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Sussex County
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PENSION FUND COMMITTEE

Minutes of Meeting

May 16, 2019

The Sussex County Pension Fund Committee met on May 16, 2019 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, Hugh Leahy, and Kathleen Ryan. Also in attendance was Michael Shone of Marquette Associates, the County's Pension Investment Consultant. Committee member David Baker was unable to attend.

On May 8, 2019, 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 21, 2019 meeting were approved by consent.

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

Mr. Shone distributed copies of a report entitled, "Sussex County Quarterly Performance Report as of March 31, 2019". The report includes information regarding the market environment for the first quarter of 2019, 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 II – Market Environment. Mr. Shone reported that he would review the economy, the Fed, the markets, the State Plan, and the investment policy.

The Real GDP Growth has been positive for several years resulting in economic growth and lower unemployment rates. It was explained that the Federal Funds Rate is the interest rate that the Fed loans to banks who, in turn, lend to consumers. The Fed now projects to have no additional rate hikes through 2020.

Equity returns for the first quarter included: U.S.: 14.0 percent, International: 10.5 percent, Emerging Markets: 9.9 percent, and U.S. Bonds: 2.9 percent. For the first quarter, Growth Stocks outperformed Value; Value Stocks tend to offer greater protection in down markets, with Growth performing better in up markets.



Mr. Shone directed members to Exhibit III – Sussex County Employee Pension Plan. As of March 31, 2019, the ending market value of the Pension Plan was \$108.2 million (\$110.7 million as of the end of April), with a first quarter gain of approximately \$2.5 million. The Fund realized a 7.3 percent return for the quarter versus a 9.4 percent policy index. Mr. Shone discussed the reasons for the State’s negative attribution on the Pension Plan, and noted that the Plan was also under allocated to equities at the beginning of the quarter.

Committee members were referred to the Annualized Returns (Net), which included a one-year return of 4.9 percent (31st percentile); three-year return of 8.2 percent (49th percentile), and 5-year return of 6.0 percent (45th percentile).

Performance-wise, there were several Equity Funds that have matched their benchmark since inception (September 2011), which include the Total Equity Composite (14.2 percent), S&P 500 Index (13.5 percent versus benchmark of 13.6); Mid Cap Value; Extended Market Index; and Wilmington Trust Bonds. The MFS Low Volatility Global Fund outperformed its benchmark (7.8 percent vs. 1.6) as did Schroder Global Multi-Cap (3.9 percent vs. 1.6).

Discussion ensued regarding the State of Delaware’s returns, as well as their asset allocation. It was the consensus of the Committee to invite the State to the August 15th meeting.

Looking ahead to August’s meeting, Ms. Jennings agreed with Mr. Shone’s recommendation for an asset allocation study, i.e. are the County’s allocations sufficient to realize a 7 percent assumed rate of return.

Committee members were referred to a separate handout entitled, “Sussex County – Holdings Based Style Analysis”, which included equity managers (not including the State), and equity structure vs. policy. The Pension Plan has a slight tilt toward Value Stocks (added protection in down markets) and an overweight in Mid Cap stocks.

Mr. Shone referred members to Exhibit IV - Sussex Post-Employment Benefit Plan. As of March 31, 2019, the ending market value of the Plan was \$44.6 million and realized a first quarter return of 8.8 percent versus a policy index of 9.2 percent; and a one-year return of 4.5 percent vs. 5.1. Positive attribution for the quarter was realized as a result of the Artisan Global Opportunities Fund; negative attribution was due to an under allocation to equities at the beginning of the quarter, and Dodge and Cox Global. The County has very low investment fees at 22 basis points compared to most of Marquette’s clients that are, typically, 50 percent higher. Looking ahead, discussion needs to take place regarding meeting actuarial assumed returns. As such, Mr. Shone stated that his asset allocation study will also include the OPEB Plan.

Committee members were, again, referred to the separate handout entitled, “Sussex County – Holdings Based Style Analysis” and reviewed similar information for the OPEB Plan.

Discussion was held regarding rebalancing and the ability of the Committee to respond if market conditions warranted. It was noted that the County, a few years ago, entered into an agreement with Peirce Park to increase services to manage the OPEB Plan with

the intent for better performance. Ms. Jennings stated that she would talk with Mr. Shone to determine if these services are needed once again, and any additional costs that would be involved.

Ms. Jennings reiterated that she will contact the State of Delaware to invite them to the August 15th meeting.

Ms. Jennings thanked Mr. Shone for his presentation.

4. **Additional Business**

Ms. Jennings reported that the proposed FY 2020 Budget includes an additional \$5 million contribution to the Pension Plan.

5. **Adjourn**

At 10:51 a.m., a Motion was made by Mr. Leahy, seconded by Ms. Ryan, to adjourn. Motion Adopted by Voice Vote.

The next meeting of the Pension Committee is scheduled for August 15, 2019, at 10:00 a.m. in the Sussex County Council Chambers.

Respectfully submitted,

Nancy J. Cordrey
Administrative Secretary