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# PENSION FUND COMMITTEE

***Minutes of Meeting***

**May 16, 2024**

The Sussex County Pension Fund Committee met on May 16, 2024, at 10:00 a.m. by teleconference. Those in attendance included members: Gina Jennings, Todd Lawson, Kathleen Ryan, Lance Rogers, Karen Brewington, Kathy Roth, and Robin Griffith as well as Pat Wing of Marquette Associates, the County's Pension Investment Consultant.

Ms. Jennings called the meeting to order.

1. **Approval of Minutes**

   The minutes of the February 15, 2024, 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 March 31, 2024," 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 2024, 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 continued to decelerate in Q1 with real GDP increasing at an annual rate of 1.6%. Net exports and inventories detracted about 1.2 percentage points from the headline number, masking a relatively mild slowdown in domestic demand compared to Q4. Economic resilience seems largely due to lower interest-rate sensitivity among households and corporations than history would suggest. Factors driving the worse than expected inflation were wage growth – even though it has decelerated it still remains high, energy prices and increasing supply chain pressures.

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

Observations as of March 31, 2024, included:

- The market value was $163.8 million. The portfolio had a Q1-24 net investment change of $8.1 million, returning 5.2% (net) vs. policy index of 5.2%. Fiscal year to date, net investment change of $16.5 million, returning 11.2% (net), vs. policy index of 11.2%.
- Positive attribution for the quarter resulted from asset allocation and outperformance by most active equity mangers as well as outperformance by Wilmington Trust.
- Negative attribution for the quarter resulted from Non-U.S. Equity structure and underperformance by Clarion LPF.
- Looking Ahead: Infrastructure funding migrating to 70/30 split by the end of the year.

Mrs. Jennings stated that the real estate allocation was changed approximately a year ago and it has taken time to liquidate some of that and move to infrastructure. Mrs. Jennings questioned if there are any recommendations after the 30/70 split is reached to cut it even more? Mr. Wing stated we should revisit that at a meeting later this year to evaluate what the real estate market looks like at that point. Mr. Wing stated valuations have come down now around 20 percent or so and from a long-term perspective thinks there is a place for real estate. He also stated he would hesitate to do it now because in essence we couldn't get there more quickly than we are at the current moment. Mrs. Jennings understands that it takes time and wanted to get an idea when we should put it on the agenda for discussion. Mr. Wing felt that the November meeting would be a good time to add it to the agenda. Mr. Wing stated that he and Mrs. Jennings could discuss prior to that to see if it needs to be put on an earlier agenda.

Mr. Wing directed members to the OPEB Fund Portfolio Overview

Observations as of March 31, 2024, included:

- The market value was $66.3 million. The portfolio had a Q1-24 net investment change of $3.3 million, returning 5.2% (net), vs. policy index of 5.2%. Fiscal year to date, net investment change of $6.7 million, returning 11.2% (net), vs. policy index of 11.2%.
- Positive attribution for the quarter resulted from asset allocation and outperformance by most active equity managers as well as outperformance by Wilmington Trust
- Negative attribution for the quarter resulted from Non-U.S. Equity structure and underperformance by Clarion LPF
- Looking Ahead: Infrastructure funding migrating to 70/30 split by the end of the year.

April was very different than Q1. There was weakness in equity prices as the inflation data continued to come in a little worse than expected. Not only did fixed income continue to post negative returns giving an uptick in rates but equities finally seem to take notice of that data. For the month, the Pension and OPEB returned 2.5%, slightly beating the policy index, largely driven in the equity space, particularly the U.S. equity managers. Looking at the real estate allocation, it was 3.5% at the end of April. The target has been adjusted now that it is about three-quarters of the way to the 3%. From the infrastructure side of the equation, that contribution was made on April 1, leaving the allocation at the end of April a little north of 6% compared to 5.3% at the end of Q1. The portfolio is incrementally getting to new targets.

The portfolios continue to be positioned a little more defensively. Markets have reversed course in May, and if they continue to do so, Mr. Wing noted the likelihood of continuing to take a pretty disciplined rebalancing approach not just to ensure that the cash is there to be disbursed but also perhaps rebalance back into fixed incomes because interest rates are a little higher than what they were in the beginning of the year. Raising cash when times are good in anticipation that we will probably need more money in 12 months' time as the worst possible scenario would be having to raise cash after the markets have already declined.

Mr. Rogers asked if fixed income is as good as an opportunity as equity markets over the next year or so as interest rates start to come down? Mr. Wing stated on a relative basis fixed income appears more fairly valued than equity markets given where yields are at. Looking at historical metrics like GDP growth, inflation, and the yields on cash, the yields right now are in line with what investors would want to compensate them for those metrics; so on a relative basis, yes, fixed incomes is fairly valued. Equities are viewed as slightly overvalued here so from the comments earlier if equities continue to grind higher here, it will provide an opportunity to rebalance but not necessarily just have it go in the money market fund but rebalance in the fixed income given how rates have risen.

4. **Additional Business**

Mrs. Jennings welcomed Mr. Lance Rogers to the Pension Committee and stated with his strong financial background he will provide valuable insight.

5. **Adjourn**

At 10:37 a.m., a Motion was made by Mrs. Ryan, seconded by Mr. Lawson, to adjourn. Motion Adopted by Voice Vote.

Respectfully submitted,

Bobbi L. Albright
Executive Administrative Assistant