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Sussex County

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PENSION FUND COMMITTEE

Minutes of Meeting

February 20, 2020

The Sussex County Pension Fund Committee met on February 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, David Baker, Kathleen Ryan and Mitchell Rogers. Also in attendance was Patrick Wing of Marquette Associates, the County's Pension Investment Consultant. Committee member Kathy Roth was unable to attend today's meeting.

(Note: At the Council meeting of February 18, 2020, Mr. Baker and Ms. Roth were reappointed for 4-year terms, and Mr. Rogers was appointed for a 4-year term to fill the vacancy left by Mr. Leahy's resignation.)

On February 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 November 19, 2019 were approved by consent.

Ms. Jennings noted that Agenda items 2 and 3 would be discussed in reverse sequence.

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

Mr. Wing distributed hard copies of the report entitled, "Sussex County Quarterly Performance Report as of December 31, 2019" (copies were emailed to members prior to today's meeting).

The Quarterly Performance Report includes information regarding the market environment for 2019, 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, and Global Index Returns. It was noted that 2019 saw a slowing economy, with no change in the leading economic indicators and little to no corporate



earnings growth. Mr. Wing stated that the manufacturing sector was most impacted by the economic slowdown. Regarding asset class returns for the fourth quarter, U. S. equities were up 9 percent; emerging market equities up 12 percent; and U.S. Bonds were flat for the quarter, with an increase of 9 percent for the year. Mr. Wing noted that a third to half of the strong gains seen in U.S. equity markets in the fourth quarter of 2019 were realized by four industry groups, and nearly 26 percent of the J & P calendar year returns were a result of only five stocks (Apple, Microsoft, Facebook, JP Morgan, and Amazon).

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

Observations

- As of December 31, 2019, the Pension Fund Market Value was \$123.8 million
 - Q4-19: The Fund gained \$6.0 million, with a return of 5 percent vs. 6 percent for the policy index (the State Pool accounted for 75 to 80 percent of the return difference)
 - 2019: The Fund gained \$18.0 million, with a return of 17.3 percent vs. 21.0 percent for the policy index (again, the State Pool account for 75 to 80 percent of the return difference)
- Liquidation of the State of Delaware Investment Pool
- Fund transitioned to OCIO lineup on December 20th

Looking Ahead

- Funded 5 percent allocation to Clarion Lion Properties Fund
 - Performance start date of 1/2/20
- Investment Policy Statement Addendum effective January 1, 2020
 - 49 percent U.S. Equity, 16 percent Non-U.S. Equity, 5 percent Real Estate, 29 percent Fixed Income and 1 percent cash)

Mr. Wing reviewed the Summary of Cash Flows, Net Return Summary, Asset Allocations vs. Targets, which recapped the above Pension Fund information. It was also noted that ending November 30, 2019, the State's Investment Pool year-to-date returns were 11.3 percent versus a policy index of 17.4 percent.

Mr. Wing referred members to Exhibit IV - Sussex OPEB Plan. It was noted that the OPEB Plan did not have an allocation with the State.

Observations

- As of December 31, 2019, the OPEB Fund Market Value was \$49.2 million
 - Q4-19: The Fund gained \$2.6 million, with a return of 5.6 percent vs. 6.0 percent for the policy index
 - 2019: The Fund gained \$8.2 million, with a return 20.0 percent vs. 20.6 percent for the policy index

- Fund transitioned to OCIO lineup on December 19th

Looking Ahead

- Funded 5 percent allocation to Clarion Lion Properties Fund
 - Performance start date of 1/2/20
- Investment Policy Statement Addendum effective 1/1/20
 - 49 percent U.S. Equity, 16 percent Non-U.S. Equity, 5 percent Real Estate, 29 percent Fixed Income, 1 percent Cash

Again, Mr. Wing reviewed the Summary of Cash Flows, Net Return Summary, Asset Allocations vs. Targets, which reiterated the previous OPEB Fund information. In reviewing the Annualized Returns (Net), it was noted that quite a few of the managers were more recent additions, although two previous managers - Dodge and Cox & MFS Low Volatility - remain.

Mr. Wing directed members to separate Portfolio Updates (as of January 31, 2020) for both the Pension and OPEB Funds; both market values remained relatively flat, at \$124 million and \$49 million respectively. Lengthy review took place regarding the various managers, total fund composites, market value, policy percentages, benchmarks, and returns for both plans.

3. **Review 2019 Changes – Asset Allocation and Portfolio Changes**

Members were provided with copies of a report entitled, “Transition Review – Sussex County, February 2020” (copies were emailed to members prior to today’s meeting).

(Note: The Sussex County Council, at its December 17, 2019 meeting, accepted the recommendation from the Pension Committee to amend the Investment Policy Statements of both the Pension and OPEB funds to include Real Estate Investment Trusts and ultimately removing all funds from the State of Delaware Investment Pool. The Investment Policy Statements of the Pension and OPEB funds will have the following targets: U.S. Stocks – 49%, International Stocks – 16%, Fixed Income – 29%, Real Estate – 5%, and Cash – 1%. Council also approved to amend the contract with Marquette Associates to provide Consulting Plus services at a cost not to exceed 4 basis points.) Mr. Wing stated that authorization letters were executed to implement the changes prior to the year-end of 2019.

Mr. Wing briefly mentioned that the ‘Pension Transition’ charts reflects the changes that took place for the Pension Fund with the liquidation of the State Pool (i.e., previous assets, what and how much was liquidated in the rebalancing).

Overview of Changes: Pension

- Equity
 - U.S.
 - Still mostly index funds, but more defensive, particularly among large caps

- Global
 - o Increased allocation to existing managers
 - o Added Dodge & Cox Global Stock
- International
 - o Trimmed Vanguard Total International Stock Index Fund
 - o Added Hartford International Opportunities Fund
- Real Estate
 - Added Clarion Lion Properties Fund
- Fixed Income
 - Added investment managers for increased diversification

Again, Mr. Wing briefly mentioned that the “OPEB Transition” chart reflects the mechanics of the changes that took place to reposition the portfolio to best ideas.

Overview of Changes: OPEB

- Equity
 - U.S.
 - o Still mostly index funds, but more defensive, particularly among large caps
 - Global
 - o Trimmed allocation to existing managers
 - o Replaced Artisan Global Opportunities Fund with Virtus Vontobel Global Equity Fund
 - International
 - o Trimmed Vanguard Total International Stock Index Fund
 - o Added Hartford Schroder International Multi-Cap Value Fund
- Real Estate
 - Added Clarion Lion Properties Fund

As requested, Marquette Associates will send out the weekly Allocation Reports to Committee members.

It was noted that the investment fees for the Pension Fund were 26 basis points, with the 29 basis points for the OPEB Fund. Marquette’s fees for both the OPEB and Pension funds are 14 basis points for the first \$100 million and 9 basis points thereafter, which includes the additional 4 basis points for their Consulting Plus services.

Ms. Jennings inquired as to the next asset class that could be added to the County’s portfolio. Lengthy discussion was held, with the consensus being that Marquette Associates will make a presentation at next quarter’s meeting held in May on adding an infrastructure asset class.

Ms. Jennings thanked Mr. Wing for his presentation.

4. **Additional Business**

Mr. Rogers questioned if it was typical to have two separate pension funds, and the percentage of funding for both plans. Ms. Jennings explained that it was required to have separate plans, i.e. Pension and OPEB. The Pension Plan pays the retirement wages, and the OPEB is for pensioner health and life insurance benefits. She went on to explain that some retirees will be eligible for pension benefits, but not for health insurance benefits. Additionally, as of June 30, 2019, the Pension Plan is 97.2 percent funded, and the OPEB Plan is 84 percent funded.

5. **Adjourn**

At 11:09 a.m., a Motion was made by Ms. Ryan, seconded by Mr. Lawson, to adjourn. Motion Adopted by Voice Vote.

The next meeting of the Pension Committee is scheduled for May 14, 2020, at 10:00 a.m. in the Sussex County Council Chambers.

Respectfully submitted,

Nancy J. Cordrey
Administrative Secretary