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PENSION FUND COMMITTEE

Minutes of Meeting

August 16, 2018

The Sussex County Pension Fund Committee met on August 16, 2018 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, Hugh Leahy, and Kathleen Ryan. Also in attendance was Michael Shone of Marquette Associates, the County's Pension Investment Consultant. Committee member David Baker was unable to attend.

On August 8, 2018, 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 February 15, 2018 minutes were approved by consent. (Note: The quarterly meeting in May was cancelled).

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

Mr. Shone commended the County in its proactive approach in making additional contributions to its Pension and OPEB Plans during periods of economic growth. Ms. Jennings noted that Council had approved an additional \$10 million contribution – above the normal contribution – to the Pension Fund during FY 2019; during FY 2018, an additional \$5 million contribution was made to both the Pension and OPEB Plans.

Mr. Shone distributed hard copies of a booklet entitled, "Sussex County Quarterly Performance Report as of June 30, 2018" (copies were emailed to members prior to today's meeting).

The Quarterly Performance Report includes information regarding the market environment for 2018, as well as quarterly performances of the Pension and OPEB Plans. The report should be referenced for a detailed analysis.

Mr. Shone briefly reviewed Exhibit I – Marquette Update. He made note that it had been two years since Peirce Park had merged with Marquette Associates, and that Marquette Associates is now an \$180 billion firm.



Mr. Shone referred members to Exhibit II – Market Environment. Information included: U. S. Economy, Monetary Policy, Global Economy, Global Asset Class Performance, U.S. Markets, and Global Index Returns. Mr. Shone noted the Gross Domestic Product grew at 4.1 percent during the last quarter, which reflects a strong economy; expectations are that growth for the remainder of 2018 will be at approximately 3 percent, with a deeper correction expected in the future. There has been a rise in interest rates, along with a decrease in unemployment. The tight labor market will result in higher salary demands, which, ultimately, can impact pension liabilities. The Federal Reserve has had two interest rate increases for the year, with two additional rate hikes expected for the remainder of the year. Equity returns included: U.S.: 3.9 percent for the quarter and 3.2 year-to-date, with international and emerging markets realizing negative returns.

Mr. Shone directed members to Exhibit III – Sussex County Employee Pension Plan. As of June 30, 2018, the Pension Plan had a market value of \$94.8 million. There was an investment gain during the second quarter of \$1.4 million, with a one-year gain of \$7.1 million. The Fund realized a 1.4 percent return for the second quarter versus a 1.3 percent policy index; for the one-year: 7.9 percent versus 8.1 percent. Growth stocks continued to substantially outperform value stocks. Portfolio changes in April included: \$8.7 million was liquidated from the State of Delaware Investment Pool, further diversification with global equities (MFS and Schrodgers), and monies were transferred into Wilmington Trust. Investment management fees have significantly decreased over past 3 years, going from 52 basis points to 33, which are slightly lower than Marquette’s other clients and realizing a savings of \$180,00 per year.

Regarding peer rankings, the County realized a total fund composite of 1.4 percent and ranked in the top 15th percentile out of 203 public funds for the 2nd quarter; 0.9 percent year-to-date (29th percentile versus a policy index of 53rd percentile); 3 years – 6.2 percent (64th percentile); 5 years: 7.8 percent return which is above the actuarial assumed rate of return (36th percentile). The State of Delaware Investment Pool realized returns of 1.7 percent for the second quarter versus a policy index of 0.9 percent.

Mr. Shone reviewed the separate handout regarding returns for the Pension Plan as of July 31, 2018. In July, the fund realized an increase of almost \$2 million, with an ending market value of \$96.8 million, slightly outperforming the benchmark at 2.1 percent versus 2.0 percent. In July, value stocks significantly outperformed growth stocks.

At this point, it was the consensus of the Committee to consider the rebalancing of the Pension Fund.

3. **Rebalance Pension Fund With Additional Contribution**

Committee members were given copies of a handout showing the proposed rebalancing of the additional \$10 million contribution included in the County’s FY 2019 Budget for the Pension Plan. The recommendations take into account the County’s Investment Policy Statement and the portfolio’s target allocations.

A Motion was made by Mr. Leahy, seconded by Ms. Ryan, to recommend that the Sussex County Council approve the rebalancing of the Pension Fund with the additional \$10 million contribution as presented: Vanguard S&P 500 Index Adm - \$1,325,000, Vanguard Mid Cap Value Index - \$550,000, MFS Low Volatility Global

Equity - \$350,000; Schroders Global Multi-Cap Quality - \$375,000, Vanguard Total International Stock Index Adm - \$1,175,000, Wilmington Trust Fixed Income - \$2,025,000, and State of Delaware Investment Pool - \$4,125,000.

Motion Adopted: 6 Yeas.

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

When questioned regarding unfunded liabilities, Ms. Jennings noted that the Pension Fund – with the additional contributions made during FY 2018 (\$5 million) and FY 2019 (\$10 million) – may increase from 79 percent funded to approximately 93 percent. These estimates are based on the 2017 Actuary’s Report.

2. **Performance Report – OPEB**

Mr. Shone resumed reviewing the Performance Report and referred members to Exhibit IV - Sussex Post-Employment Benefit Plan. There was a second quarter investment gain of \$463,000, with an ending market value of \$43.2 million as of June 30 (as of July 31, the ending market value was \$44.2 million). For the year, the fund grew by \$2.8 million, and the month of July alone realized a \$960,454 gain. The Plan saw a return of 1.1 percent versus a policy index of 1.4 for the second quarter, with a one-year gain of \$2.8 million and a return of 7.1 percent versus an 8.0 percent policy index. Portfolio changes as of April 1st included a 4 percent decreased allocation to U.S. equities and an identical increased allocation to non-U.S. equities. It was noted that all active managers outperformed their benchmark. There are no recommended changes to the OPEB Plan at this time.

Mr. Shone briefly reviewed peer group rankings: for the quarter and three-year, the County is slightly ahead of average; for the 5-year – average; year-to-date and one-year – below average. The OPEB Plan has Investment Management Fees of 22 basis points, which is the lowest of Marquette’s clients.

Discussion was held regarding the Plan’s tilt toward value stocks; it was noted earlier that value tilt detracted from returns.

4. **Additional Business**

Ms. Jennings reported that the County’s Actuary would be in attendance at the November meeting to present their annual report.

5. **Adjourn**

At 10:50 a.m., a Motion was made by Mr. Leahy, seconded by Ms. Brewington, to adjourn. Motion Adopted by Voice Vote.

The next meeting of the Pension Committee is scheduled for November 15, 2018, at 10:00 a.m. in the Sussex County Council Chambers.

Respectfully submitted,

Nancy J. Cordrey
Administrative Secretary