KENT COUNTY PENSION REVIEW COMMITTEE
Quarterly Meeting Minutes
Thursday, August 17, 2017
Kent County Administrative Complex
555 Bay Road, Dover, DE

Call to Order & Determination of a Quorum: 2:05 p.m.

Members Present:
Susan Durham, Vice-Chair
Kristopher Connelly
Timothy R. Horne
Michael Petit de Mange
Christopher S. Smith
Ronald D. Smith

Members Absent:
David C. Craik, Chairman

Others Present:
Allan Angel, Levy Court Commissioner
Allan Kujala, Personnel Director
Tanya Laytin, Segal Marco Advisors

Vice-Chair Durham presiding.

Call of the roll revealed a quorum was present.

1. Approval of the Agenda.

A motion was made by Mr. Petit de Mange, seconded by Mr. Horne, and carried unanimously to approve the agenda as presented.

2. Approval of the Minutes of May 18, 2017 meeting.

A motion was made by Mr. Petit de Mange, seconded by Mr. Connelly, and carried unanimously to approve the minutes for the meeting held on May 18, 2017.

3. Segal Marco Advisors – 2nd Quarter 2017 Fund Performance Report.

Senior Analyst Tanya Laytin presented an "Analysis of Investment Performance" through June 30, 2017. The report showed the value of total pension assets was $38,362,762 with a quarterly increase of +$1,467,670 (+1,083,230 partial annual contribution, +$998,150/investment gains, +$47,254/income, -$660,964/withdrawals). At quarter's end after rebalancing the portfolio in conjunction with the second half-year contribution, 45.80% of the assets were invested in domestic equities, 10.25% in international equities, 9.63% in global tactical asset allocation (balanced), 33.78% in fixed income, and 0.54% in cash. For the quarter, the County pension fund returned +2.87%, slightly above the +2.52% Policy index. For the one year period, the Total Fund outperformed the Policy Index +11.80% vs. +9.72%, and for the three year period it outperformed the Policy Index +5.89% versus +5.43%. Since inception, the Total Fund has returned +9.82% compared to +8.99% for the

Policy Index.

INTECH (*Large Cap Growth – 23.21%*), which started December 1, 2003, outperformed for the quarter with a return of +5.19% compared to +4.67% for the Russell 1000 growth index. For the one year, INTECH returned +19.40% versus +20.42% for the comparative index, and maintains a +8.70% return rate compared to +8.91% for the index after 10 years.

Wedge Capital (*Large Cap Value – 23.13%*), which started October 1, 2004, outperformed for the quarter with a return of +2.65% compared to +1.34% for the Russell 1000 value index. The Wedge investment returns for the one year period are +18.92% compared to +15.53% for the index and maintains a +6.42% return rate compared to +5.57% for the index after 10 years.

Rogerscasey Target Solutions Large Cap Core International (*International – 10.25%*), which started on June 1, 2013, underperformed for the quarter with a return of +4.71% compared to +6.12% for the MSCI NET EAFE index. For the one year period, RCTS returned +19.54% compared to +20.27% for the index and for the three year period it outperformed the Policy Index +1.60% versus +1.15%.

Invesco Balanced-Risk Allocation (*GTAA – 9.63%*) was established May 1, 2014 and underperformed for the quarter with a return of -0.15% compared to +3.10% for the 60%MSCI World/40% Barclays Aggregate. The balanced risk investment returns were +4.35% compared to +10.85% for the policy index after 1 year.

Rogerscasey Target Solutions Core Fixed Income (*Fixed Income – 33.78%*), started on January 1, 2015, and outperformed the index for the quarter with a return of +1.58% compared to +1.45% for the Bloomberg Barclays U.S. Aggregate Bond. The Bond composite investment returns for the one year period are +0.07% compared to -0.31% for the index and maintains a +6.71% return rate compared to +6.58% for the index since inception.

Ms. Laytin reported that equities continued to rally in the first quarter and noted that the Federal Reserve had increased the interest rate again in March. She pointed out that commodities declined due to depressed crude oil prices.

Ms. Layton advised that the portfolio was rebalanced per the Committee's instructions before the end of the fiscal year.

4. OPEB Pool – 2nd Quarter 2017 Local Gov't Retiree Benefits Performance Report.

The State Pension Office reported that the Delaware Local Government OPEB Pool fund experienced a quarterly gain of +2.9% compared to +3.0% for the Russell 3000 policy index, and was +10.6% for the one year period compared to +18.5% for the index. The State Pension fund return was reported as +3.1% for the quarter compared to +2.9% for the DPERS Policy Benchmark and +6.8% compared to +7.2% for the one year period.

The unaudited OPEB quarterly report showed a market balance of $15,749,064.58 with a quarterly increase of +845,148.52. From April 1, 2017 through June 30, 2017, the County's portion of the fund (4.36%) increased by +5.67% (+$785,111.00 annual contribution, -$384,736.09 partial withdrawal #2 for retiree healthcare expenses, +$39,250.57 interest, +$62,777.36 dividends, +$173.72 net change/accrued income, +$329,647.10 unrealized gain/loss change, +$14,249.01 realized gain/loss; $-77.59 custodian fees, and -$1,246.56 investment manager/advisory fees).

5. Staff – Levy Court action on Pension & OPEB Benchmarking/Cost Containment Study Recommendation.

Mr. Kujala reported that on June 13, 2017, Levy Court considered the Committee's recommendation that the actuary (Nyhart) conduct a Benchmarking/Cost Containment Study for the Pension and OPEB programs to develop specific recommendations to stabilize or reduce program liabilities, but the proposal failed to secure a second to the motion to initiate the study. He said Commissioners expressed concern about possible study recommendations as they relate to potential increased employee contributions, benefit reductions, plan design adjustments, etc. He said discussion indicated some support for the benchmarking component of the study by in-house staff, but no clear direction was given.

Mr. Horne expressed dismay by the decision not to proceed and said the issue could become critical in the future.

6. Staff – FY2017 Pension & OPEB Contributions/Rebalancing update.

Mr. Kujala reported that the final half of the annual pension contribution of $1,083,230 was contributed to the RCTS Core Fixed Income account by the end of the second quarter. In addition, per Committee instruction the portfolio was rebalanced with $1,200,000 from INTECH (large cap growth equities) and $1,400,000 from Wedge (large cap value equities) distributed to the RCTS Large Cap Core International ($500,000) and RCTS Core Fixed Income ($2,100,000) funds.

Mr. Kujala also advised that the annual retiree benefits contribution of $785,111 to the State of Delaware OPEB Pool managed through the State Pension Office was completed before the end of the second quarter along with a withdrawal of $384,736.09 as a partial annual reimbursement (#2) to the County for retiree benefit expenses.

He noted that annual contributions of $2,743,160 for the pension plan and $1,366,633 for OPEB were budgeted for FY2018.

7. Staff – Final OPEB Valuation Report (July 1, 2017).

Mr. Kujala advised that the actuary could not finalize the OPEB Actuarial Valuation as of June 30, 2017 drafted earlier this year until they received official confirmation the annual contribution of $785,111 had been made. He reported that confirmation had been provided, but the final report was not completed in time for this meeting as anticipated. He expected the actuarially determined contribution of $1,366,633 for Fiscal Year 2018, which amounts to an increase of $581,522 over the prior biennial valuation, will remain unchanged.

8. Segal Marco Advisors – Pension Portfolio Diversification Fund Manager Search.

Ms. Laytin presented an "Investment Strategy Study" report dated August 2017 with various Asset Allocation Scenarios summarized as follows:

Objectives:

- *Global capital markets are likely to continue to see increased volatility in 2017 and beyond could stem from a slowdown in global growth, geopolitical risk, and responses to divergent monetary policy including a continued rise in interest rates in the U.S. Therefore, the reassessment of the strategic asset allocation is appropriate and timely.*
- *The objective of this presentation is to offer suggestion on how the Plan can potentially increase risk-adjusted returns through diversification and the addition of additional investment mandates that could navigate the uncertain markets that lie ahead.*
- *The Plan, as it is currently constructed, has performed well in recent periods. The considerations that Segal Marco Advisors is putting forth represent alternative asset allocations that we believe could provide increased returns based on your risk profile and current market conditions.*

Implementation Considerations:

- *Addition of Real Estate portfolio to provide an uncorrelated diversifier with a steady income stream,*
- *Diversification in the fixed income and equity segments to include a more global investment strategy,*
- *Focusing on the notion of increased flexibility, the continuation of a Global Tactical Asset Allocation (GTAA) strategy that can capture near term investment opportunities,*
- *Decreased risk exposure to domestic equity.*

Observations:

- *Status of Plan: The Plan has experienced negative cash flow during eight of the last ten calendar years. Asset growth will continue to be driven primarily by investment earnings.*
- *Liquidity Risk: Moderate; Should maintain investments in strategies with liquidity and pay attention to cash flow pattern.*
- *Volatility Risk: Moderate given equity exposure, but should use strategies to further diversify investments.*
- *Inflation Risk: Moderate to high given fixed income allocation, should seek strategies to hedge inflation.*
- *Expense control; continued to manage costs as high expense programs can erode the investment earnings.*

Asset Allocation:

- *A plan sponsor can impact the expected return and risk by:*
    - *Maintaining current asset classes, but changing allocation targets*
    - *Maintaining current asset classes and targets, but changing implementation (structure)*

  - *Introducing new asset classes*
  - *Combining all of the above*
- *Implementation or structure issues revolve around:*
  - *Type of management (active vs. passive)*
  - *Investment approach (dedicated vs. opportunistic)*
  - *Investment policy (limitations and restrictions)*

Asset Allocation Scenarios:

	Current Mix	Asset Mix 1	Asset Mix 2	Asset Mix 3
Equity	**55.0%**	**50.0%**	**52.5%**	**50.0%**
U.S. Equity	45.0%	40.0%	40.0%	40.0%
International (Developed) Equity	10.0%	10.0%	10.0%	7.5%
Emerging Markets Equity	0.0%	0.0%	2.5%	2.5%
Fixed Income	**35.0%**	**30.0%**	**32.5%**	**30.0%**
Core Fixed Income	35.0%	30.0%	26.0%	23.5%
High Yield	0.0%	0.0%	3.25%	3.25%
Emerging Markets Debt	0.0%	0.0%	3.25%	3.25%
Other	**10.0%**	**20.0%**	**15.0%**	**20.0%**
GTAA	10.0%	10.0%	15.0%	10.0%
Real Estate – Core	0.0%	10.0%	0.0%	10.0%
Average Return	**6.9%**	**7.0%**	**7.2%**	**7.2%**
Standard Deviation	**10.5%**	**10.0%**	**11.1%**	**10.4%**
Sharpe Ratio	**0.36**	**0.39**	**0.37**	**0.40**

Portfolio Implementation – Equities

- *We believe that a home-country bias can limit the equity opportunity set available to investors.*
- *Economic data shows that the U.S. has become less relevant from a global investment perspective*
- *Structuring the Equity Portfolio*
  - *Move towards a greater balance between domestic and international equities*
  - *Utilize active management effectively which can improve the risk/return profile*
- *Implementation:*
  - *Dedicated emerging markets mandate through RCTS commingled trust*

Portfolio Implementation – Fixed Income

- *We believe the current market environment offers investors attractive opportunities in some traditional and non-traditional fixed income markets.*
  - *Rising interest rate environment*
  - *Regulatory restrictions for financial institutions*
  - *Reduction in traditional lenders*

- *Structuring the Fixed Income Portfolio*
  - *Consider more diversification beyond current core focused strategy*
  - *Expand portfolio to include high yield and emerging market debt*
- *Implementation:*
  - *Dedicated high yield and emerging markets mandates through RCTS commingled trust*

What is Private Real Estate?

- *Commercial real estate includes investments in multifamily (5+ units) and all non-farm buildings.*
- *Typically a commercial real estate portfolio will include office (both suburban and central business district), retail (grocery anchored, shopping center, big box, etc.), industrial (warehouses), multi-family and hotel.*
- *In the last few years we have seen more institutional investment in other property types including self-storage, medical office, student housing and assisted living.*
- *The majority of commercial real estate is owned by owner-users.*
- *The U.S. government is the single largest owner of commercial real estate in the United States, accounting for approximately 23% of the total.*
- *Significant potential exists to increase the available opportunity set.*
- *Examples include:*
  - *Corporate property owners and financial institutions may monetize their holdings.*
  - *Institutional buyers (primarily REITs) are entering specialty sectors, such as golf courses, prisons, and student housing.*

Why Invest in Private Real Estate?

- *Attractive risk/return characteristics*
  - *Core real estate returns typically fall between stocks and bonds.*
  - *Opportunity for higher private equity type returns in value-added and opportunistic real estate strategies.*
- *High income potential*
  - *Approximately 85% of core real estate's total return is derived from income.*
- *Diversification*
  - *Low correlation with traditional investments mitigates overall portfolio risk.*
- *Inflation hedge*
  - *Real estate is a real asset and with certain property types can serve as a hedge against inflation.*
- *Investment horizon*
  - *Investors with longer term view benefit from income and upside potential.*

Why Invest in Private Real Estate?

- *Attractive risk/return characteristics:*

Performance as of June 30, 2017					
	1 Year	3 Years	5 Years	10 Years	15 Years
NCREIF Property Index	6.97	10.17	10.49	6.42	9.02
NCREIF Fund Index – ODCE*	7.87	11.34	11.79	5.25	8.27
Russell 3000 Index	18.51	9.10	14.58	7.26	8.66
MSCI EAFE Index	20.83	1.61	9.18	1.50	6.79
Barclays Capital U.S. Aggregate	-0.31	2.48	2.21	4.48	4.48

Potential Investment Manager Roster with Fees:

Manager	Strategy	Vehicle	Fees (bps)	MV: Mix 1	Fees: Mix 1	MV: Mix 2	Fees: Mix 2	MV: Mix 3	Fees: Mix 3
Equity				**$19,181,381**		**$20,140,450**		**$19,181,381**	
US LCV	WEDGE	Separate Account	55	$7,672,552	$42,199	$7,672,552	$42,199	$7,672,552	$42,199
US LCG	INTECH	Commingled Fund	52	$7,672,552	$39,897	$7,672,552	$39,897	$7,672,552	$39,897
International Equity	RCTS	Commingled Fund	60	$3,836,276	$23,018	$3,836,276	$23,018	$2,877,207	$17,263
Emerging Markets Equity	RCTS	Commingled Fund	91	$0	$0	$959,069	$8,728	$959,069	$8,728
Fixed Income				**$11,508,829**		**$12,467,898**		**$11,508,829**	
Core Fixed Income	RCTS	Commingled Fund	25	$11,508,829	$28,772	$9,974,318	$24,936	$9,015,249	$22,538
High Yield	RCTS	Commingled Fund	45	$0	$0	$1,246,790	$5,611	$1,246,790	$5,611
Emerging Markets Debt	RCTS	Commingled Fund	78	$0	$0	$1,246,790	$9,725	$1,246,790	$9,725
Other				**$7,672,552**		**$5,754,414**		**$7,672,552**	
GTAA	Invesco	Commingled Fund	45	$3,836,276	$17,263	$5,754,414	$25,895	$3,836,276	$17,263

Real Estate – Core	TBD	Commingled Fund	100*	$3,836,276	$38,363	$0	$0	$3,836,276	$38,363
TOTAL ($)				**$38,362,762**	$189,512	**$38,362,762**	$180,008	**$38,362,762**	$201,587
TOTAL (bps)					0.49%		0.47%		0.53%

* *Estimate based on median fee for open-ended core real estate funds*

2017 Segal Marco Advisors Asset Class Assumptions (20 Year):

Asset Class	20yr Return	Stdev
Core Fixed Income	4.11%	5.50%
High Yield	6.61%	11.00%
Emerging Markets Debt (50% LC)	6.91%	10.50%
US Equity - Large Cap	8.51%	17.00%
Developed Equity	9.71%	21.00%
Emerging Markets Equity	11.81%	25.00%
MACS (GTAA)	7.10%	9.00%
Real Estate - Core	7.21%	11.50%

Ms. Laytin noted that 80% to 90% of portfolio returns are based on the asset allocation position rather than specific fund manager selection. The study focused on improving the Risk-Return profile for the plan.

After much discussion, members expressed interest in additional asset diversification especially in Scenario Mix #3 featuring emerging markets and real estate exposure with the current 10% commodity allocation, but requested that Ms. Laytin further research additional mixes which included keeping Developed International at 10%, not increasing GTAA, and starting with a 5% allocation to Real Estate and she was asked to compare the recovery rates of the proposed allocation scenarios to that of the U.S. equity fund performance experienced by the County plan after the 2000-02 and 2008 market slumps.

9. Staff – Quarterly Pension Activity Report.

Mr. Kujala presented the Quarterly Pension Activity Reports to keep the Committee members apprised of the administrative changes to the pension fund. A summarized version of the report is presented below:

Quarterly Pension Activity Report

Pension Payment Date	Gross $ Paid	# Recipients	Comments
August 1, 2017	$209,713.88	204	+1(R)
July 1, 2017 (+1% cola)	$208,948.36	203 ($2,063.63)	+1(P); -1(R).; +1% COLA
June 1, 2017	$206,620.41	203	+1(R); -1(R); -1(P); +1(B)
May 1, 2017	$206,065.58	203	+1(P)
April 1, 2017	$205,847.62	202	+1(R); -1(B)

March 1, 2017	$204,288.70	202	+1(R) & Int. Adj ($8.77)
February 1, 2017	$203,004.95	201	+1(R); -1(P); +1(B)
January 1, 2017	$200,867.97	200	+3(R)
December 1, 2016	$196,275.58	197	+1(P)
November 1, 2016	$196,079.70	196	-1(P); +1(B)
October 1, 2016	$196,379.14	196	+5(P)
September 1, 2016	$193,611.54	191	-1(R)
August 1, 2016	$194,242.63	192	+1(R); +1(P); -1(B)
July 1, 2016 (+1% cola)	$193,619.76	191 (+1,917.03)	
June 1, 2016	$191,702.73	191	+1(R); +1(P); -1(P); +1(B)
May 1, 2016	$186,901.13	189	-1(R)
April 1, 2016	$187,514.87	190	
March 1, 2016	$187,514.87	190	+1 (R); -1(R)
February 1, 2016	$187,959.42	190	
January 1, 2016	$187,959.42	190	+1 (R)
Pending Pensions - Type	**Effective Date**	**Service Years/Age**	**Estimated Benefit**
(P)	11/01/17	5.2 yrs; 62	$196.18/mo. Life?
(R)	09/01/17	28 yrs; 55	$2,981.71/mo. Life
(R)	09/01/17	17.9 yrs; 71	$1,221.12/mo. CA100%
Pensions started – Type	**Effective Date**	**Service Years/Age**	**Monthly Benefit/Type**
+ *(R)*	08/01/17	9 yrs; 66	$765.52/mo. Life
+ *(P)*	07/01/17	15.3 yrs; 60	$519.09/mo. Life
- *(R)*	07/01/17*		-$254.77/mo. *Died 05/22/17w/life benefit (retro to 06/01/1*
+ *(R)*	06/01/17	17.2 yrs; 70	$1,183.60/mo. CA100%
- *(R)*	06/01/17		-$585.64/mo. *Died 05/03/17 w/life benefit*
+ *(B)*	06/01/17*		$243.42/mo. Life *(retro to 05/01/17)*
- *(P)*	06/01/17*		-$286.55/mo. *Died 04/47/17 w/beneficiary*
+ *(P)*	05/01/17*	8 yrs; 62	$217.96/mo. CA100% *(retro to 04/01/17)*
- *(B)*	04/01/17*		-$323.56/mo. *Died 02/20/17 (retro to 03/01/17)*
+ *(R)*	04/01/17	25.4 yrs; 69	$1,882.48/mo. CA100%
+*(R)*	03/01/17	13.4 yrs; 62	$1,268.12/mo. CA100% *(receives COD pension)*
+*(R)*	02/01/17	27 yrs; 60	$2,195.38/mo. Life
+*(B)*	02/01/17*		$92.75/mo. Life *(retro to 01/01/17)*
- *(P)*	02/01/17*		-$151.15/mo. *Died 12/27/16 w/beneficiary*
+*(R)*	01/01/17	16.1 yrs; 67	$1,165.60/mo. Life
+*(R)*	01/01/17	26.2 yrs; 62	$2,619.79/mo. CA50%
+*(R)*	01/01/17	12.5 yrs; 73	$807.00/mo. Life
+*(P)*	12/01/16	6.1 yrs; 62	$195.88/mo. CA50%
+*(B)*	11/01/16*		$187.47/mo. Life *(retro to 10/01/16)*
-*(P)*	11/01/16*		-$486.91/mo. *Died 09/20/16 w/beneficiary*
+*(P)*	10/01/16	6.0 yrs; 62	$216.43/mo. Life
+*(P)*	10/01/16	19.8 yrs; 60	$606.53/mo. CA100%
+*(P)*	10/01/16	19.4 yrs; 60	$1,149.18/mo. CA100%
+*(P)*	10/01/16*	8.0 yrs; 62	$171.91/mo. CA100% *(retro to 07/01/16)*
+*(P)*	10/01/16*	7.8 yrs; 62	$623.55/mo. CC10yrs *(retro to 07/01/16)*
- *(R)*	09/01/16		-$631.09/mo. *Died 08/10/16*
+*(P)*	08/01/16	11.1 yrs; 62	$286.73/mo. CA50%
- *(B)*	08/01/16		-$132.84/mo. *Died 07/04/16*
+*(R)*	07/01/16	9.8 yrs; 63	$468.98/mo. CA50%

R=Retiree from active service; P=Pensioner, vested former employee; B=Beneficiary of deceased participant; QB=QDRO beneficiary; *benefit addition or deletion retroactive to eligibility month. *Life=Life Annuity; CA=Contingent annuitant (beneficiary) & %; CC=Continuous & certain for # years*

10. Any other additional business properly brought before the Committee:

None.

11. Next Meeting.

By consensus, Committee members agreed to schedule the next quarterly meeting for Thursday, November 16, 2017 at 2:00 p.m.

A motion was made by Mr. Horne, seconded by Mr. Connelly, and carried unanimously to adjourn the meeting at 3:05 p.m.

Minutes drafted by Allan Kujala and are subject to change at a future Committee meeting