



## **PENSION FUND COMMITTEE**

### ***Minutes of Meeting***

**August 20, 2020**

The Sussex County Pension Fund Committee met on August 20, 2020 at 10:00 a.m. in the County Council Chambers, Georgetown, Delaware. Those in attendance included members: Gina Jennings, Todd Lawson, Karen Brewington, Kathy Roth, David Baker, Kathleen Ryan and Mitchell Rogers, as well as Michael Shone and Pat Wing of Marquette Associates, the County's Pension Investment Consultant.

On August 12, 2020, 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.

1. **Approval of Minutes**

The minutes of May 14, 2020 were approved by consent.

2. **Performance Reports of the Pension and OPEB Funds**

Prior to today's meeting, Committee members were emailed copies of Marquette Associates' report entitled, "Sussex County Quarterly Performance Report as of June 30, 2020", as well as portfolio updates (hard copies were distributed at the meeting); these materials were accessible to the public on the County's website prior to the meeting.

The Quarterly Performance Report includes information regarding the market environment for 2020, as well as quarterly performances of the Pension and OPEB Plans. The report should be referenced for a detailed analysis.

Mr. Wing referred members to Exhibit II – Market Environment. Information included: U. S. Economy, Global Economy, Global Asset Class Performance, U.S. Equity Markets, U.S. Fixed Income and Global Index Returns.

It was noted that economic activity fell during the global coronavirus pandemic, with the gross domestic product decreasing a historic 33 percent during the second quarter; the majority of which is contributed to reduced consumer spending. The unemployment rate, peaking at 15 percent and currently 10 percent, deteriorated

during the second quarter as well. Economists, however, are expecting a rebound in the second half of 2020. Retail sales improved toward the end of the quarter, with continued economic recovery dependent on the continual reopening of the economy. The amount of federal spending, or fiscal stimulus for Covid-19, has been approximately 3.5 percent of the gross domestic product. There was a strong rebound in equity markets for the second quarter: U. S. equities were up 22.0 percent; international equities: 16.2 percent, and emerging market equities: 18.1 percent. U.S. Bonds were up almost 3 percent for the quarter, with high yield bonds realizing an increase of 10.2 percent (of importance, is the County's allocation to high yield bonds in mid-March and early April). Growth stocks outperformed value stocks during the second quarter, which is an historical anomaly. It was noted that only 5 stocks have driven the gains in growth stocks, Facebook, Amazon, Apple, Microsoft, and Google, returning more than 25 percent, while the remaining 495 stocks of the S&P 500 were down nearly 10 percent.

Mr. Wing directed members to Exhibit III – Sussex County Employee Pension Plan.

### Observations

- As of June 30, 2020, the Pension Fund Market Value was \$120.5 million
  - Q2-20: The Fund gained \$13.5 million, with a return of 12.6 percent (net of fees) vs. a 14.0 percent policy index
  - Year to Date: The Fund lost \$3.2 million, with a return of a negative 2.6 percent vs. a negative 1.6 percent policy index
- Positive attribution for the quarter was from: Fixed Income (the addition of an allocation to high yield bonds occurred in quarters 1 and 2).
- Negative attribution for the quarter from:
  - Underweight to equity and corresponding overweight to fixed income
  - Value tilt with U.S. equities
  - More defensive active equity managers
- Q2 Fund Changes
  - Continued rebalancing back into equities in April
  - Fixed income structure changes in June
  - Changed real estate income to distribution from reinvest

### Looking Ahead

- Equity manager lineup changes in July
- Private infrastructure discussion

In reviewing asset allocations versus targets, it was noted that U. S. equities, Global equities and non-U.S. equities were in line with the pension policy. Regarding peer rankings, the County realized a total fund composite of 12.6 percent and ranked in the 60<sup>th</sup> percentile for the quarter and in the 53<sup>rd</sup> percentile year-to-date. It was also noted that earlier this year, the pension fund added real estate to its portfolio with Clarion Lion Properties, which was down 2.0 percent for the quarter and one percent year-to-date.

Mr. Wing referred members to Exhibit IV - Sussex OPEB Plan.

#### Observations

- As of June 30, 2020, the OPEB Fund Market Value was \$47.8 million
  - Q2-20: The Fund gained \$5.4 million, returning 12.8 percent vs. a 14.0 percent for the policy index
  - Year to Date: The fund lost \$1.3 million returning a negative 2.7 percent vs. a negative 1.6 percent for the policy index
- Positive attribution for the quarter from: Fixed Income
- Negative attribution for the quarter from:
  - Underweight to equity and corresponding overweight to fixed income
  - Value tilt with U.S. equities
  - More defensive active equity managers
- Q2 Fund Changes
  - Continue rebalancing back into equities and adding to high yield in April
  - Changed real estate income to distribution from reinvest

#### Looking Ahead

- Equity manager lineup changes in July
- Trimmed high yield in August
- Private infrastructure discussion

Similar to the pension fund, the OPEB fund asset allocations are in-line with policy targets. Regarding peer rankings, the County realized a total fund composite of 12.8 percent for the second quarter and ranked in the 57<sup>th</sup> percentile and in the 54<sup>th</sup> percentile year-to-date.

Mr. Wing directed members to separate Portfolio Updates (as of July 31, 2020) for both the Pension and OPEB Funds. Lengthy review took place regarding the various managers, total fund composites, market value, policy percentages, benchmarks, and returns for both Plans. For the Pension Plan, the total fund composite realized a return of 3.6 percent vs. a policy benchmark of 3.7 percent. A new high yield manager was added to the fixed income composite, Chartwell. Regarding the OPEB Plan, the total fund composite realized a return of 3.7 percent vs. a policy benchmark of 3.9. Within the fixed income composite, the allocation to high yield bonds realized a return of 5.1 percent.

### 3. **Discussion on Private Infrastructure Investment**

Prior to today's meeting, Committee members were presented with a report entitled, "Private Infrastructure – Sussex County", August 2020 (hard copies were distributed at the meeting). The Committee held lengthy discussion at their February 2020 meeting regarding the addition of an infrastructure asset class to its portfolio. Due to the recent COVID-19 pandemic and its impact on the economy, continued discussion was not held at the May 2020 meeting.

Mr. Wing noted that the report contained 3 components: 1. Proposal (Core Fixed Income Yields and Returns, Proposed Investment Policy Changes, and Asset Allocation Targets), 2. Private Infrastructure (The “Backbone” of an Economy, Need for Infrastructure Investments, Infrastructure Sectors, Infrastructure Characteristics, How to Invest in Infrastructure, Infrastructure Unlisted vs. Listed, Attractive Investment Profile, Sources of Global Infrastructure Returns, Correlations, Infrastructure Benefits vs. Risks, and COVID-19 Impact, ) and 3. Example: JP Morgan IIF (Overview, Portfolio Geography and Sub-Sectors, Portfolio Investments, 2019 & 2020 YTD Select Transaction Activity, Historical Return and Yield Summary, and Key Terms).

The goal is to increase the likelihood of success by meeting the assumed rate of return without taking too great a risk. It is proposed to add a 5 percent allocation to private infrastructure (more than 40 percent of the institutional clients serviced by Marquette’s West Chester office have invested, or approved an allocation, in private infrastructure, with allocations ranging from 4 to 5 percent). Two options were presented: lower fixed income by 3 percent and equities by 2 percent, or lower fixed income by 5 percent.

Asset allocation targets were reviewed; current allocations consist of U.S. Equities, Non-U.S. Equities, Core Real Estate, Private Infrastructure and U. S. Fixed Income. These targets took into consideration the two previously noted options and their impact. Infrastructure Sectors consist of economic (transportation, energy & utility, and communications) and social (municipalities, universities, schools, and hospitals).

Mr. Wing and Mr. Shone addressed concern expressed regarding current lower rates of return and the pressure to take on higher risk. Ms. Jennings noted that the County should not take on any additional risk as the Pension Plan is highly funded and the County continues to contribute above that required by the actuary. Mr. Shone stated that the Federal Reserve is doing everything possible to prevent a depression. The unpredictability and variables associated with the rising and lowering of interest rates was discussed by Mr. Wing.

Mr. Wing continued his review of the report in its entirety, with discussion by the Committee.

It was the consensus of the committee to wait until after the upcoming presidential election to make a decision regarding the possible addition of a Private Infrastructure asset class to the County’s portfolio.

Ms. Jennings stated that November’s agenda will include further Private Infrastructure discussion, and that the County’s actuary (Cheiron) will also be in attendance. Everyone was thanked for their participation in today’s meeting.

4. **Additional Business**

None

5. **Adjourn**

At 12:01 p.m., a Motion was made by Mr. Rogers, seconded by Mr. Lawson to adjourn. Motion Adopted by voice vote.

The next meeting of the Pension Committee is scheduled for November 19, 2020, at 10:00 a.m. in the Sussex County Council Chambers.

Respectfully submitted,

Nancy J. Cordrey  
Administrative Secretary