



# PENSION FUND COMMITTEE

AGENDAS & MINUTES

## PENSION FUND COMMITTEE

### *Minutes of Meeting*

*March 9, 2012*

The Sussex County Pension Fund Committee met on March 9, 2012, at 1:00 p.m. in the County Council Chambers, Georgetown, Delaware. Those in attendance included members: Susan Webb, Karen Brewington, Jeffrey James, David Baker, and Lynda Messick. Michael Shone of Peirce Park Group, the County's Pension Investment Consultant, was also in attendance. Absent members included Todd Lawson and Hugh Leahy.

On March 1, 2012, the Agenda for today's meeting was posted in the County's locked bulletin board located in the lobby of the County Administrative Office Building, as well as posted on the County's website.

### **1. New Member Orientation**

Ms. Webb welcomed Lynda Messick to the committee and introductions were made.

Ms. Webb reported that the Pension Fund Committee now has a link on the County's website. Information contained on the website includes committee membership, 2011 agendas and minutes, as well as the audio of each meeting beginning in 2012.

The 7-member Sussex County Pension Fund Committee now includes the County Finance Director (Susan Webb), County Administrator (Todd Lawson), County Human Resources Director (Karen Brewington), two Sussex County community members (Lynda Messick – CEO, Community Bank Delaware and Hugh Leahy, Jr. – Senior Vice President for Southern Delaware, Delaware Community Foundation), a current Sussex County employee (Jeffrey James, Director of Engineering Accounting), and a retired Sussex County employee who currently receives a County pension (David Baker, past County

Administrator). Ex Officio members (persons serving by virtue of the office they hold) include the County Administrator, County Finance Director, and County Human Resources Director. The remaining four members were appointed to 4-year terms by the Sussex County Council on January 17, 2012. Additional quarterly meetings have been established for May 3, August 2, and November 7, all beginning at 10:00 a.m.

Prior to today's meeting, Committee members were provided with background information, which included a February 9, 2012 memorandum from Ms. Webb; the Pension Fund Investment Policy Statement (IPS) dated May 2007; the OPEB Fund Investment Policy Statement dated July 2010; spreadsheets showing the Pension Fund assets for the period October 31, 2011 – January 31, 2012 and the Post Employment Retirement Benefit assets for the period October 31, 2011 – January 31, 2012; 2011 meeting minutes (January 27, September 30, November 2 and November 14). Members were also provided with packets of information received more recently from Pierce Park Group regarding today's agenda items.

Due to quarterly Pension Fund meetings, it should be noted that approval of minutes will continue to be obtained from Committee members by email.

Ms. Webb presented a brief background of the Pension Committee and noted that the County Council passed an ordinance in late 2011, which more clearly defines the role and responsibilities of the Committee, as well as its composition. The ordinance also allows investments to be purchased without the need for a Request for Proposal (RFP). Ms. Webb mentioned that another area to be addressed were possible revisions to the County's defined pension plan for new hires. She also reported that the Pension Fund Committee oversees the investment of the Fire Service Fund, known as the "Sussex County Investment Fund", which is a new internal investment. All Committee recommendations are taken to County Council for final approval.

Ms. Webb introduced Mr. Shone and briefly explained the assistance given to the County over the last three years by Pierce Park Group as the County's pension consultant. It was explained that Council approved to move the OPEB fixed asset portion of the 60/40 allocation to Wilmington Trust. Ms. Webb noted that an additional \$960,000 investment had been made in the Pension and OPEB funds during the past fiscal year, which will require a rebalancing of both funds to bring them in line with the County's Investment Policy Statements. Ms. Webb stated that it was important for the County to keep investments within the allocation guidelines contained in both funds' IPS.

## **2. Rebalancing Portfolio**

Mr. Shone was in attendance to discuss rebalancing of the County's Pension and OPEB Funds. Mr. Shone distributed copies of a booklet entitled, "Sussex County – March 9, 2012 Meeting", which included 5 subsections pertaining to accomplishments, rebalancing, performance report, proposal, and agenda for 2012. Although the report should be referenced for a more detailed analysis, highlights discussed included:

Tab I – Accomplishments – 2011

- 1) County resolution to restructure investment committee and broaden authority (amended Pension Ordinance to allow the purchase of investments without going through the RFP process).
- 2) Pension
  - very strong investment returns compared to other plans
  - review of performance of the managers and each of the funds relative to performance benchmarks and adherence to the Investment Policy Statement
  - set policy for investing contribution
  - structured short-term investments
- 3) OPEB
  - selection of investment managers/funds – initially included six mutual funds, eventually reduced to five, plus money market
  - hired Wilmington Trust to manage fixed income portfolio using the same guidelines as the Pension Plan
  - policy for investing this year's contributions – short-term, to make benefit payments

Mr. Shone noted that the County's strategic asset mix – as defined in the Pension Fund IPS – is targeted to be 48 percent domestic stocks, 12 percent international, and 40 percent fixed income; he relayed that 40 percent in fixed income (cash and bonds) was a very conservative benchmark. In review, he stated that the County had hired the following managers: DuPont Capital Management, Wilmington Trust – Fixed Income Manager; and Vanguard Global – Global Equity Manager (global includes both U. S. and non-U.S. Stocks; international consists of only non-U. S. stocks). Wilmington Trust was terminated as Mutual Fund Manager and will now only hold the fixed asset portion of the investments. On the OPEB side, the County now has a written Investment Policy Statement, a strategic plan has been set, Wilmington Trust was hired as Fixed Income Manager, and 5 equity mutual fund managers were selected for the remainder of the portfolio mix.

Tab II – Rebalancing Mr. Shone explained that Peirce Park used a two-fold approach regarding rebalancing, which included the additional \$966,000 to be

invested, as well as to realign investments to the County's 60/40 target for stocks and bonds. The proposed rebalancing took \$10,250,000 from cash, invested \$9 million with Wilmington Trust (which has occurred), and then split the balance between Allianz (\$250,000), Dodge & Cox (\$600,000), and Harding Loevner (\$400,000). These totals took into consideration the County's target for stocks versus bonds, growth vs. value stocks, and to remain well diversified between large, mid, and small cap stocks.

Ms. Webb expressed concern regarding global investments in light of the current economic climate. While the U. S. stock market has been strong, Mr. Shone noted that the international market had been a much better performer so far this year. He relayed that it was important to keep in mind that international stocks do not include only Greece, Italy and Spain, but also includes the overall emerging markets of China, Brazil, Latin America, Germany, and Japan.

Ms. Messick questioned the impact of current developments on the global market (i.e., Syria and Iran) and expressed concern regarding the sustainability of gains realized. Mr. Shone referred the Committee to Tab V – Goals for 2012 which included ‘Pension asset mix/actuarial assumptions’ and ‘OPEB asset mix/actuarial assumptions’. Mr. Shone explained that many factors have to be considered, including the conservative investment nature of the County, the economic climate, and actuarial assumptions versus actual earnings realized. If bonds do not perform well, one of two things have to occur: stocks have to perform better than average, or a reduction in the actuarial assumption rate is needed. If the actuarial assumption rate of 8 percent is decreased, the County will have to increase their annual contribution. Mr. Shone stated that, long-term, international stocks perform roughly the same as U. S. stocks, but are more diversified. Peirce Park prefers global over international stocks. With a global manager, if it is thought that the U. S. is a better place to invest, they will not necessarily get out of international, but they will be more highly weighted in U. S. stocks.

After discussion and explanation by Mr. Shone, Ms. Messick noted the important point that international funds do not give managers the flexibility to go back into the domestic market that global funds allow. When asked, Mr. Shone noted that he was comfortable with the returns for the two global fund managers – Dodge and Cox and Loevner – given the County's RFP restrictions and the candidates that responded.

Tab III – Performance Report (Page 9) Mr. Shone reported that Dodge and Cox Global was up 7.4 percent for the past quarter and up 9 to 10 percent for the year. In 2011, international stocks were down 12 percent while U. S. stocks rose 1 percent. This year, international stocks were up approximately 9 or 10

percent, with U. S. stocks showing an increase of 5 to 7 percent. By a 4 to 1 ratio, the County is much more heavily weighted in U. S. stocks versus international. Allianz would not have been one of Peirce Park's picks, but was among the best choices given RFP requirements. Mr. Shone noted his preference for Ridgeworth, Dodge and Cox, and Harding Loevner, but not Allianz. He went on to explain that Vanguard Value and Allianz were the best combination of the large cap U. S. stocks in light of the RFP process; he would rather see the County use the Vanguard's S & P 500 index fund, add one or two domestic managers, change the value equity manager, and add mid cap. This will be taken into consideration at the next Pension Committee meeting.

A Motion was made by Mr. Baker, seconded by Ms. Messick, that the Sussex County Pension Fund Committee recommend to the Sussex County Council to rebalance the OPEB Fund portfolio as recommended by Peirce Park Group as follows: Allianz - \$250,000, Dodge & Cox Global - \$600,000, and Harding Loevner Global - \$400,000.

Motion Adopted: 5 Yea.

Vote by Roll Call: Mr. James, Yea; Ms. Brewington, Yea;  
Ms. Messick, Yea; Mr. Baker, Yea;  
Ms. Webb, Yea

Mr. Shone referred members to Tab II – Page 5 (Pension Portfolio Allocations). He noted that the County requires \$2.3 million to meet its current yearly pension obligation. At this time, the County has \$3.1 million in assets/cash, which would allow approximately \$800,000 to be invested. A short-term laddered investment approach was discussed and will be looked into by Ms. Webb. The report noted three options for rebalancing.

Relative to the County's Investment Policy Statement, Mr. Shone reported that the County's Pension Fund is currently too heavily invested in international stocks, and too low in small and mid cap stocks. He noted that Fidelity typically selects small and mid-sized cap companies, with DuPont Capital primarily choosing large cap. Option 1 (Tab II, Page 2) involves taking \$800,000 from cash and investing it in the Fidelity Low-Priced Stock Fund. Option 2 (Tab II, Page 3) would rebalance the portfolio to be within the County's targeted range of 60 percent stocks/40 percent bonds; it would take \$800,000 out of cash and \$3.1 million out of bonds and, then, giving it to DuPont and Fidelity (\$1,950,000 each). Mr. Shone relayed that the low-priced stock fund had done very well, with DuPont also outperforming their benchmark for the year. Option 3 (Tab II, Page 4) reduces international equity. Mr. Shone noted that the County is currently over allocated in international stocks due in large part due to the State's targeting 20 percent of their fund in international stocks. Mr. Shone

explained that the State is 62% of the County's portfolio. This factor alone – 62 percent of 20 percent – would result in the County having over 12 percent in international stocks. If the County also adds international stocks to their portfolio, the County's ratio of international stocks would be further increased. Although listed as low-priced stock, Mr. Shone explained that Fidelity also includes 20 percent in international stocks. Combining all these factors, the County has approximately 15 percent in international stocks, which is higher than the County's comfort level.

Ms. Messick raised concern regarding the fact that although Fidelity Low-Priced Stock is included within the categorization of total domestic equities, they, in fact, also include 20 percent in international stocks. Given the sensitivity with global investments, she questioned if part of Peirce Park's job would be to make sure that the County is not going outside of tolerances stated in the Investment Policy Statement. Mr. Shone explained that although Fidelity is defined as a domestic fund, it is actually not fully domestic. The Committee was referred to Tab II, page 5 – 'Current Portfolio'. According to the information presented, the County is currently 14.0 percent invested in International Equities, which takes into consideration Fidelity, Vanguard, and the State pool. Ms. Messick noted the importance of due diligence in adhering to the Investment Policy Statement.

Mr. Shone stated that Option 3 would be Peirce Park's recommendation as it best follows the County's investment policy.

A Motion was made by Mr. James, seconded Mr. Baker, that the Sussex County Pension Fund Committee recommend to the Sussex County Council to rebalance the Pension Portfolio as included in Option 3, as follows: \$800,000 taken from cash, \$3,100,000 from Wilmington Trust Bonds, and \$783,725 from Vanguard Global, and given to DuPont Capital (\$2,583,725) and Fidelity Low-Priced Stock (\$2,100,000).

Motion Adopted: 5 Yea.

Vote by Roll Call: Mr. James, Yea; Ms. Brewington, Yea;  
Ms. Messick, Yea; Mr. Baker, Yea;  
Ms. Webb, Yea

### **3. Peirce Park Group Options for Service**

Ms. Webb explained that Peirce Park Group had presented several options for their pension consultant services with the County, as well as fees. She noted the tremendous asset and assistance Peirce Park Group and, in particular, Michael Shone, had provided the County. Committee members were referred to Tab IV which outlines the three proposed options and fees involved:

**Option 1: Traditional Consulting Service (Advisory)**

- Investment Policy Statement – annual review and updates
- Quarterly performance report on total fund – Pension and OPEB
- Quarterly performance report on each of the managers/funds
- Manager structure – includes:
  - How many managers?
  - Manager allocations
  - Additional asset classes
  - Rebalancing recommendations
  - Investment Committee and County Council education
- Asset manager recommendations
- Manager/fund choices – three fund choices for the Committee

Fee: 0.10% per year

**Option 2: Consulting Plus**

**2(a) Everything in Option 1, plus:**

- PPG would select funds/managers
- Decide allocations among each of the managers
- Rebalance the portfolio

Fee: 0.20% per year

**2(b) Similar to Option 2(a), but:**

Peirce Park Group would make specific recommendations as to which managers to hire, what allocations to give to the managers, and when and how much to rebalance. Final decisions are left to the County.

Fee: 0.20% per year

**Option 3:**

- Pension – Option 1 for most assets (Delaware, DuPont, WTC), Option 2 for balance.
- OPEB – Option 2

Fee: 0.17% per year

Discussion was held regarding the services and fees for each option. Mr. Shone referred members to the “Performance and Costs” under Tab IV:

	<u>Costs</u>	
	<u>Current (Option 1)</u>	<u>Consulting Plus</u>
Manager Fees	0.58%	0.40%
Consulting	<u>0.10%</u>	<u>0.17%</u>

Total 0.68% 0.57%

In comparison with other Peirce Park clients, Mr. Shone stated that the County’s consultant fees were the firm’s most reasonable. Mr. Baker questioned the need for an RFP and if comparisons could be obtained as to the fees paid by the other counties. Reference was made to the Pension Ordinance which states, “At its discretion, the Sussex County Council shall have the power to enter contracts with qualified persons, agents, or entities to enable it to perform its investment duties or to enter into investment management agreements with qualified persons, agents or entities, under which investment responsibilities of the Sussex County Council shall be delegated to such persons, agents, or entities, as so recommended by the Committee”. It was the consensus of the Committee that at the present time Option 1 seemed the best fit for the County.

A Motion was made by Mr. Baker, seconded by Mr. James, that the Sussex County Pension Fund Committee recommend to the Sussex County Council Option 1 (Traditional Consulting Services – Fee: 0.10 percent per year) as presented by Peirce Park Group for the Fiscal Year 2012 subject to price review, as well as legal and budget review.

Motion Adopted: 5 Yea.

Vote by Roll Call: Mr. James, Yea; Ms. Brewington, Yea;  
Ms. Messick, Yea; Mr. Baker, Yea;  
Ms. Webb, Yea

**4. Goals of 2012 (Tab V)** Mr. Shone briefly reviewed goals that the Committee may want to consider for 2012:

	<u>Completed</u>
• OPEB Wilmington Trust Investment Contract	√
• Asset transfer to Wilmington Trust	√
• Invest additional contributions/rebalance portfolio	March 9
• OPEB manager restructure	
• Rebalancing Policy	
• Ongoing rebalancing implementation	
• Pension Investment Policy Statement review	
• Pension asset mix/actuarial assumptions	



- OPEB asset mix/actuarial assumptions

## 5. **Additional Business**

Ms. Webb questioned if there was a consensus to pay pension expenses out of the Pension Fund. At the present time, expenses are a budgeted General Fund expense. Ms. Messick questioned best practice. Mr. Baker noted that there may be more disclosure if expenses are paid from the General Fund. Regarding best practices, Mr. Shone noted that he did not know of anyone else who did not pay expenses through their pension fund, which he stated were also qualified expenses. Qualified expenses include Peirce Park's fees, as well as management, custodian, and actuarial fees. This topic will be discussed during the 2013 budget process.

Ms. Webb thanked everyone for their attendance.

The meeting was adjourned at 3:00 p.m.

Respectfully submitted,

Nancy J. Cordrey  
Administrative Secretary