

ANNUAL REPORT – 2014

The Kent County Pension Review Committee's Annual Report to Kent County Levy Court - February 19, 2015



Structure and Purpose

The Kent County Pension Review Committee was established by Kent County Levy Court to advise the body on “the various aspects of the Kent County Employee Pension Fund.” The Committee is composed of three knowledgeable members of the community appointed by Levy Court – including David Craik, Christopher S. Smith, and Ronald D. Smith, and the Kent County Finance Director Susan Durham, Kent County Employee Council representative Kristopher Connelly, and the Kent County Comptroller Georgette Williams, who serves as an *ex officio* member. The Committee meets regularly on a quarterly basis to review the pension fund performance report and more often as needed to conduct additional business such as new fund manager interviews.

The Committee is also responsible for reviewing investment performance of the Retiree Benefits program (OPEB) invested with the State of Delaware Local Government OPEB Pool through the State Pension Office.

Kent County Levy Court serves as the Board of Trustees and is the fiduciary for both plans.

Investment Strategy

Record level asset growth in 2013 prompted the Committee to pursue further diversification of the portfolio by adding commodities and currencies to the asset mix through a Global Tactical Asset Allocation strategy. It also initiated a search for a new fixed income manager with a solid record of outperforming the indices. As a result the Committee recommended the Invesco Balanced-Risk Allocation for the new GTAA exposure. In addition, the Committee recommended the Rogerscasey Target Solutions LLC managed RCTS Core Fixed Income portfolio to replace Amalgamated Bank, which was selected in 2008 for its ability to match index performance. Levy Court approved both recommendations, which in turn prompted rebalancing of the portfolio with a \$3.2 million transfer from Wedge to Invesco and \$3 million from INTECH to Amalgamated Bank (RCTS Core Fixed Income).

Per the revised Pension Investment Policy adopted by Kent County Levy Court on March 11, 2014, the portfolio is structured to maintain an average balance of 22.5% for large capitalized US growth stocks, 22.5% for large capitalized US value stocks, 10% for international non-US growth stocks, 10% for balanced risk (GTAA), and 35% for fixed income. Rebalancing can occur as needed, but historically happens once per year upon transfer of the County's annual contribution.

Investment Managers

The Pension Fund's investment managers include INTECH (large cap growth) effective December 1, 2003; Wedge Capital Management (large cap value) effective October 1, 2004; Rogerscasey Target Solutions (international growth) effective June 1, 2013; Invesco (balanced risk/GTAA) effective May 1, 2014; and Amalgamated Bank (fixed income) effective May 1, 2008, which was replaced effective January 1, 2015 by RCTS Core Fixed Income. Segal Rogerscasey LLC serves as pension consultant responsible for independently evaluating investment manager performance. Wells Fargo Retirement Services performs pension custodian services including distribution of monthly pension checks/direct deposits.

Fund Performance

The pension fund's value increased \$1.4 million by the end of 2014 to \$33.3 million, up from \$31.9 million the previous year. This figure includes a \$1,478,654 annual contribution, which was higher than the \$1,409,205 recommended by pension fund actuary, Grant Thornton, LLC, in its report dated January 31, 2013. Over the one year period the total Fund value increased +7.37% while the comparative policy index (S&P 500, Barclays U.S. Aggregate, MSCI EAFE) grew +7.96% over the same time period. For the year, INTECH was behind the Russell 1000 growth Index (+13.05%) with a return of +10.06% in the large cap growth segment. Wedge Capital returned +13.55% in the large cap value segment, which outperformed the Russell 1000 Value Index

(+13.45%). Amalgamated Bank investments rebounded earning a notable +6.01% compared to the Barclays Capital Aggregate policy index (+5.97%) for the fixed income/bond segment. RCTS Target Solutions LLC (International Large Cap Core Equity) was behind the index with a return of -6.62%, compared to the MSCI EAFE (Net) index which returned -4.90% for the year. Invesco (Balanced Risk/Global Tactical Asset Allocation) returned +2.20%, which outperformed the MSCI World/40% Barclays Aggregate Index (+1.40%).

The retiree benefits fund managed by the State Pension Office performed well during the year growing +6.2% through its commingled investments compared to +6.3% for the policy benchmark for a year end market value of \$13,642,313.70, which included a net \$40,937.73 contribution (\$616,016 less \$575,078.27 for estimated retiree benefit costs in FY2014). At year's end, 93 retirees received County health benefits, 16 dependents were covered, and 16 retirees waived coverage.

Actuarial Valuations

The annual valuation was completed as of January 1, 2014 by Grant Thornton, LLC and recommended a contribution of \$1,573,046 for FY2015. The figure was \$156,921 higher than the previous \$1,418,125 recommendation, but only \$94,392 higher than the actual amount contributed (based upon the FY2013 figure). The next pension plan actuarial valuation is underway as of January 1, 2015. The biennial OPEB valuation was completed as of January 1, 2013 and recommended an annual contribution of \$616,016 for FY2014 & FY2015. The figure was \$45,009 lower than the previous \$661,025. The next OPEB valuation is also underway as of January 1, 2015.

Plan Changes

On November 14, 2014, the IRS approved the County's renewal application for a favorable Governmental Plan Determination Letter originally submitted on January 31, 2014. The tax exempt determination was contingent upon plan amendments to incorporate language related to military service death benefits and pre-tax provisions. Levy Court adopted the proposed amendments submitted with the original application on December 9, 2014 (Ordinance #14-20) and certified copies were forwarded to the Treasury Department. IRS regulations require resubmission of a determination letter application every 5-years under Cycle "C", which will be due by January 31, 2019.

Fund Expenses

Pension and fee payments are drawn from the fixed income (bond) segment and transferred to Wells Fargo, on a monthly basis. For 2014, pension payments totaled \$2,052,529.00 with a total of 181 recipients at year's end. The annual fee for pension consultant Segal Rogerscasey was \$32,500 (4th quarter 2013 payment of \$6,500 was included in 2014). The fund custodian fee paid to Wells Fargo Retirement Services was \$13,246.71 for processing checks, reports, and trades. Actuary expenses totaling \$24,180.50 were paid to Grant Thornton for the valuation, various studies, and pension benefit calculations. In 2014, fund manager fees were \$45,942.04 (INTECH-52bps), \$47,409.62 (Wedge-55bps), \$10,846.38 (Invesco-45bps), and \$14,218.74 (Amalgamated-12bps). Except for Wedge, which is paid directly, such fees are assessed from investment proceeds. Retiree benefits fund (OPEB) fees and expenses drawn from investment proceeds totaled \$3,416.50 in 2014

Comments and Recommendations

Geopolitical forces and declining energy prices adversely impacted equity market gains at the end of the year. The bond market fared significantly better in 2014 than in 2013. Overall, the County's Pension fund experienced growth in assets during the year, albeit less than the previous two calendar years. The Committee believes the changes to the investment strategy and underlying fund managers adopted in 2014 will add long-term value to the County's retirement program. Finally, the Committee thanks the Levy Court for promptly considering its many recommendations in 2014 to better position the portfolio for what could be an uncertain 2015.