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PENSION FUND COMMITTEE

Minutes of Meeting

May 18, 2017

The Sussex County Pension Fund Committee met on May 18, 2017 at 10:00 a.m. in the County Council Chambers, Georgetown, Delaware. Those in attendance included members: Gina Jennings, Karen Brewington, Kathy Roth, David Baker, Hugh Leahy, and Kathleen Ryan. Also in attendance was Michael Shone of Marquette Associates, the County's Pension Investment Consultant, as well as Dominick D'Eramo of Wilmington Trust Investment Advisors, Inc. Committee member Todd Lawson was unable to attend.

On May 10, 2017, 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**

The minutes of the February 16, 2017 meeting were approved by consent.

2. **Wilmington Trust Investment Advisors Presentation**

Ms. Jennings noted that Dominick D'Eramo from Wilmington Trust Investment Advisors, investment managers for the fixed income portion of the County's Pension and OPEB Plans, was in attendance to present a review of both plans.

Mr. D'Eramo distributed booklets entitled, "Fixed Income Market Review – Sussex County Pension Plan & OPEB (May 18, 2017)". Although the report should be referenced for a more detailed analysis, discussion highlights included:

Mr. D'Eramo began his presentation by discussing the Federal Reserve and providing a review of the overall economic activity. Topics included the Federal Reserve's rate normalization process, treasury yield curve, interest rates, and 90-day libor. He noted that December 2015 was when the Federal Reserve began their rate normalization process; this process was due to the fact that the economy had been operating in a negative rate of return for quite some time. As such, the Federal Reserve began creating an environment that would stimulate economic activity and propel consumer spending. During 2016, the Federal Reserve had planned to raise interest rates 4 times, but, in fact, only raised rates once. Although the gross domestic product (GDP) has seen slight growth in 2017, the Federal Reserve seemed fairly confident that



economic growth would take a stronger hold and raised interest rates in March 2017. Over the course of 2017, the Federal Reserve is expected to have a total of 3 rate hikes. The FOMC (Federal Open Market Committee) of the Federal Reserve meets four times a year (March, June, September and December) in which press conferences are held and allows the chairperson to explain their position and welcomes questions from market participants. The current unemployment rate is 4.4 percent. Mr. D'Eramo stated that the Libor has been influenced by Federal Reserve activity and money market reform over the past year.

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

Mr. D'Eramo referred members to Tab One – Investment Review and Outlook – Pension Plan – March 31, 2017; information contained in the report included: Asset Allocation, Results of Investment Vehicles, Fixed Income Analysis, Portfolio Holdings, and Portfolio Activity. As of March 31, 2017, the portfolio included asset allocations of: 45 percent in Governments, 9 percent in Agencies, and 43 percent in Corporate Bonds. The Pension Plan had a market value of \$10.4 million for the period. Historically, the Pension Plan has had a total return – going back to May of 1985 – of 5.38 percent. Performance year-to-date was 73 basis points versus an index of 78; for the month of March – 6 basis points versus 5. The average credit quality of the portfolio was Aa3, with an average yield of 2.05 percent, and an effective duration of 3.76 years.

Mr. D'Eramo brought attention to the individual securities held, as well as the effective duration. The maturity distribution, if heavily weighted at the front end of the yield curve, allows reinvestment at higher levels. The Pension portfolio had been created with both fixed and floating rate securities. Securities are held to the point in the yield curve where there is no benefit to continue holding.

Mr. D'Eramo referred members to Tab Two – Investment Review and Outlook – OPEB Plan – March 31, 2017. Information contained in the report included: Asset Allocation, Results of Investment Vehicles, Fixed Income Analysis, Portfolio Holdings and Portfolio Activity. The asset allocation included 39 percent in Governments and 49 percent in Corporates, with a market value of \$11.1 million as of March 31, 2017. Total performance for the year was 77 basis points versus a benchmark of 78 points; the one month performance for March 2017 was 8 basis points versus 5. Mr. D'Eramo referred members to the portfolio holdings; he noted there were equal amounts of floating and fixed rate securities. Only high quality corporates are purchased which are very liquid in nature. Every corporate purchased is on their approved list and independently followed by one of their credit analysts. Securities purchased go thru a pretrade analysis to make sure they are in compliance with the portfolio. From a compliance perspective, every client's policy is imbedded within their process. With the County allowing corporates, Wilmington Trust has been able to provide greater income to the portfolio in a very prudent method. Mr. Shone reported that the County's average credit quality is significantly higher than the average pension fund and duration is definitely lower than average. Mr. D'Eramo noted that Wilmington Trust is looking to target 10 percent of the portfolio in floating rate securities that would be laddered for maturity.

Ms. Jennings thanked Mr. D'Eramo for his presentation.

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

Mr. Shone distributed copies of a booklet entitled, “Sussex County Quarterly Performance Report as of March 31, 2017”.

The Quarterly Performance Report includes information regarding the market environment for the first quarter of 2017, as well as quarterly and annual performances of the Pension and OPEB Plans. The report should be referenced for a detailed analysis.

Mr. Shone referred members to Exhibit I – Market Environment. Information reviewed included: U. S. Economy, Global Economy, Global Asset Class Performance, U.S. Markets, and Global Index Returns. Mr. Shone reported that the U.S. economy had slowed during the first quarter.

Equity returns for the first quarter included: U.S.: 5.7 percent, international: 6.8 percent, and emerging markets: 11.4 percent. In a reverse of trends from last year, this year international stocks outperformed U.S.; Large cap stocks outperformed small caps; and Growth stocks outperformed Value stocks.

Mr. Shone directed members to Exhibit II – Sussex County Employee Pension Plan. As of March 31, 2017, the ending market value of the Pension Plan was \$80.72 million (\$81.5 million as of the end of April) and saw a first quarter gain of a little over \$3 million. The Pension Fund realized a 3.9 percent return for the quarter versus a 4.3 percent policy index. The State of Delaware Pool underperformed their benchmark by approximately 70 basis points and Wilmington Trust underperformed by 20 points. After brief discussion, Mr. Shone stated he will report back to the Committee regarding Wilmington Trust’s and Peirce Park’s method of benchmarking. The portfolio’s slight value tilt also had a negative impact for the quarter.

Mr. Shone noted that the County has not deviated outside of the asset allocation range included in their Investment Policy Statement. The County has a fairly conservative investment policy relative to the average plan, as well as implementation. Unlike similar plans with Peirce Park, the County’s portfolio does not include a specific allocation to real estate; this is due to the fact that a large amount of the revenue generated by the County is tied to the real estate market. Committee members were referred to the County’s top ten equity holdings (13.8 percent of the portfolio). After discussion, it was decided that Mr. Shone will report back to the Committee on possible options as a result of DuPont Capital’s underperformance, which will include down market protection.

Ms. Jennings reported that the proposed 2018 budget includes additional contributions of \$5 million to both the Pension and OPEB Plans.

Mr. Shone referred members to Exhibit III - Sussex Post-Employment Benefit Plan. As of March 31, 2017, the ending market value of the Plan was \$34.5 million (\$34.8 million as of the end of April) and realized a first quarter gain of \$1.4 million. The Plan almost met its benchmark, 4.2 percent versus 4.3 percent. The portfolio underperformed its policy index by 10 basis points (Wilmington Trust bond portfolio

underperformed its benchmark by 20 basis points; the portfolio's value tilt was also a slight detractor). Mr. Shone had no recommended changes to the portfolio.

Mr. Shone reviewed the Plan's benchmark history. The majority of Peirce Park's clients with 65 percent equities, are at 18 percent international; the County is at 14 percent. Members were referred to the annualized performance of the investment managers, which included performance compared to benchmarks.

Ms. Jennings reported that at the present time, the Pension Plan is approximately 79 percent funded; with the additional \$5 million, it will be estimated to be 84 percent funded. The OPEB fund is approximately 65 percent funded; with the additional \$5 million, it will be estimated to be 75 percent funded. Mr. Shone was requested to recommend investment options for these additional funds, as well as possibly increasing the international equity allocation target, which is to include an educational piece for Council. Ms. Jennings confirmed that the County's actuary would be able to support the fact that the County's Pension and OPEB Plans are better funded than most other plans. Also to be taken into consideration is the County's return assumption rate change to 7.5 percent, which gives a more realistic number. Compared to other Marquette clients, the County's pension funded ratio is on average; on the OPEB side, the County is definitively better funded, if not one of the best. Ms. Jennings reported that the budget includes a contribution of 25 percent of gross salaries, which is slightly higher than the required contribution.

Ms. Jennings thanked Mr. Shone for his presentation.

4. **Additional Business**

No additional business.

5. **Adjourn**

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

The next meeting of the Pension Committee is scheduled for August 17, 2017, at 10:00 a.m. in the Sussex County Council Chambers.

Respectfully submitted,

Nancy J. Cordrey
Administrative Secretary