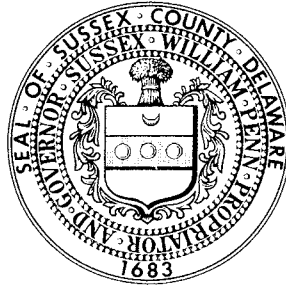


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PENSION FUND COMMITTEE

Minutes of Meeting

May 21, 2015

The Sussex County Pension Fund Committee met on May 21, 2015, at 10:00 a.m. in the County Council Chambers, Georgetown, Delaware. Those in attendance included members: Gina Jennings, Todd Lawson, Karen Brewington, Jeffrey James, David Baker, Hugh Leahy, and Kathleen Ryan. Also in attendance was Michael Shone of Peirce Park Group, the County's Pension Investment Consultant.

On May 13, 2015, the Agenda for today's meeting was posted in the County's locked bulletin board located in the lobby of the County Administrative Offices, as well as posted on the County's website.

Ms. Jennings called the meeting to order.

A Motion was made by Mr. Leahy, seconded by Mr. Lawson, to amend the Agenda by deleting "Pension and OPEB Investment Policy Statements Review".

Motion Adopted: 6 Yea.

Vote by Roll Call: Mr. James, Yea, Ms. Brewington, Yea; Mr. Leahy, Yea;
Ms. Ryan, Yea; Mr. Lawson, Yea; Ms. Jennings, Yea

Ms. Jennings noted that she and Mr. Shone felt discussion of the Investment Policy Statements would best be included as part of the year-end review that will take place during the Committee's meeting in August.

1. **Approval of Minutes**

The minutes of the February 26, 2015 meeting were approved by consent.

2. **Investment Analysis for the Quarter Ended March 31, 2015**

Mr. Shone distributed copies of a booklet entitled, "Sussex County Investment Performance Report, March 31, 2015". The report includes information regarding the market environment for the first quarter of 2015, as well as quarterly and annual performances of the Pension and OPEB Plans. Although the report should be referenced for a more detailed analysis, discussion highlights include:

Mr. Shone referred members to Market Environment – 1st Quarter of 2015 (Tab 1).

The most significant news for the first quarter was the growth of the U. S. dollar, primarily, due to interest rates being higher on an inflation-adjusted basis than the rest of the world; foreign investors sought the higher yields offered by U. S. Treasuries. The impact of this results in lower costs for foreign goods, which is a positive factor from an inflation perspective. However, from a manufacturing perspective, the cost of U. S. goods would be more expensive and negatively impact the manufacturing industry. From an investment perspective, earnings from overseas investments would be devalued and adversely impact international investments. International stocks, however, significantly outperformed U. S. stocks for the first quarter. Oil prices continued to decline as supply outpaced demand; crude oil ended the quarter below \$48 per barrel, down nearly 11 percent from year-end 2014.

Mr. Baker entered the meeting.

The U. S. Real Gross Domestic Product grew at .02 percent, well below expectations. Equities outperformed fixed income. The weakest returns for the year were small-cap stocks that were up 8.2 percent, as compared to mid-cap – up 13.7, and large-cap – up 12.3 percent. For the quarter, large-cap was the poorest performer, up only .5 percent. The County is broadly diversified across these asset classes, being slightly weighted in mid-cap stocks.

Mr. Shone directed members to the Pension Fund Performance Report (Tab II).

As of March 31, 2015, the ending market value of the Pension Plan was \$73.3 million and realized a first quarter gain of \$1.7 million, or a 2.4 percent return; and a one-year gain of \$5.7 million (net), or an 8.4 percent return. The County continued to have very strong peer group performance: 1 year – top 7 percent, 3 years – top 13 percent, and 5 years – top 17 percent. Mr. Shone noted that the County's Pension Plan ranked at the top of all public funds of all sizes.

The new Vanguard funds were added to return as small and mid-cap stocks outperformed large-cap; the State Pool continued its strong performance.

At this point in the meeting, Mr. Shone discussed a separate handout entitled, "Sussex County Pension", which addressed an \$850,000 cash excess resulting from the difference between the County's pension contribution and the actual benefit payments. Any investment of this cash would need to take place before June 30, 2015. Discussion was held regarding allocations and targets; possible returns realized (bonds versus equities); current laddered bond investment approach and possibly shortening the average maturity of 4 years; postpone decision to allow further discussion at August meeting – the \$850,000 represents only 1 percent of the total pension fund; rebalancing recommendation is consistent with investment policy; and poor equity returns will have a negative impact on funding levels. Mr. Shone suggested three options: invest in bonds, leave in cash, or invest in equities.

A Motion was made by Mr. Leahy, seconded by Ms. Ryan, that the Sussex Pension Fund Committee recommend to the Sussex County Council to invest the excess \$850,000 Pension Plan contribution with Wilmington Trust Fixed Income.

Motion Adopted: 1 Nay, 6 Yea

Vote by Roll Call: Mr. James, Nay; Ms. Brewington, Yea; Mr. Baker, Yea;
Mr. Leahy, Yea; Ms. Ryan, Yea; Mr. Lawson, Yea;
Ms. Jennings, Yea

With the County's Pension Plan having such a consistent high peer group performance, Mr. Leahy questioned if steps were in place to protect the plan under various market conditions, and suggested further discussion in August.

The ending market value of the Sussex County Pension Plan as of March 31, 2015 was \$73,290,810, which included DuPont Capital Investment - \$14,158,210, Operating Account - \$122,886, State of Delaware Investment Pool - \$45,996,302, Vanguard Extended Market Index - \$3,060,138, Vanguard Mid Cap Value - \$2,576,715, Wilmington Trust Bonds - \$7,376,558, and Wilmington Trust Short Term - \$0.

As of March 31, 2015, Sussex County's Pension Asset Allocation included: State of Delaware Investment Pool – 62.8 percent; Cash – 0.2 percent; Domestic Fixed Income – 10.1 percent; and Domestic Equity – 27.0 percent.

For the year, the Pension Fund realized an 8.4 percent return and ranked in the top 7 percent nationwide.

Mr. Shone referred members to the OPEB Fund Performance Report (Tab III).

As of March 31, 2015, the ending market value of the OPEB Plan was \$30.8 million and realized a first quarter gain of \$544,000, or a 1.9 percent return; and a 1 year gain of \$2.2 million (net), or a 7.6 percent return. During the first quarter, a 65 percent equity target was implemented, and a strong performance was realized by Thornburg Global Opportunities. The first quarter also saw Target Small Capitalization Fund Manager changes. Mr. Shone reminded members that Peirce Park recommended this change because Target originally had a multiple manager approach, but ultimately went to one. International equities outperformed domestic; the County's Plan has a lower target to international equities than similar plans.

Looking ahead, the County may want to consider terminating the Target Small Capitalization Value Fund and replace with an index fund.

The OPEB Plan ranked in the 83rd percentile for the first quarter, and in the 24th percentile for one-year. Thornburg continued to have outstanding performance and ranked in the 6th percentile for the quarter; Thornburg has been taken off Peirce Park's watch list as reported at February's meeting, but Peirce Park will continue to provide close monitoring. American Funds International ranked in the 95th percentile; it was noted that Peirce Park will also monitor this fund as well.

Mr. Baker questioned the "Net Addition/Withdrawals" reflecting negative numbers for the OPEB Plan, which implies that the plan is drawing on principle. With such good returns, Mr. Shone noted that the annual required contribution goes down while benefit payments continue to increase. Mr. Jennings noted that the County made a \$2.2 million contribution with only \$1.6 million in benefit payments; timing may reflect the negative numbers.

3. FY 2015 Contribution and Rebalancing

Mr. Shone had been requested to present a possible alternative to the Target Small Capitalization Value fund. The report, “Sussex OPEB – Small Cap Value – May 2015”, presents a comparison between Target and Vanguard Small Cap Value Index.

The below manager comparison was provided as of March 31, 2015:

	Target Small Capitalization Value	Vanguard Small Cap Value Index
Subadvisor	QMA	
Location	Newark, NJ	Malvern, PA
Firm Inception	1975	1975
Firm Assets (\$B)	118	3,183
Style	Quantitative & Fundamental, Bottom-Up	Passive
Strategy Inception	1993	1998
Strategy Assets (\$B)	2.1	16.3
Fees (Expense Ratios for Mutual Funds)	0.68%	0.09%
Vehicle	Mutual Fund	Mutual Fund
Preferred Benchmark	Russell 2000 Value Index	CRSP U.S. Small Cap Value Index
# of Holdings	411	826

Cumulative Returns Annualized (%) include:

	Q1	1 Year	3 Years	5 Years	7 Years
Target	2.7	7.3	15.2	13.8	10.6
Vanguard	3.5	10.6	18.3	15.1	11.2
Russell 2000 Value	2.0	4.4	14.8	12.5	8.9

Yearly Returns (%) include:

	2008	2009	2010	2011	2012	2013	2014
Target	-27.5	26.7	23.6	-0.5	14.1	35.9	5.9
Vanguard	-32.1	30.3	24.8	-4.1	18.8	36.6	10.6
Russell 2000 Value	-28.9	20.6	24.5	-5.5	18.1	34.5	4.2

A Motion was made by Mr. Leahy, seconded by Mr. Baker, that the Sussex County Pension Fund Committee recommend to the Sussex County Council to close the Target Small Capitalization Value Fund and transfer all funds to Vanguard Small Cap Value Index.

Motion Adopted: 7 Yea.

Vote by Roll Call: Mr. James, Yea; Ms. Brewington, Yea; Mr. Baker, Yea; Mr. Leahy, Yea; Ms. Ryan, Yea; Mr. Lawson, Yea; Ms. Jennings, Yea

A Motion was made by Mr. Leahy, seconded by Ms. Ryan, that the Sussex County Pension Fund Committee recommend to the Sussex County Council to invest the \$675,000 excess OPEB Plan contribution with Vanguard Institutional Index Fund (\$170,000), Fixed Income (\$455,000), and any remaining funds held in cash.

Motion Adopted: 7 Yea.

Vote by Roll Call: Mr. James, Yea; Ms. Brewington, Yea; Mr. Baker, Yea;
Mr. Leahy, Yea; Ms. Ryan, Yea; Mr. Lawson, Yea;
Ms. Jennings, Yea

Ms. Jennings thanked Mr. Shone for his presentation.

4. **Additional Business**

A. Mr. Leahy inquired as to the adequateness of the County's pension contribution levels. It was noted that due to new GASB regulations, June 30, 2015 is the new measurement date. Ms. Jennings mentioned that a new actuary study will be performed which will closely review all aspects of the County's Pension Fund. For the current budget year, the County is contributing above the required contribution, or approximately 113 percent. Currently, the County uses the "Projected Unit Credit Cost Method" as their calculation method; for GASB 67 and 68 reporting, the "Entry Age Method" will become the required method. Mr. Shone reiterated that the County's OPEB Plan is one of the highest funded in the country.

B. As a result of discussion held at February's meeting regarding County paramedics possibly switching to the State's Pension Plan, Mr. James inquired as to their decision. Ms. Jennings explained that she had presented the same report to the paramedics that had been given to both the Pension Committee and Council, with the recommendation not to switch to the State due to the detrimental impact. Ms. Jennings noted that the County Paramedics valued the County's recommendation and were in agreement to remain with the County's Pension Plan.

5. **Adjourn**

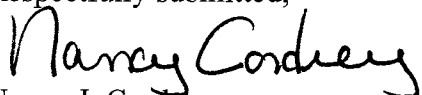
At 11:10 a.m., a Motion was made by Mr. James, seconded by Mr. Leahy, to adjourn.

Motion Adopted: 7 Yea.

Vote by Roll Call: Mr. James, Yea; Ms. Brewington, Yea; Mr. Baker, Yea;
Mr. Leahy, Yea; Ms. Ryan, Yea; Mr. Lawson, Yea;
Ms. Jennings, Yea

The next meeting of the Pension Fund Committee is scheduled for August 20, 2015, at 10:00 a.m. in the Sussex County Council Chambers.

Respectfully submitted,



Nancy J. Cordrey
Administrative Secretary