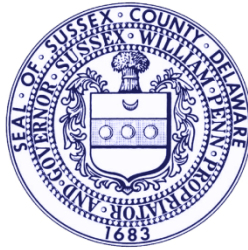


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PENSION FUND COMMITTEE

Minutes of Meeting

February 2, 2023

The Sussex County Pension Fund Committee met on February 2, 2023, at 10:00 a.m. in the County Council Chambers, Georgetown, Delaware. Those in attendance included members: Gina Jennings, Todd Lawson, Karen Brewington, Kathy Roth, Robin Griffith and Kathleen Ryan. Also in attendance were Pat Wing of Marquette Associates, the County's Pension Investment Consultant; Janet Cranna, Brett Warren, and Margaret Tempkin of Cheiron, the County's Actuary.

Ms. Jennings called the meeting to order.

1. **Approval of Minutes**

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

2. **Public Comment**

There was no public comment.

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

Mr. Wing reported that 2023 is off to a strong start to the year for markets, equities and fixed incomes.

Mr. Wing distributed copies of a report entitled, "Sussex County Quarterly Performance Report as of December 31, 2022". The Investment Performance Report includes information regarding the market environment for the fourth quarter of 2022, as well as quarterly and annual performances of the Pension and OPEB Plans. The report should be referenced for a more detailed analysis.

Mr. Wing referred members to the Market Environment. The GDP grew by 2.9 in Quarter 4. There was a lot of growth driven by net exports and a build in private inventory investment. Consumer spending weakened a little bit from the third quarter. The Federal Reserve continues to raise interest rates and the expectation is there is one more hike coming in March and possibly again in May. If we assume that inflation continues to cool and comes in around 3% and disposable income grows at its pre-pandemic trend, then real disposable income for consumers is actually set to turn positive which should help support consumer spending in the back half of 2023. Markets did relatively well in the fourth quarter. There was some weakness to real estate in the fourth quarter. It was the opposite for equities and fixed income. Infrastructure is reported on a lag basis so there is no data available at this time however, the first three quarters showed about a 6% return so we would expect a positive return in infrastructure for the fourth quarter.



If the economy does enter a recession, earnings are likely to come under pressure. The timing of any recession may impact equity performance in 2023. Based on the eleven economic recessions since 1950, equities, on average, tend to peak approximately 9 months before the beginning of a recession and find a bottom, on average, about 3 months after a recession begins. If an eventual recession does unfold in 2023, equities may continue to trend higher in the near term if any recession begins towards the end of the year. Using history as a guide, if the economic downturn occurs earlier, equity volatility may return in short order.

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

Observations as of December 31, 2022, included:

- The market value was \$138.3 million. The portfolio realized a fourth quarter gain of 7.4 million, returning 5.7% (net) vs. policy index of 5.8%.
- Positive attribution for the quarter resulted from outperformance by most active equity managers, value tilts within U.S. and Non-U.S. equities, and infrastructure structure.
- Negative attribution for the quarter resulted from asset allocation and underperformance by active fixed income managers.
- Portfolio changes during the quarter rebalancing.
- Looking Ahead/Recommendations: Asset Allocation.

There was discussion on when and if a recession could possibly occur, how to diversify the growth engine, private debt, floating rate funds as well as investing in energy. Mrs. Jennings stated that her focus was to make sure that the assumed rate of return stays at 6 ³/₄ percent and that she was ok with the option of just changing our bonds and equities percentages, as that can be done very quickly.

Mr. Wing stated that a review of the asset allocation will take place at the meeting in May.

3. Annual Actuarial Report

At the request of the County, Cheiron, the County's actuary, performed their annual actuarial valuation of the Sussex County Employee Pension Plan, as well as the Sussex County Postemployment Benefit Plan. Committee members were provided with a report entitled "Actuarial Valuation Report as of November 17, 2022", as well as a PowerPoint presentation. The report also included GASB 67/68/74/75.

The valuation included a historical review, assessment of risk, valuation results, and projections. There was discussion regarding the increase in salaries that impacted the unfunded liability.

The OPEB plan is doing very well. Cheiron is using market value of assets as opposed to a smooth value. There has been an uptick in active employees as well as an uptick in retirees. Due to the volatility in the market, Cheiron was asked to look at where the assets are in relation to the liability and to look at the actuarial smoothing of the assets for this plan. Cheiron felt it was a good idea to start incorporating the smooth value of assets to develop the contributions.

A Motion was made by Mrs. Roth and seconded by Mr. Lawson for the Pension Committee to make a recommendation to the County Council to change the OPEB funding policy to have an actuarial value of assets by using a 5-year smoothing of assets, gains and losses.

Motion Adopted: 6 Yeas.

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

4. **2023 Meeting Dates**

Following are the meetings for 2023:

May 18, 2023
August 17, 2023
November 16, 2023

All meetings begin at 10:00 a.m. and will be held virtually, except for the November meeting, which will be held in the Sussex County Council Chambers, Administrative Office Building, Georgetown, Delaware. Calendar invitations will be sent to each member.

5. **Additional Business**

No Additional Business.

6. **Adjourn**

At 11:41 a.m., a Motion was made by Mrs. Roth, seconded by Mrs. Brewington, to adjourn. Motion Adopted by Voice Vote.

Respectfully submitted,

Bobbi L. Albright
Executive Administrative Assistant