

KENT COUNTY PENSION REVIEW COMMITTEE

Quarterly Meeting Minutes

Thursday, May 20, 2021

Kent County Administrative Complex

555 Bay Road, Dover, DE

Properly posted meeting conducted via teleconference due to COVID-19 pandemic

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 Minutes of February 18, 2021 meeting.

A motion was made by Mr. Horne, seconded by Ms. Durham, and carried unanimously to approve the minutes for the meeting held on February 18, 2021.

2. Segal Marco Advisors – 1st Quarter 2021 Fund Performance Report.

Associate Consultant Tanya Laytin presented an “Analysis of Investment Performance” through March 31, 2021. The report showed the ending market value of total pension assets as \$54,169,225 with a quarterly increase of +\$3,147,618 (+1,674,927/investment gains, +\$38,382/income, +2,062,897 partial (1/2) annual contribution; -\$628,589/withdrawals for invoices & 2 pension payments – Feb. & Mar. 2021). At quarter’s end, 45.5% of the assets were invested in domestic equities, 8.7% in international equities, 9.0% in global tactical asset allocation (balanced), 3.7% in real estate, 2.6% in emerging markets equities, 30.4% in fixed income, and 0.0% in cash. For the quarter, the pension fund outperformed with a return of +3.3% versus +1.8% for the Policy index. For the one year period, the Total Fund outperformed the Policy Index +35.8% vs. +26.6%, and for the three year period it was ahead of the Policy Index +9.9% versus +9.7%. Since inception, the Total Fund has returned +9.9% compared to +9.0% for the Policy Index.

INTECH (Large U.S. Cap Growth – 23.2%), which started December 2003, slightly outperformed the index for the quarter with a return of +1.1% compared to +0.9% for the

Russell 1000 growth index and +2.7 for the S&P 500 growth index. For the one year, INTECH returned +53.8% versus +62.7%/+59.4% for the comparative indices, and maintains a +14.9% return rate compared to +16.6/+16.2% for the indices after 10 years. Since inception, INTECH has returned +11.3% compared to +11.8% for the Policy Index.

Wedge Capital (Large U.S. Cap Value – 22.4%), which started October 2004, outperformed the index for the quarter with a return of +14.9% compared to +11.3% for the Russell 1000 value index. The Wedge investment returns for the one year period were +67.4% compared to +56.1% for the index and maintains a +12.5% return rate compared to +11.0% for the index after 10 years.

AQR International Equity Fund II (International – 8.7%), which replaced *Rogerscasey Target Solutions Large Cap Core International* effective January 2019, outperformed for the quarter with a return of +6.6% compared to +3.5% for the MSCI NET EAFE index. For the one year period, AQR returned +52.8% compared to +44.6% for the index and since inception (January 2006), the international allocation underperformed the Policy Index +0.6% versus +14.2%.

Invesco Balanced-Risk Allocation (GTAA – 9.0%) was established May 2014 and outperformed for the quarter with a return of +1.7% versus the +1.6% for the 60%MSCI World/40% Barclays U.S. Aggregate benchmark. For the one year period, the balanced risk investment returns were +27.9% compared to +30.9% for the policy index year and for the five year period it underperformed the Policy Index +8.6% versus +9.8%.

Segal Marco Fixed Income Group Trust (Fixed Income – 30.4%), which replaced *Rogerscasey Target Solutions Core Fixed Income* established on January 1, 2015 effective January 1, 2019, outperformed for the quarter with a return of -2.8% compared to -3.4% for the Bloomberg Barclays U.S. Aggregate Bond index. For the one year period, the Bond composite allocation returned +7.3% compared to +0.7% for the index and the fixed income allocation maintains a +4.1% return rate compared to +4.0% for the index since inception.

RCTS Emerging Markets Equity-RBC/Wells (Emerging Equities – 2.6%) was established March 2018 and outperformed for the quarter with a return of +2.72% compared to +2.3% for the MSCI EM (net) policy index. The RCTS investment returns for the one year period were +60.9% compared to +58.4% for the policy index. Since inception, the emerging markets allocation has returned +8.5% compared to +5.7% for the Policy Index.


Principal U.S. Property Account (Real Estate – 3.7%) was established April 2018 and outperformed for the quarter with a return of +2.4% compared to +2.3% for the for the NCREIF ODCE Equal Weighted policy index. The Principal investment returns for the one year period were +2.5% compared to +2.9% for the index. Since inception, the real estate allocation has returned +6.6% compared to +7.7% for the Policy Index.

Ms. Laytin reported that the pension fund assets had surpassed \$54 million with most fund managers experiencing strong performance numbers especially U.S. large cap value and growth equities. She said international equities rose moderately and emerging markets was in positive territory as hopes for global growth increase. Commodities posted strong gains, while fixed income domestically and non-US declined.

3. Segal Marco Advisors – Pension Allocation/Liquidity Discussion.

Per request of the Committee at the previous quarterly meeting, Ms. Laytin presented a Liability/Liquidity Analysis and asset Allocation Review Report dated May 2021.

The Report noted: 1. The plan has a lower than average funding ratio of 65% with an average target rate of 7.25% (vs. public Plan averages of 75% and 7.26 respectively); 2. The plan has lower than average demographics, with 0.9 actives per inactive (vs. 1.3 average); 3. The annual cash flows as a percent of assets (-0.8%) are better than average (-2.9%); and 4. The fund has capacity from a liquidity standpoint. No assets are currently in less liquid tiers. As a result, based on the funding ratio, demographics, and cash flows, the fund has the ability to add dollars to less liquid asset classes to try and capture additional returns in the form of an illiquidity premium. Potential underlying asset mixes, include:

 Segal Marco Advisors	Increase EM,			
	Policy	RE	PE	Opportunistic
US Equity	0.0%	35.0%	35.0%	35.0%
Large Cap	40.0%	0.0%	0.0%	0.0%
International	10.0%	10.0%	10.0%	9.0%
Emerging Market Equity	2.5%	5.0%	5.0%	5.0%
Total Equity	52.5%	50.0%	50.0%	49.0%
Fixed Income Group Trust	33.5%	30.0%	28.5%	28.5%
Total Fixed Income	33.5%	30.0%	28.5%	28.5%
Multi-Asset Class Solutions (MACS)	10.0%	10.0%	10.0%	10.0%
Private Equity	0.0%	0.0%	5.0%	0.0%
Real Estate - Core	4.0%	10.0%	6.5%	5.0%
Opportunistic	0.0%	0.0%	0.0%	7.5%
Total Alternative	14.0%	20.0%	21.5%	22.5%
10 Year Expected Return (Arithmetic)	5.45%	5.64%	6.02%	5.92%
10 Year Expected Return (Geometric)	4.93%	5.14%	5.46%	5.38%
Standard Deviation	10.48%	10.30%	10.93%	10.81%
Sharpe Ratio	0.42	0.45	0.46	0.45
20 Year Expected Return (Arithmetic)	6.35%	6.54%	6.92%	6.82%
20 Year Expected Return (Geometric)	5.84%	6.04%	6.36%	6.28%

Ms. Laytin pointed out that the current asset allocation is very, very liquid, but with the fund at \$55 million that amount of available cash would not be needed. She outlined some potential asset mixes ranging from an adjustment to the current emerging equities and real estate sectors to more opportunistic private market investments with varying degrees of potential returns.

After much discussion, Ms. Laytin was asked to provide additional information on the private market strategy as well as a number of other possible options to the next quarterly

meeting.

4. DSPO – 1st Quarter 2021 Retiree Benefits Investment Performance Report.

The State Pension Office reported that the comingled Delaware Public Employees Retirement Investment Pool (DELRIP) experienced a quarterly increase of +6.9% compared to +2.8% for the DPERS Policy benchmark. The State Pension fund return was reported as +40.8% versus +34.5% for the benchmark for the one-year period.

The unaudited DELRIP report for January 1 – March 31, 2021 showed a market value balance of \$25,832,646.82 with an increase of +\$1,643,238.30. For the quarter, the County's portion of the fund assets (0.18911%) increased by +6.79% (+\$233.33 audit expense credit, +\$0.91 legal-administrative fee credit, +23,437.09 interest, +\$33,173.69 dividends, +\$259.75 securities lending income, -\$277.45 net change accrued income, +\$669,940.28 unrealized gain/loss change, +\$933,226.98 realized gain/loss, -\$105.22 custodian fees, +\$1,010.10 accrued expense change, -\$38.95 securities lending fees/expenses, -\$72.93 accrued expense change-investment manager, -\$13,875.48 investment manager/advisory fees, -\$3,238.57 transaction fees/credit, -\$16.75 legal-investment fees.)

5. Staff – Pension Valuation Report (January 1, 2021).

Mr. Kujala advised that since the February meeting, the Pension Actuary had finalized the annual pension valuation and copies had been distributed to the Levy Court (Board of Trustees) and Pension Review Committee members. He advised that the Actuarially Determined Contribution (ADC) for FY2022 decreased from \$4,125,794 to \$3,986,462. He said Nyhart attributed the decrease to outstanding fund performance the prior year and a change to the mortality improvement scale to Scale MP-2020 to better reflect plan experience, which caused a decrease in the Accrued Liability, Normal Cost, and ADC. In addition, to better reflect anticipated plan experience, the administrative expense load added to the Normal Cost was changed from \$75,000 in 2020 to \$80,000 in 2021.

6. Staff – 2020 Annual Report to Levy Court Update.

Mr. Kujala reported that on or about March 31, 2021 the updated Annual Report approved by the Pension Review Committee at its last meeting was distributed to Levy Court Commissioners and uploaded onto the Committee's webpage.

7. Staff – FY2021 Partial Pension & OPEB Contribution Updates (\$2,062,897).

Mr. Kujala advised that the first half (\$2,062,897) of the total annual pension contribution of \$4,125,794 was deposited on March 4, 2021 and the second half will also be deposited into the fixed income account (FIGT) in early June. In addition, he advised the full OPEB contribution of \$2,735,837 would be deposited with DELRIP about the same time.

8. Staff – FY2022 Budgeted Pension & OPEB Contributions update.

Mr. Kujala reported that Levy Court adopted the FY2022 Budget on April 27, 2021, but rather than budget the lower Actuarially Determined Contributions recommended by Nyhart, Commissioners decided to contribute the higher FY2021 amounts of \$4,125,794 for the pension plan and \$2,735,837 for OPEB.

9. Staff – Actuarial Services Renewal or RFP Discussion.

Mr. Kujala advised that the pension & OPEB actuary, The Nyhart Company, had proposed a three-year extension of the existing services agreement with modest fee adjustments. He shared those proposed fees with the Committee and asked if an extension should be considered or a Request for Proposal issued.

In response to questions, Mr. Kujala advised that an RFP was last issued in 2015 with 6 responses ultimately resulting in Nyhart's selection. He said a three-year extension was approved with Nyhart in 2018 and expires on December 3, 2021, with the June 30, 2021 OPEB valuation to be completed under the current agreement. He also confirmed that the prior agreement only provided for one three-year extension.

After some discussion, Mr. Kujala was asked to proceed with an RFP for actuarial services, a draft of which he had included with the Committee meeting packet.

10. Staff – Pension Experience Study Discussion.

Mr. Kujala advised that Nyhart has additionally recommended that a Pension Experience Study be done, as the last such study was completed in 2016 and resulted in a report dated January 2017 recommending various adjustments to pension plan assumptions.

According to Nyhart, assumptions should be reviewed in detail at least every 3-5 years. The experience study will review several assumptions used in the annual valuation reports with the purpose of comparing the actual experience of the plan with the assumptions that are being used. The goal is to ensure that the assumptions best represent the expected experience of the plan, which will lead to a more accurate representation of the liabilities and recommended contribution we determine each year. The assumptions to be reviewed include:

- Annual pay increases
- Rates of mortality
- Rates of retirement
- Rates of termination
- Elections of optional form of payment
- Asset performance for discount rate determination
- Cost of living adjustments (COLA)

A final report would summarize the findings, including actual experience compared to assumed, recommendations for assumption changes, and the impact to the recommended

contribution for each assumption.

As an additional service, Nyhart could also deliver a report that shows the impact of the proposed assumption updates on OPEB liabilities and contributions.

After some discussion, Mr. Kujala was asked to incorporate the experience study as an optional service in the RFP for actuarial services.

11. Staff – Deferred Compensation (457b) Provider Update.

Mr. Kujala reported that the final agreement with ICMA-Retirement Corporation for Deferred Compensation (457b) Recordkeeping & Administrative Services for County employees was approved by Levy Court on March 23, 2021 with an effective date of April 1, 2021 at the much lower 14 basis points fee. He thanked Ms. Laytin for her assistance in securing the fee effective date from the vendor, who originally wanted a July 1 start date.

12. Staff – Deferred Compensation (457b) Provider Performance Review Task.

Mr. Kujala noted in previous discussions about the recordkeeping & administrative services provider search process with professional plan performance monitoring that Commissioners would likely assign the Committee various tasks with respect to the 457(b) deferred compensation program. He reported that on March 23, 2021, Levy Court adopted a motion which reads in part “... *the Pension Review Committee shall be responsible for reviewing performance reports and approving investment fund selection, and other duties consistent with those exercised for the County’s pension program.*”

13. Segal Marco Advisors – 457b Funds Selection Update.

Mr. Kujala recalled that the original RFP for consulting services for the recordkeeping & administrative services provider search process had also requested performance monitoring as an optional service. As a result of the RFP, the Committee had recommended Segal Marco Advisors for 457 performance monitoring and Levy Court ultimately approved that selection on March 23, 2021. He advised that ICMA-RC had agreed to cover the \$5,000 cost for investment fund selection by Segal Marco Advisors.

Ms. Laytin said the selection process would get under way soon and she expected to make 457 fund selection recommendations to the Committee at the next meeting.

14. 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
May 1, 2021	\$283,139.88	246	+1 (R); -1 (R-suspend pension); +2 (B)
April 1, 2021	\$283,669.39	244	-1 (R); -1 (P); +\$92.01 benefit adj. DB/CR**
March 1, 2021	\$285,013.26	246	Interest Adj. DB-\$100.59 (5R)**; CR+\$0.39 (1P)**
February 1, 2021	\$285,167.96	246	+3 (R); -1 (R); +1 (B)
January 1, 2021	\$277,403.47	243	+4 (R); -1(R); +1 (P); -1 (P)
December 1, 2020	\$272,783.86	241	
November 1, 2020	\$272,783.86	241	+1 (P)
October 1, 2020	\$272,556.14	240	+2 (R); +1 (B)
September 1, 2020	\$267,366.73	237	+1 (R); +1 (P); #1 (R) correct \$
August 1, 2020	\$264,933.09	235	+2 (R); #1 (R) multiplier error correction retro to Dec. 2019 of \$680.49
July 1, 2020 (No COLA)	\$262,859.62	233	-1 (R)
June 1, 2020	\$263,755.62	234	+2 (R); -1 (R); +1 (B) +664.30 w/retro to April
May 1, 2020	\$261,375.79	232	-1 (R) w/retro -\$608.35; +1 (B) w/retro +\$1,034.35
April 1, 2020	\$260,949.79	232	+1 (R); -1 (R) w/retro -\$3,041.65; -1 (P) w/retro -\$1,505.00
March 1, 2020	\$263,615.40	233	+1 (R) w/retro +\$2,709.09; -1 (R) w/retro -\$1,867.43
February 1, 2020	\$262,773.54	233	-1 (R) w/retro -\$483.19; +1 (B) w/retro +\$234.49
January 1, 2020	\$263,022.24	233	-1(R); +1 (B)
Pending Pensions - Type	Effective Date	Service Years/Age	Estimated Benefit
(R)	08/01/21	15 yrs; 62	\$1,015.67/mo. Life?
(R)	06/01/21	25.2 yrs; 56	\$2,587.96/mo. Life?
(R)	06/01/21	15.1 yrs; 60	\$1,257.50/mo. Life
(R)	06/01/21	16.8 yrs; 61	\$1,448.88/mo. CC5yrs
(R)	05/01/21	24.p yrs; 60	\$3,275.38/mo. CA50%
Pensions started – Type	Effective Date	Service Years/Age	Monthly Benefit/Type
+(R)	05/01/21	20.4 yrs; 57	\$1,603.39/mo. CC5yrs
-(R)	05/01/21		-\$3,264.72/mo. Suspend pension & return to work
+(B)	05/01/21		\$287.52/mo. Life-Beneficiary (retro to 04/01/21^)
+(B)	05/01/21		\$844.30/mo. Life-Beneficiary (retro to 04/01/21)
-(R)	04/01/21		-\$1,148.36/mo. Died 03/10/21 w/Beneficiary
-(P)	04/01/21		-\$287.52/mo. Died 02/03/21 w/Beneficiary
+(R)	02/01/21	21.6 yrs; 55	\$1,496.93/mo.** CA100%
+(R)	02/01/21	33.5 yrs; 64	\$3,480.99/mo.** CA100%
+(R)	02/01/21	29.2 yrs; 56	\$3,264.72/mo. Life
-(R)	02/01/21		-\$1,316.87/mo. Died 12/17/20 retro
+(B)	02/01/21		\$838.72/mo. Life-Beneficiary (retro to 01/01/21)
+(R)	01/01/21	24 yrs; 85	\$1,078.57/mo.** CA50%
+(R)	01/01/21	30.1 yrs; 56	\$2,733.97/mo.** CA100%
+(R)	01/01/21	11.5 yrs; 65	\$850.90/mo. Life
+(R)	01/01/21	8.3 yrs; 66	\$492.45/mo.** CA100%
+(P)	01/01/21	11.2 yrs; 62	\$337.78/mo.** CC10yrs
-(R)	01/01/21		-\$326.07/mo. Died 11/28/20 retro
-(P)	01/01/21		-\$495.48/mo. Died 10/19/20 retro
+(P)	11/01/20	15.8 yrs; 62	\$232.14/mo. CC10yrs
+(R)	10/01/20	15.5 yrs; 62	\$2,127.39/mo. CA100%
+(R)	10/01/20	22.3 yrs; 64	\$2,339.77/mo. CA50%
+(B)	10/01/20	21.9 yrs; 63	\$722.25/mo. Life-Active Beneficiary (retro to 09/01/20)
+(R)	09/01/20	20 yrs; 65	\$1,574.62/mo. CA50%
+(P)	09/01/20	7.5 yrs; 62	\$254.14/mo. Life (retro to 05/01/20)
# (R)	09/01/20		\$604.88 corrected monthly benefit due multiplier error
# (R)	08/01/20		-\$680.49 reduction for multiplier error retro to 12/01
+(R)	08/01/20	34.7 yrs; 55	\$2,258.38/mo. CA100%
+(R)	08/01/20	8.6 yrs; 66	\$495.58/mo. CA100%
-(R)	07/01/20		-\$896.00 Died 06/05/20
+(B)	06/01/20	19.9 yrs; 64	\$664.30/mo. Life-Active Beneficiary (retro to 04/01/20)

+ (R)	06/01/20	15.8 yrs; 62	\$1,212.29/mo. CC10yrs
- (R)	06/01/20		-\$598.04 Died 04/20/20
+ (R)	06/01/20	15.5 yrs; 62	\$1,101.28 Life

R R=Retiree from active service; P=Pensioner, vested former employee; R/EO=Active Elected Official receiving pension P70=Pensioner w/Rule of 70 benefits; B=Beneficiary of deceased participant; QB=QDRO beneficiary; *benefit addition or deletion retroactive to eligibility month. (#-multiplier calculation error correction)**application of pension interest may adjust benefit Life=Life Annuity; CA=Contingent annuitant (beneficiary) & %; CC=Continuous & certain for # years

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

A. *Levy Court Appreciation (stated earlier in the meeting).*

Commissioner Angel expressed regret that the Committee had not yet been able to schedule the Annual Appreciation Lunch and thanked each of the Committee members for their service to the employees and citizens of Kent County. He said the Levy Court sincerely appreciates the important role the Committee members have in helping the pension plan and retiree benefits program meet future investment performance and funding goals.

16. Public Comments.

None

17. Next Meeting.

By consensus, Committee members agreed to schedule the next quarterly meeting for Thursday, August 19, 2021 in person for the pandemic delayed Annual Appreciation Luncheon at 12 noon with the lunch held at a local restaurant.

A motion was made by Mr. Horne, seconded by Ms. Durham, and carried unanimously to adjourn the meeting at 3:25 p.m.

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