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PENSION FUND COMMITTEE

Minutes of Meeting

February 15, 2018

The Sussex County Pension Fund Committee met on February 15, 2018 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, David Baker, and Kathleen Ryan. Also in attendance were Patrick Wing of Marquette Associates, the County's Pension Investment Consultant, as well as David Craik, Pension Administrator for the State of Delaware. Committee member Hugh Leahy was unable to attend.

On February 7, 2018, 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**

A Motion was made by Mr. Lawson, seconded by Ms. Brewington, to approve the November 16, 2017 minutes, as distributed. Motion Adopted by Voice Vote.

2. **Presentation of State of Delaware Investment Pool**

Ms. Jennings introduced Mr. Craik, Pension Administrator for the State. Mr. Craik noted that he had been invited to discuss the State's underperformance. In general, the State's performance relative to similar funds in recent years has been affected by their lower risk profile, especially in a strong equity market; five-year or longer returns, remain ahead of their benchmark. Specifically, the State's private equity allocation, which is approximately 17 percent of their fund, has been lagging. The State had invested in an asset classification known as Master Limited Partnerships (MLPs) and there was a significant downturn in that class. Due to the State's risk profile, there is a band of between 45 and 65 percent of the risk of the S & P 500 that they try to stand within, but it has led to a large cash allocation. As of January 31, 2018, the State has 8 percent cash in their portfolio. The State has hired two international equity managers and an emerging market manager, and terminated the MLP account. It is anticipated that the fourth quarter will realize positive equity returns.



A question and answer period followed Mr. Craik's presentation. Other employers (New Castle County, City of Wilmington, Kent County) have voiced concerns regarding the State's underperformance, but none have adjusted their participation with the State. Currently, the State does not have an action plan as to its 8 percent cash allocation. Private equities make up approximately 17 percent of the State's portfolio.

Ms. Jennings and the Committee thanked Mr. Craik for his time and presentation.

Mr. Baker entered the meeting at 10:12 a.m.

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

Mr. Wing distributed hard copies of a booklet entitled, "Sussex County Quarterly Performance Report as of December 31, 2017" (copies were emailed to members prior to today's meeting).

The Quarterly Performance Report includes information regarding the market environment for 2017, 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. Markets, and Global Index Returns. Mr. Wing noted that the economy had slowed during the fourth quarter of last year; the Gross Domestic Product grew at 2.6 percent, which was slightly lower than economist predictions of 3 percent. Domestic demand rose 4.6 percent for the fourth quarter and was the biggest jump since the third quarter of 2014. Economists are expecting growth of 2.7 percent for 2018, with a possible increase in inflation. The global economy continues to experience a synchronized upturn.

Equity returns included: U.S.: 21 percent year-to-date, international: 24 percent year-to-date, emerging markets: 37 percent year-to-date; and U. S. bonds: ½ percent for the 4th quarter of 2017 and 3 percent year-to-date. Growth stocks outperformed Value stocks during 2017.

Mr. Wing directed members to Exhibit III – Sussex County Employee Pension Plan. There was an investment gain during the fourth quarter of \$3.7 million. For the one-year, the Pension Plan increased \$16.2 million to \$93.8 million. The Pension Fund realized a 4.0 percent return for the fourth quarter versus a 4.0 percent policy index; for the one-year: 13.9 percent versus 15.2 percent. The State's underperformance (75 to 80 basis points) contributed to the County's underperformance.

Regarding Peer Universe Rankings, there were approximately 200 funds in the peer group. The County ranked in the 15th percentile for the 4th quarter; 67th percentile for the year versus a pension policy index of 34 percentile; 5 years: 9.0 percent return net of fees (26th percentile). Again, the State's underperformance negatively impacted the County's performance.

The County's Pension Plan has Investment Management Fees of 35 basis points, which are slightly lower than Marquette's other clients.

Mr. Craik was questioned regarding the State's fees; he will report back to the Committee as to the confusion of 30 versus 62 basis points.

Mr. Wing referred members to Exhibit IV - Sussex Post-Employment Benefit Plan. There was a fourth quarter investment gain of \$1.6 million for the OPEB Plan. For the year, the fund began at approximately \$33 million and grew by \$10.1 million. The Plan met its benchmark, 3.8 percent versus 3.8 percent for the fourth quarter; one-year: 14.3 percent versus 14.9 percent (lagging by approximately 60 basis points).

Regarding Peer Universe Rankings relative to all public defined benefit plans in the U.S., the County ranked in the 27th percentile for the 4th quarter; one-year: 54th percentile; and 5-year: 40th percentile.

The County's OPEB Plan has Investment Management Fees of 20 basis points.

4. **Plan Changes (International Target and Global Equity Active Managers)**

The Committee was reminded that at the November 2017 meeting, they had deferred action in regard to a global equity manager search to allow Marquette the opportunity to speak with the State Pool and to report their findings, and also to allow the State to be invited to today's meeting.

Mr. Wing presented Committee members with a hard copy of the report entitled, "Global Equity Manager Search – Sussex County Pension – February 2018" (Committee members were also emailed copies of the report prior to today's meeting). The report included portfolio options for both plans that reflected a possible increase in the allocation to international equities.

Mr. Wing noted there were three key decisions that needed to be discussed:

- (1) Will funds be withdrawn from the State Pool?
- (2) Where would those funds go?
- (3) Does the County want to add a Global Manager?

The Committee took the opportunity for discussion regarding the State Pool prior to the consideration of the addition of a Global Manager. Mr. Wing, again, stated that Marquette will confirm the State's investment fees. The State's portfolio consists of approximately 65 percent equities and 35 percent bonds; their actual benchmark is 60/40. Ms. Jennings noted that she can receive an annual report from the State and will email copies to Committee members.

The report included an overview, strategy comparisons and portfolio options for both the Pension and OPEB Plans. One of the requirements in Marquette Associates search were managers that would offer down-market protection. Marquette Associates are very familiar with the four managers presented and they have broad exposure across most of their client base. Strategy comparisons were given for 4 managers: Harding

Loevner (Global Equity), MFS (Low Volatility/Global Equity), Schrodgers (Global Equity), and Vontobel (Global Equity). Manager information included portfolio management, investment process, and risk management. Mr. Wing's discussion and review focused on key differentiators and merits of each manager. Also considered were: Top 10 Holdings, Strategy Comparisons (regional distribution, sector distribution, and market capitalization), Valuations, Cumulative & Yearly Returns, Up/Down Market, Risk Statistics (down market protection) and a summation of the Pros/Cons for each manager.

A question and answer period followed Mr. Wing's presentation, which included Collective Investment Trusts (CITs); the merits of other pension managers, such as Dodge & Cox and Artesian; index funds; price-earnings ratios, the benefit of choosing two global managers versus one; global index; etc.

A Motion was made by Ms. Ryan, seconded Ms. Roth, to recommend to the Sussex County Council Option 3 for the Pension Plan, to revise the Investment Policy Statement to increase the International target allocation by 4 percent to 18 percent, lower the State Investment Pool by 10 percent, and add a new Global Manager; more specifically, the fund will be composed of: Vanguard S&P 500 Index: 20.0 percent, Vanguard Mid Cap Value Index 5.0 percent, Vanguard Extended Market Index: 4.0 percent; Vanguard Total International Stock Market Index 7.0 percent, Wilmington Trust Fixed Income: 16.0 percent, Cash 2.0 percent, DE State Pool: 40.0 percent; and the addition of a new global manager: 6.0 percent.

Motion Adopted: 6 Yeas.

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

A Motion was made by Ms. Roth, seconded Mr. Baker, to recommend to the Sussex County Council to allocate the 6 percent for a new Pension Plan Global Manager to: Schrodgers (CIT) of \$3,000,000, and the remaining balance to MFS Low Volatility (CIT).

Motion Adopted: 6 Yeas.

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

A Motion was made by Ms. Roth, seconded by Mr. Baker, to recommend to the Sussex County Council to revise the OPEB Investment Policy Statement to increase the International Equity target allocation by 4 percent to 18 percent.

Motion Adopted: 6 Yeas.

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

A Motion was made by Mr. Baker, seconded by Ms. Ryan, to recommend to the Sussex County Council Option 2 for the OPEB Plan to lower the Vanguard Institutional Index 5 percent, decrease the Vanguard Mid Cap Value Index 1 percent, increase Artisan Global Opportunities 2 percent, increase Dodge & Cox Global 2 percent, and increase Vanguard Total International Stock Index 2 percent; more specifically, the fund will be composed of: Vanguard Institutional Index: 30.0 percent, Vanguard Mid Cap Value Index: 5.5 percent, Vanguard Small Cap Index Value: 3.0 percent; Artisan Global Opportunities: 5.5 percent; Dodge & Cox Global: 5.5 percent, MFS Low Volatility Global: 6.0 percent, Vanguard Total International Stock Index: 9.5 percent; Wilmington Trust FI: 34.0 percent, and Cash: 1.0 percent.

Motion Adopted: 6 Yeas.

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

Ms. Jennings stated that these items will be brought before Council in March.

5. **Additional Business**

No additional business.

6. **Adjourn**

At 11:44 a.m., a Motion was made by Mr. Baker, seconded by Ms. Ryan, to adjourn.
Motion Adopted by Voice Vote.

The next meeting of the Pension Committee is scheduled for May 17, 2018, at 10:00 a.m. in the Sussex County Council Chambers.

Respectfully submitted,

Nancy J. Cordrey
Administrative Secretary