



**PENSION FUND COMMITTEE**

*Minutes of Meeting*

**November 21, 2019**

The Sussex County Pension Fund Committee met on November 21, 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, David Baker and Kathleen Ryan. Also in attendance were Michael Shone of Marquette Associates, the County's Pension Investment Consultant; and Janet Cranna and Margaret Tempkin of Cheiron, the County's Actuary. Committee member Hugh Leahy was unable to attend.

On November 13, 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 August 15, 2019 meeting were approved by consent.

2. **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 "2019 Actuarial Valuations", as well as a PowerPoint presentation. Their report also included GASB 67/68/74/75.

For the Pension Plan, the valuation included a historical review, identification and assessment of risk, valuation results, and projections.

The actuarial valuation for the Pension Plan includes investment earnings of \$6.8 million, employer and employee contributions of \$14.5 million and \$0.2 million respectively, with benefits of \$4.4 million and expenses of \$0.1 million. Participation rates (the ratio of active members to inactive members) over the last several years have remained relatively level. Retirees, along with Terminated Vested Participants (terminated but not receiving benefits), have been increasing. The actuarial valuation is what the actuary uses to determine contributions, which smooths the investment gains and losses over five years. The County's Pension Plan is currently 97 percent funded and it was noted that the County is probably Cheiron's best funded pension plan, primarily due to the County making significantly higher pension contributions



above the recommended actuarial determined contribution. The County's current discount rate is 7 percent. It was reported that ASOP51 is a new actuarial standard of practice which assesses and discloses risk for Pension Plans. The actuarially determined contribution (ADC) decreased from \$3.8 million to \$3.0 million; the unfunded actuarial liability (UAL) decreased from \$16.2 million to \$3.4 million; the actuarial experience asset loss of \$0.5 million was offset by a liability gain of \$0.5 million; and there was an increase in the funded ratio from 85.4 percent to 97 percent. Assumption changes (discount rate from 7.25 percent to 7.0 percent, increase in salary scale, COLA assumption from 1.4 percent to 1.0 percent, and demographic changes) decreased the UAL by \$1.2 million. The actuarial liability increased to \$114 million, with a market value of assets of \$111 million, and an unfunded liability of \$3 million. The total County contribution has decreased from \$3.8 million to \$3 million, which is 11.72 percent of payroll. Projections were also reviewed. When asked, Cheiron noted that they use the NASRA public sector data base (183 plans) in determining the County's ranking with other Pension and OPEB Plans.

Cheiron continued their PowerPoint presentation for the OPEB Plan, which included a historical review, valuation results, and projections.

The OPEB Plan is currently 84 percent funded, with the County making additional contributions above the recommended ADC. Total participants increased from 674 to 687; there was an unfunded liability of \$8.7 million; the actuarial determined contribution increased from \$1.5 million to \$1.8 million primarily due to the change in the discount rate and assumption changes, which is a 7.50 percent of payroll contribution. Projected Outlook – Baseline information included assumptions of a 7.0 percent discount rate, ADC contributions, and a 29-year closed amortization. Projected Outlook – Contributions included assumptions of a 7.25 percent discount rate, budgeted contributions of 9.50 percent of pay, 29-year closed amortization, and assets projected to grow to 116 percent of expected liabilities by 2029.

The Committee thanked Ms. Cranna and Ms. Tempkin for their presentation.

Due to travel distances of the real estate presenters, it was the consensus of the Committee to revise the order of the agenda.

### 3. Asset Allocation Changes

#### a. Real Estate Presentation

In the Committee's consideration to add an additional 'real estate' asset class to the County's portfolio, the following two real estate investment firms were in attendance to make presentations.

1. Clarion Partners – Josh Kane, Senior Vice President and Account Manager; and Heather Hopkins, CPA, Managing Director, Lion Properties Fund Chief Financial Officer. Committee members were presented with a report entitled, "Lion Properties Fund".
2. Morgan Stanley – Megan Golder, Executive Director. Committee members were presented with a report entitled "Discussion Materials – Morgan Stanley Real Estate Investing Prime Property Fund, as of September 30, 2019".

With each presentation, discussion was held followed by a question and period. Both reports are made part of the meeting record.

- b. Other – Discussion and action can be found under Item 5. Pension and OPEB Changes.

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

Mr. Shone reaffirmed Cheiron’s reporting of the County’s prudence in the funding of their Pension and OPEB Plans.

Mr. Shone distributed copies of a report entitled, “Sussex County Quarterly Performance Report as of September 30, 2019”. The Investment Performance Report includes information regarding the market environment for the third quarter of 2019, as well as quarterly and annual performances of the Pension and OPEB Plans. Although the report should be referenced for a more detailed analysis, discussion highlights include:

Mr. Shone referred members to the Market Environment (Exhibit II).

Mr. Shone discussed the slowdown in the U.S. and worldwide economy and reported that Gross Domestic Product (GDP) growth was at 1.9 percent. Even with the slowdown of the economy, the stock market has performed very well, primarily due to short-term interest rate cuts by the Fed. Global asset class performance included: U.S. equities: up 20.1 percent year-to-date; international equities: up 13.4 percent year-to-date; emerging markets: up 5.9 percent year-to-date; and U.S. Bonds: up 8.5 percent year-to-date. U.S. REITs had a very strong year, showing a return of 28.5 percent year-to-date.

Mr. Shone directed members to the Pension Fund Performance Report (Exhibit III).

Observations as of September 30, 2019 included:

- The Pension Plan market value was \$111.7 million, and \$119.4 million at the end of October. The portfolio realized a third quarter gain of \$1.1 million, returning 0.9 percent (net); and a one-year gain of \$12 million, returning 11.7 percent.
- Positive attribution for the quarter resulted from MFS Low Volatility Global Equity
- Although not noted in the report, it was stated that negative attribution for the quarter resulted from the State Fund
- Looking Ahead/Recommendations: Real Estate Search and Rebalancing Considerations

The County’s total fund composite peer group rankings included: 6.1 percent over the last five years (59<sup>th</sup> percentile), 7.9 percent for three years (51<sup>st</sup> percentile); and 3.7 percent for one-year (59<sup>th</sup> percentile). The total equity composite (excluding the State) for the quarter was reviewed, as well as the State of Delaware Investment Pool, which performed lower than their benchmarks for the 3-month, year-to-date, one-year, 5-year, and since inception periods. The County’s investment management fees are 32

basis points (these fees would be lower if the County's portfolio did not include the State Pool).

Discussion was held regarding the State of Delaware's underperformance and the options open to the County. Due to the blending of topics, 'Asset Allocation Changes, item b. Other Changes' and Item 5. 'Marquette Service Proposal Revisited' were discussed together and included under the next agenda item.

5. **Pension and OPEB Changes**

In the Committee's lengthy discussion concerning the State of Delaware's performance, the possible addition of a real estate asset class to the County's portfolio, as well as diversification options, Mr. Shone noted four options: (1) do nothing, (2) take only a portion of the money from the State, with rebalancing, (3) take all monies from the State's portfolio, with portfolio restructuring, and (4) Marquette take over the selection (hiring and firing) of the portfolio managers. With Option 4, the fee with Marquette would increase \$60,000, or a net of \$35,000 taking into consideration Marquette's recent fee reduction of \$20,000-\$25,000.

Mr. Shone reviewed a separate handout entitled, "Sussex County Asset Allocation Options – Pension" which presented 4 possible options.

When asked to summarize the possible decisions before the Committee, Ms. Jennings noted: (1) revise the investment policy statement, (2) add a 'real estate' asset allocation to the County's portfolio, (3) decide how much to move out of the State, (4) decide which real estate firm to receive the State's five percent (5) a motion would need to be made to remove the money from the State into the County's current allocations, and (6) a motion would need to be made to expand Marquette's scope of services. Marquette's investment management fees would increase to 40 basis points for their two additional services (rebalancing regularly and managing portfolio managers).

A Motion was made by Mr. Lawson, seconded by Ms. Ryan, for the Pension Committee to recommend to the County Council to revise the Investment Policy Statements for the Pension and OPEB funds to include the following allocations that remove funds from the State of Delaware: U. S. Stocks – 49 percent; International Stocks – 16 percent; Fixed Income – 29 percent; Cash – 1 percent; and Real Estate – 5 percent.

Motion Adopted: 6 Yeas.

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

A Motion was made by Mr. Lawson, seconded by Ms. Roth, for the Pension Committee to recommend to the County Council to hire Clarion Partners to invest the County's five percent real estate allocation, if Council chooses not to hire Marquette Associates to perform Consulting Plus services.

Motion Adopted: 6 Yeas.

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

A Motion was made by Mr. Lawson, seconded by Ms. Brewington, for the Pension Committee to recommend to the County Council to expand the services of Marquette Associates to include Consulting Plus services.

Motion Adopted: 6 Yeas.

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

It was noted that these recommendations will be brought before Council at their December 17, 2019 Council meeting; Mr. Shone will be in attendance as well.

6. **2020 Meeting Dates**

Following are the meetings for 2020:

February 20, 2020  
May 14, 2020  
August 20, 2020  
November 19, 2020

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

7. **Public Comments**

None

8. **Additional Information**

No Additional Business.

9. **Adjourn**

At 12:47 p.m., a Motion was made by Ms. Ryan, seconded by Ms. Brewington, to adjourn. Motion Adopted by Voice Vote.

Respectfully submitted,

Nancy J. Cordrey  
Administrative Secretary