunds of contributions	461,116	390,629
Administrative expenses	1,696,334	1,587,371
TOTAL DEDUCTIONS	44,415,135	41,970,189
DECREASE IN NET POSITION	(15,657,202)	(4,139,961)
NET POSITION		
BEGINNING OF YEAR	791,995,626	796,135,587
END OF YEAR	\$ 776,338,424	\$ 791,995,626

Employee Contributions slightly increased as a result of an increase in the employee contribution rates in Plans C and D. The ERS' Net Position decreased from \$792 million in 2015 to \$776 million in 2016 primarily due to investment losses and increased benefit payments.



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>

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.

