

ANNUAL REPORT – 2015

The Kent County Pension Review Committee's Annual Report to Kent County Levy Court - February 18, 2016



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

Per the 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 was unnecessary in 2015 as the Committee directed investment of the County's entire annual contribution into the fixed income portfolio to replace regular pension payment/expense withdrawals.

Investment Managers

The Pension Fund's investment managers include INTECH (large cap growth) which started December 1, 2003; Wedge Capital Management (large cap value) which started October 1, 2004; Rogerscasey Target Solutions (international growth) which started June 1, 2013; Invesco (balanced risk/Global Tactical Asset Allocation) which started May 1, 2014; and RCTS Core Fixed Income (fixed income) which started January 1, 2015. 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 \$415,936 by the end of 2015 to \$32.9 million, up slightly from \$32.5 million the previous year. This figure includes a \$1,573,046 annual contribution as recommended by pension fund actuary, Grant Thornton, LLC, in its report dated March 11, 2014. Over the one year period the total Fund value increased +0.77% while the comparative policy index (S&P 500, Barclays U.S. Aggregate, MSCI EAFE) grew +0.99% over the same time period. For the year, INTECH was behind the Russell 1000 growth Index (+5.67%) with a return of +4.24% in the large cap growth segment. Wedge Capital returned +5.15% in the large cap value segment, which slightly underperformed the Russell 1000 Value Index (+5.64%). RCTS Core Fixed Income investments earned just +0.13% compared to the Barclays Capital Aggregate policy index (+0.55%) for the fixed income/bond segment. RCTS Target Solutions LLC (International Large Cap Core Equity) was ahead of the index with a return of +0.65%, compared to the MSCI EAFE (Net) index which returned -0.81% for the year. Invesco (Balanced Risk/Global Tactical Asset Allocation) lagged with a -3.15% return which underperformed the MSCI World/40% Barclays Aggregate Index (+0.26%).

The retiree benefits fund managed by the State of Delaware Pension Office experienced a relatively static year with a -0.3% return through its commingled investments compared to -0.5% for the policy benchmark for a year end market value of \$13,551,932.30, down slightly from \$13.6 million in 2014, and included a net -

\$13,559.11 negative annual contribution (\$616,016 less \$629,575.11 for estimated retiree benefit costs in FY2015). At year's end, 96 retirees received County health benefits, 19 dependents were covered, and 15 retirees waived coverage.

Actuarial Valuations

The annual valuation was completed as of January 1, 2015 by Grant Thornton, LLC and recommended an immediate lump sum contribution of \$1,687,002, however Kent County typically makes a partial contribution at the mid-point and near the end of the ensuing fiscal year. As a result, Grant Thornton recommended and the County budgeted \$1,821,962 for the FY2016 pension expense contribution. The figure was \$248,916 higher than the previous \$1,573,046 actuarial required contribution. The next pension plan actuarial valuation is underway as of January 1, 2016.

The biennial OPEB valuation was completed as of January 1, 2015 and recommended an annual contribution of \$785,111 for FY2016 & FY2017. The figure was \$169,095 higher than the previous \$616,016.

Plan Changes

While no formal plan (ordinance) amendments were adopted in 2015, Levy Court did consider the potential impact of Governmental Accounting Standards Board Rules #67 & #68 and approved a Committee recommendation on February 24, 2015 to change from the Projected Unit Credit to the Entry Age Normal funding method with a 20-year amortization for a 100% funding goal. For comparison purposes, the funding policy change resulted in an \$8.41 million unfunded liability and 79.2% funded ratio versus a \$6.93 million liability and 81.1% ratio under the former PUC method as of January 1, 2014.

Fund Expenses

Pension and fee payments are drawn from the fixed income (bond) segment and transferred to Wells Fargo, on a monthly basis. For 2015, pension payments totaled \$2,185,547.08 with a total of 189 recipients at year's end. The annual fee for pension consultant Segal Rogerscasey was \$26,000. The fund custodian fee paid to Wells Fargo Retirement Services was \$15,966.49 for processing checks, reports, and trades. Actuary expenses totaling \$20,241.50 were paid to Grant Thornton for the valuations, various studies, and pension benefit calculations. In 2015, fund manager fees were \$42,570.43 (INTECH-52bps), \$42,481.26 (Wedge-55bps), \$15,069.40 (Invesco-45bps), and no direct fees for the two RCTS funds. 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 \$4,978.48 in 2015.

Comments and Recommendations

The equity markets experienced volatility in 2015, driven by declining oil prices, a strengthening US Dollar and domestic and international monetary policy. After much anticipation, the Federal Reserve increased the Federal Funds Rate by 25 bps in December. The broad domestic equity and bond markets fared about the same for the year. Overall, the County's Pension fund gained for the year. The Committee believes the current investment structure, which incorporates changes made to the investment strategy and underlying fund managers adopted in 2014 will continue to add long-term value to the County's retirement program. Finally, the Committee thanks the Levy Court for addressing the new GASB rules and its financial implications in 2015, and respectfully requests prompt consideration of its mortality table and asset experience recommendations for the 2016 pension valuation.