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PENSION FUND COMMITTEE

Minutes of Meeting

May 14, 2020

The Sussex County Pension Fund Committee met on March 14, 2020 at 10:00 a.m. by teleconference. 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 of Marquette Associates, the County’s Pension Investment Consultant.

Ms. Jennings called the meeting to order at 10:00 a.m. and welcomed everyone to the first ever virtual Pension Committee meeting. She stated that this meeting was being conducted electronically by means of a teleconference under the authority of Governor John C. Carney’s Declaration of a State of Emergency and Proclamation No. 17-3292. Pension Committee members and attendees were connected by phone and/or the internet and participating in real-time. Members of the public were able to connect using the telephone conference calling number that was advertised on this meeting’s agenda. Members of the public may listen and view this meeting using the regular Pension Committee’s broadcast found on the County’s website.

It was confirmed that attendees were present and connected to this virtual meeting.

On May 7, 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.

1. **Approval of Minutes**

The minutes of February 20, 2020 were approved by consent.

2. **Update on Pension Performance**

Today’s meeting focused on the global COVID-19 pandemic and its impact on the worldwide and national economy, as well as the County’s Pension and OPEB Plans.

Prior to today’s meeting, Committee members were emailed copies of Marquette Associates’ report entitled, “Sussex County Quarterly Performance Report as of March 31, 2020”, as well as portfolio updates; 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. Shone 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 came to a halt during the first quarter of 2020 due to the global coronavirus pandemic, with the gross domestic product decreasing 4.8 percent. Economists are expecting a 25.3 percent reduction in the second quarter, before, hopefully, rebounding in the last half of 2020. The significant impact to the service industry was noted, i.e., air travel and recreation services were down 80 and 87 percent, respectively. It was noted that until the current global health issue is resolved, a slowdown in the economy can be expected, however, Mr. Shone stated that the Federal Reserve is doing everything possible to prevent a depression, and banks are currently in better financial shape than in 2008.

Regarding asset class returns for the first quarter, U. S. equities were down 20.9 percent; international equities down 24 percent, emerging market equities down 23.6 percent; and U.S. Bonds were up 3.1 for the quarter, with an increase of 8.9 percent for the year. Despite the losses noted, Mr. Shone reported that the steps taken by the Committee during 2019 in increasing U. S. equities and decreasing international equities, did, in fact, lessen the overall negative impact. It was reported that growth stocks outperformed value, and large stocks realized better returns than small.

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

Observations

- As of March 31, 2020, the Pension Fund Market Value was \$107.0 million
 - Q1-20: The Fund lost \$16.0 million, with a return of negative 13.5 percent vs. a negative 13.8 percent for the policy index (prior to its liquidation, the State Pool did account for a portion of the loss reported; Consulting Plus, on the other hand, prevented a greater first quarter loss)
 - Trailing 1 Year: The Fund lost \$6.1 million, with a return of a negative 5.5 percent vs. a negative 4.6 percent for the policy index
- 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 1/1/20
- 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. Shone referred members to Exhibit IV - Sussex OPEB Plan.

Observations

- As of March 31, 2020, the OPEB Fund Market Value was \$42.5 million
 - Q1-20: The Fund lost \$6.8 million, with a return of a negative 13.8 percent matching the policy index
 - Trailing 1 Year: The Fund lost \$2.2 million, with a return of a negative 4.7 percent vs. a negative 4.8 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 1/1/20
- 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

During a discussion period regarding high yield bonds and stock investments, Mr. Shone directed members to separate Portfolio Updates (as of April 30) 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. Mr. Shone also discussed inflation versus interest rates, deflation versus inflation, and the purpose of cash within the portfolio (used to pay expenses and investment fees).

Due to market volatility, both the Employee Pension and OPEB Plans were rebalanced during the month of March. Mr. Shone reviewed the portfolio allocation summary as of February 21, 2020 and the steps taken throughout the month of March to accomplish the rebalancing. During the discussion, it was reported that real estate and equities offer protection against inflation.

Although it had been the intention of the Committee to discuss the addition of an infrastructure asset class to the County's portfolio, it was the consensus of the committee and Mr. Shone that no changes, with the exception of close monitoring, should be made to either the Pension or OPEB Plans at this time due to the recent global COVID-pandemic and its impact on the economy.

Ms. Jennings thanked everyone for their participation in today's meeting.

3. Adjourn

At 10:53 a.m., a Motion was made by Mr. Rogers, seconded by Ms. Ryan, to adjourn.

Motion Adopted: 7 Yeas.

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

The next meeting of the Pension Committee is scheduled for August 20, 2020, at 10:00 a.m. in the Sussex County Council Chambers.

Respectfully submitted,

Nancy J. Cordrey
Administrative Secretary