

KENT COUNTY PENSION REVIEW COMMITTEE
Quarterly Meeting Minutes
Thursday, February 15, 2018
Kent County Administrative Complex
555 Bay Road, Dover, DE

Call to Order & Determination of a Quorum: 2:00 p.m.

Members Present:

David C. Craik, Chairman
Susan Durham, Vice-Chair
Kristopher Connelly
Timothy R. Horne
Michael Petit de Mange
Christopher S. Smith
Ronald D. Smith

Members Absent:

None

Others Present:

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

Chairman Craik presiding.

Call of the roll revealed a quorum was present.

1. Approval of the Agenda.

Agenda was approved as presented without objection.

2. Approval of the Minutes of November 16, 2017 meeting.

A motion was made by Ms. Durham, seconded by Mr. Connelly, and carried unanimously to approve the minutes for the meeting held on November 16, 2017.

3. Segal Marco Advisors – 4th Quarter 2017 Fund Performance Report.

Senior Analyst Tanya Laytin presented an “Analysis of Investment Performance” through December 31, 2017. The report showed the value of total pension assets was \$40,282,394 with a quarterly increase of +1,076,202 (+\$1,696,371/investment gains, +\$41,243/income, -\$661,412/withdrawals). At quarter’s end, 49.39% of the assets were invested in domestic equities, 10.84% in international equities, 9.90% in global tactical asset allocation (balanced), 29.35% in fixed income, and 0.52% in cash. For the quarter, the County pension fund returned +4.47%, well above the +3.55% Policy index. For the one year period, the Total Fund outperformed the Policy Index +17.15% vs. +13.29%, and for the three year period it outperformed the Policy Index +8.21% versus +6.81%. Since inception, the Total Fund has returned +9.94% compared to +9.06% for the Policy Index.

INTECH (Large Cap Growth – 24.84%), which started December 1, 2003,

underperformed for the quarter with a return of +5.93% compared to +6.64% for the Russell 1000 growth index. For the one year, INTECH returned +30.50% versus +30.21% for the comparative index, and maintains a +9.48% return rate compared to +10.00% for the index after 10 years.

Wedge Capital (Large Cap Value – 25.08%), which started October 1, 2004, outperformed significantly for the quarter with a return of +7.13% compared to +5.33% for the Russell 1000 value index. The Wedge investment returns for the one year period are +21.64% compared to +13.66% for the index and maintains a +8.37% return rate compared to +7.10% for the index after 10 years.

Rogerscasey Target Solutions Large Cap Core International (International – 10.84%), which started on June 1, 2013, underperformed for the quarter with a return of +4.14% compared to +4.23% for the MSCI NET EAFE index. For the one year period, RCTS returned +24.96% compared to +25.03% for the index and for the three year period it outperformed the Policy Index +8.70% versus +7.80%.

Invesco Balanced-Risk Allocation (GTAA – 9.90%) was established May 1, 2014 and outperformed for the quarter with a return of +5.14% compared to +3.51% for the 60%MSCI World/40% Barclays Aggregate. For the one year period, the balanced risk investment returns were +10.96% compared to +14.90% for the policy index year and for the three year period it underperformed the Policy Index +6.57% versus +6.92%.

Rogerscasey Target Solutions Core Fixed Income (Fixed Income – 29.35%), started on January 1, 2015, and underperformed the index for the quarter with a return of +0.41% compared to +0.39% for the Bloomberg Barclays U.S. Aggregate Bond. The Bond composite investment returns for the one year period are +3.65% compared to +3.54 for the index and the fixed income allocation maintains a +6.64% return rate compared to +6.52% for the index since inception on January 1, 1986.

Ms. Laytin reported that all markets were positive in 2017 with very strong 4th quarter returns for emerging markets and international equities. She noted that the federal tax reduction package finally adopted by Congress before Christmas appeared to drive up the equity markets and volatility was virtually non-existent. So far in 2018, Ms. Laytin said inflation fears and the likelihood the Federal Reserve will raise interest rates faster than anticipated has caused the markets to become a bit jittery. She said the County pension fund had a great quarter and a great year with +17% in 2017, which she said made it the best performing fund among Segal clients.

Ms. Layton also pointed out the fund crossed the \$40M mark for the first time and had fully recovered from the losses resulting from the mortgage crisis in 2008 when the fund stood at just \$18.3M.

4. OPEB Pool – 4th 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 +3.6% compared to +6.3% for the Russell 3000 policy index, and was +14.7% for the one year period compared to +21.1% for the index. The State Pension fund return was reported as +3.9% for the quarter compared to +3.6% for the DPERS Policy Benchmark and +14.0% compared to +14.8% for the one year period.

The unaudited OPEB quarterly report showed a market balance of \$16,831,331.07 with a quarterly increase of +\$76,051.75. From October 1, 2017 through December 31, 2017, the County's portion of the fund (4.31%) increased in value by +3.54% (+\$41,734.98 interest, +\$63,887.51 dividends, +\$1,112.77 net change/accrued income, +\$400,037.04 unrealized gain/loss change, +\$70,690.54 realized gain/loss, \$-96.96 custodian fees, and -\$1,314.13 investment manager/advisory fees).

5. Staff – Portfolio Diversification/Fund Manager recommendation update.

Mr. Kujala reported that Levy Court (Board of Trustees) met on January 30, 2018 and approved the Committee's recommendation to diversify the portfolio by amending the Statement of Overall Investment Objectives and Policy for the Kent County Employee Retirement Program to incorporate asset allocations for Emerging Markets Equity (2.50%), High Yield bond (3.50%), and Private Real Estate (4.00%).

In addition, he reported that Levy Court approved the Committee's recommendation for the selection of Principal Real Estate Investors as fund manager for the Core Real Estate allocation and RCTS as fund manager for both the Emerging Market Equities and High Yield bond allocations.

Ms. Laytin advised that the liquidation of assets by Wedge and Intech has been initiated and along with the County's annual contribution (\$2,743,160) will be utilized to rebalance the portfolio and fund the new allocations. She said the process should be completed by the end of February.

Mr Horne asked about the wisdom of following through with the High Yield investment in light of recent losses in the sector.

Ms. Layton noted the relatively small sum allocated to sector and acknowledged the recent volatility however, she said Segal continues to believe High Yield exposure will prove to be an opportunity for the pension fund on a long term basis.

6. Staff – Annual Pension Valuation update.

Mr. Kujala advised that the detailed employee census along with fund performance information from the various managers has been submitted to the actuary for completion of the annual valuation. He said the actuary expects to have a preliminary annual contribution figure by March 1 for County budgeting purposes. The final report would be completed soon thereafter. He reported that a contribution increase is expected due to the phased reduction

of the fund return assumption (discount rate) from 7.75% to 7.50% as recommended by the Committee and approved by Levy Court last year.

7. Staff – Draft 2017 Annual Report to Levy Court.

Mr. Kujala noted that the Committee submits an Annual Report to Levy Court each year and a rough draft version had been emailed in early February for review prior to this meeting. He advised that details were incorporated about the experience study and resulting assumption adjustments adopted for both the pension and retiree benefit plans. Along with updated performance figures in the final draft, language was also added about the proposed plan benefit review and the Committee’s recommendation about the benchmarking study.

A motion was made by Mr. Horne, seconded by Mr. R. Smith and carried unanimously to submit the final draft Annual Report to Levy Court as presented.

8. 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
February 1, 2018	\$222,215.56	211	+4(R); +1(B); +1(P)
January 1, 2018	\$210,550.62	205	
December 1, 2017	\$210,550.62	205	
November 1, 2017	\$210,550.62	205	-1(R); +2(P)
October 1, 2017	\$211,077.81	204	-1(R)
September 1, 2017	\$212,260.27	205	+2(R); -2(R); +1(B)
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)
Pending Pensions - Type	Effective Date	Service Years/Age	Estimated Benefit
(R)	07/01/18	17.7 yrs; 66	\$1,343.96/mo. Life?
(P)	06/01/18	7.1 yrs; 62	\$270.79/mo. Life?
(P)	03/01/18	11.1 yrs; 62	\$463.65/mo. Life?
(R)	03/01/18	29 yrs; 59	\$2,376.19/mo. Life
(P)	02/01/18	14.1 yrs; 62	\$912.36/mo. Life?
Pensions started – Type	Effective Date	Service Years/Age	Monthly Benefit/Type
+ (R)	02/01/18	30.3 yrs; 64	\$3,100.10/mo.* CA100%
+ (R)	02/01/18	15.7 yrs; 68	\$1,725.37/mo.* CA100%
+ (R)	02/01/18	18.6 yrs; 60	\$2,306.08/mo.* CA50%
+ (R)	02/01/18*	33.9 yrs; 61	\$2,408.43/mo. CA100% (retro to 01/01/18)
+ (B)	02/01/18*		\$1,147.83/mo. Life (retro to 01/01/18)

+ (P)	02/01/18*	8.8 yrs; 62	\$977.13/mo. Life (retro to 12/01/17)
+ (P)	11/01/17	5.2 yrs; 62	\$171.25/mo. CA100%
+ (P)	11/01/17	8.1 yrs; 62	\$290.32/mo. Life
- (R)	11/01/17*		-\$988.76/mo. Died 09/25/17w/life benefit (retro)
- (R)	10/01/17		-\$1,182.46/mo. Died 09/08/17 w/life benefit
+ (B)	09/01/17*		\$325.64/mo. Life (retro to 08/01/17)
- (R)	09/01/17*		-\$418.76/mo. Died 07/21/17 w/beneficiary
- (R)	09/01/17		-\$1,563.32/mo. Died 08/16/17
+ (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%
+ (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 06/01/17)
+ (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

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

9. Staff – SegalMarco Advisors fee adjustment.

Mr. Kujala advised that pension fund’s investment consultant has submitted a request for a fee adjustment. He asked Ms. Layton to review the proposal.

Mr. Laytin noted that the current fee of \$26,000 for the Fund has been in place for 14 years, since July 1, 2003. She said Segal Marco Advisors seeks a two year contract, effective April 1, 2018, and a \$12,000 increase, which would bring the annual retainer fee to \$38,000. She noted that company is an independent consulting firm, so revenue is generated solely by clients, which in turn allows them to provide non-biased advice. She said the company is committed to improved quality of service and has increased the number of professionals in the research group to over 40 to ensure the quality of manager search, due diligence, and market coverage capabilities. In addition, the company has invested in upgrades to the analytical tools and software packages for robust research. Finally, she noted that the cost of business operations has increased.

After some discussion about typical consulting fees charged other pension plans, a motion was made by Mr. Horne, seconded by Mr. C. Smith and carried unanimously to recommend to Levy Court approval of the proposed \$38,000 annual retainer for Segal Marco Advisors.

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

A. Invesco Fee reduction.

Ms. Laytin reported that Segal Marco was recently able to secure a fee reduction from Invesco, the balanced risk (Global Tactical Asset Allocation) fund manager, from 45 basis points to 37.5 bps.

11. Next Meeting.

By consensus, Committee members agreed to schedule the next quarterly meeting and Annual Appreciation Lunch for Thursday, May 17, 2018 at 12:00 noon at Roma Restaurant or restaurant to be determined.

A motion was made by Mr. R. Smith, seconded by Mr. Connelly, and carried unanimously to adjourn the meeting at 2:30 p.m.

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