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PENSION FUND COMMITTEE

Minutes of Meeting

August 17, 2023

The Sussex County Pension Fund Committee met on August 17, 2023, at 10:00 a.m. by teleconference. Those present included members: Gina Jennings, Todd Lawson, Karen Brewington, Kathy Roth, Robin Griffith, and Mitch Rogers as well as Pat Wing, Managing Partner of Marquette Associates, the County's Pension Investment Consultant.

Ms. Jennings called the meeting to order.

1. **Approval of Minutes**

   The minutes of the May 18, 2023, meeting were approved by consent.

2. **Public Comment**

   There was no public comment.

3. **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, 2023", as well as portfolio updates. All reports were posted to the website prior to the meeting.

   The Quarterly Performance Report includes information regarding the market environment for 2023, 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 the Market Environment. U.S. economic growth accelerated slightly in Q2, with real GDP growing at an annual rate of 2.4 percent. While there was a slow down in consumer spending, strong business investment and state and local spending supported strong economic activity. Many economists have been expecting a recession given the current Federal Reserve rate-hiking cycle has been one of the most aggressive in decades; however, what may have been underappreciated is the strength of corporate and household budgets. Since fixed-rate mortgages account for about 67% of total household debts, consumers have been shielded to some degree from rising rates. Other areas of the economy, such as small corporations, do-not share the same benefits of long-term, fixed rate debt. Higher rates are likely impacting small corporations, with U.S. corporate bankruptcy filings through April higher than the first four months of any year since 2010.

   Mr. Rogers questioned whether we are over exposed to the magnificent seven (Amazon, Google, Meta, etc.) or are we strategically less exposed because we believe in the near future that their earnings will not keep up? Mr. Wing stated that their earnings may continue to outpace the broader market but given their overvaluation, he does not think the growth will justify their overvaluation and, therefore, likely lead to long-term underperformance by these stocks.

Mr. Rogers also questioned how Marquette felt about a possible recession? Mr. Wing stated that they are of the mind now that a recession is still more likely than not; probably looking at the first six months of next year. The labor market is still pretty tight but is slowing, and a deceleration which in turn could lead to more muted income for consumers and therefore consumer spending growth. One of the other things that have supported the economy is that a lot of the policies passed in 2022, the spending for that did not begin until this year and the outlays have been a lot larger than projected. This in turn means the government is running in a higher deficit which is supporting economic growth but it should begin to normalize next year. From a market perspective, typically the credit markets or sub-investment rate markets tend to give an earlier sign than equity markets about pending economic weakness. Things that are looked at are things like the spreads on high-yield bonds or the additional yield over treasuries and what investors are paying for those bonds.

Mr. Wing directed members to the Pension Fund Performance Report.

Observations as of June 30, 2023, included:

- The market value was $147.0 million. The portfolio realized a net investment change of 5.1 million, returning 3.5% (net) vs. policy index of 4.0%. As far as the fiscal year is concerned, the return ended around 9.5% which is comfortably above the actuarial discount rate of 6.75%. From a return perspective, coming in above the assumption should be helpful for the funded ratio of the pension as well as the OPEB.
- Positive attribution for the quarter resulted from asset allocation and outperformance by most active Global Equity managers.
- Negative attribution for the quarter resulted from equity structure and underperformance by Clarion.
- Looking Ahead: Additional IIF contribution

Mr. Rogers asked where we would end up with the allocation in real estate and if the concern in commercial real estate is malls or office space? Mr. Wing stated that malls were the concern pre-2020, due to the retail effect or Amazon effect – more recently malls have been pretty stable over the past couple quarters. However, over the last several months the big weakness has been in the office sector given the work from home phenomenon. Mr. Wing mentioned that the County Council approved the new Investment Policy Statement asset allocation targets, moving funds out of real estate into infrastructure, in June.

Mr. Wing directed members to the OPEB Fund Portfolio Overview.

Observations as of June 30, 2023, included:

- The market value was $59.7 million. The portfolio realized a net investment change of 2.0 million, returning 3.5% (net), vs. policy index of 4.0%
- Positive attribution for the quarter resulted from asset allocation as well as outperformance by most active Global Equity managers.
- Negative attribution for the quarter resulted from equity structure and underperformance by Clarion.
- Looking Ahead additional IIF contribution

4. **<u>Adjourn</u>**

At 10:49 a.m., a Motion was made by Mr. Lawson, seconded by Ms. Brewington to adjourn. Motion Adopted by Voice Vote.

The next meeting of the Pension Committee is scheduled for November 16, 2023, at 10:00 a.m. in Council Chambers.

Respectfully submitted,

Bobbi L. Albright
Executive Administrative Assistant