

KENT COUNTY PENSION REVIEW COMMITTEE
Quarterly & Annual Appreciation Lunch Meeting Minutes
Thursday, May 20, 2021
Fraizer's Restaurant
9 East Lookerman Street, Dover, DE
Properly posted meeting conducted in person

Call to Order & Determination of a Quorum: 12:05 p.m.

Members Present:

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

Members Absent:

Christopher S. Smith

Others Present:

Allan Angel, Levy Court Commissioner
Allan Kujala, Personnel Director
Tanya Laytin, Segal Marco Advisors (via telephone)

Chairman Craik presiding.

Call of the roll revealed a quorum was present.

1. Approval of the Minutes of May 20, 2021 meeting.

A motion was made by Ms. Durham, seconded by Mr. Connelly, and carried unanimously to approve the minutes for the meeting held on May 20, 2021.

2. Segal Marco Advisors – 2nd Quarter 2021 Fund Performance Report.

Associate Consultant Tanya Laytin presented an “Analysis of Investment Performance” through June 30, 2021. The report showed the ending market value of total pension assets as \$58,121,083 with a quarterly increase of +\$3,951,858 (+2,762,813/investment gains, +\$54,054/income, +2,062,897 second half of annual contribution; -\$927,895/withdrawals (for invoices & pension payments). At quarter's end, 45.7% of the assets were invested in domestic equities, 8.2% in international equities, 9.0% in global tactical asset allocation (balanced), 3.6% in real estate, 2.5% in emerging markets equities, 31.0% in fixed income, and 0.0% in cash. For the quarter, the pension fund outperformed with a return of +5.2% versus +4.8% for the Policy index. For the one year period, the Total Fund outperformed the Policy Index +25.1% vs. +19.7%, and for the three year period it was ahead of the Policy Index +11.7% versus +11.0%. Since inception, the Total Fund has returned +10.0% compared to +9.1% for the Policy Index.

INTECH (Large U.S. Cap Growth – 23.9%), which started December 2003, underperformed the index for the quarter with a return of +10.8% compared to +11.9% for the Russell 1000 growth index and +11.9 for the S&P 500 growth index. For the one year,

INTECH returned +36.8% versus +42.5%/+41.4% for the comparative indices, and maintains a +15.8% return rate compared to +17.9/+17.3% for the indices after 10 years. Since inception, INTECH has returned +11.8% compared to +12.3% for the Policy Index.

Wedge Capital (Large U.S. Cap Value – 21.8%), which started October 2004, underperformed the index for the quarter with a return of +4.8% compared to +5.2% for the Russell 1000 value index. The Wedge investment returns for the one year period were +46.3% compared to +43.7% for the index and maintains a +12.7% return rate compared to +11.5% for the index after 10 years.

AQR International Equity Fund II (International – 8.2%), which replaced *Rogerscasey Target Solutions Large Cap Core International* effective January 2019, underperformed for the quarter with a return of +1.5% compared to +5.2% for the MSCI NET EAFE index. For the one year period, AQR returned +31.7% compared to +32.4% for the index and since inception (January 2006), the international allocation underperformed the Policy Index +0.7% versus +3.0%.

Invesco Balanced-Risk Allocation (GTAA – 9.0%) was established May 2014 and outperformed for the quarter with a return of +6.6% versus the +5.4% for the 60%MSCI World/40% Barclays U.S. Aggregate benchmark. For the one year period, the balanced risk investment returns were +25.2% compared to +22.4% for the policy index year and for the five year period it underperformed the Policy Index +8.4% versus 10.6%.

Segal Marco Fixed Income Group Trust (Fixed Income – 31.0%), 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 +2.3% compared to +1.8% for the Bloomberg Barclays U.S. Aggregate Bond index. For the one year period, the Bond composite allocation returned +3.3% compared to -0.3% for the index and the fixed income allocation maintains a +4.2% return rate compared to +4.0% for the index since inception.

RCTS Emerging Markets Equity-RBC/Wells (Emerging Equities – 2.5%) was established March 2018 and underperformed for the quarter with a return of +3.0% compared to +5.0% for the MSCI EM (net) policy index. The RCTS investment returns for the one year period were +37.6% compared to +40.9% for the policy index. Since inception, the emerging markets allocation has returned +8.8% compared to +6.8% for the Policy Index.

Principal U.S. Property Account (Real Estate – 3.6%) was established April 2018 and underperformed for the quarter with a return of +3.6% compared to +4.4% for the for the NCREIF ODCE Equal Weighted policy index. The Principal investment returns for the one year period were +7.8% compared to +8.8% for the index. Since inception, the real estate allocation has returned +5.6% compared to +6.3% for the Policy Index.

Ms. Laytin reported that the pension fund assets had surpassed \$58 million in the second quarter with most indices ending up in positive territory and continuing strong performance numbers in U.S. large cap value and growth equities. She said commodities posted strong gains and fixed income even eked out a gain.

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

As a continuation of discussion at the previous quarterly meeting, Ms. Laytin presented an Asset Allocation Review report dated August 19, 2021 to further consideration to increase expected return to better align with actuarial assumption of 7.25% while maintaining appropriate risk tolerance. The report suggested that this could be achieved by introducing US Small/Mid Cap (SMID) Equity and/or Increasing Total Equity allocation. Liability/Liquidity Analysis and asset Allocation Review Report dated May 2021.

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:

Asset Mix Considerations w/underlying exposures - Current Asset Classes	Policy	SMID	Increase Eq.
Large Cap	40.0%	30.0%	25.0%
Mid Cap	0.0%	4.9%	7.3%
Small Cap	0.0%	5.1%	7.6%
International	10.0%	10.0%	10.0%
Emerging Market Equity	2.5%	2.5%	5.0%
Total Equity	52.5%	52.5%	55.0%
Core Fixed Income	24.5%	24.5%	22.6%
Bank Loans	1.7%	1.7%	1.6%
High Yield	2.6%	2.6%	2.4%
Emerging Market Debt	2.0%	2.0%	1.8%
Global Fixed Income	2.8%	2.8%	2.6%
Total Fixed Income	33.5%	33.5%	31.0%
Multi-Asset Class Solutions (MACS)	10.0%	10.0%	10.0%
Real Estate - Core	4.0%	4.0%	4.0%
Total Alternative	14.0%	14.0%	14.0%
10 Year Expected Return (Arithmetic)	5.45%	5.54%	5.79%
10 Year Expected Return (Geometric)	4.93%	5.00%	5.19%
Standard Deviation	10.48%	10.69%	11.29%
Sharpe Ratio	0.42	0.42	0.42
20 Year Expected Return (Arithmetic)	6.35%	6.44%	6.69%
20 Year Expected Return (Geometric)	5.84%	5.90%	6.09%

At the May 2021 meeting, the Committee specifically requested information about the addition of new asset classes and requisite diversification via several alternatives as well as a private market strategy. The report presented the following:

Asset Mix Considerations w/underlying exposures - New Asset Classes	Policy	SMID	Increase Eq.	SMID & Opp	Increase Eq. & Opp
Large Cap	40.0%	30.0%	25.0%	30.0%	25.0%
Mid Cap	0.0%	4.9%	7.3%	4.9%	7.3%
Small Cap	0.0%	5.1%	7.6%	5.1%	7.6%
International	10.0%	10.0%	10.0%	10.0%	10.0%
Emerging Market Equity	2.5%	2.5%	5.0%	2.5%	5.0%
Total Equity	52.5%	52.5%	55.0%	52.5%	55.0%
Core Fixed Income	24.5%	24.5%	22.6%	20.8%	19.0%
Bank Loans	1.7%	1.7%	1.6%	1.4%	1.3%
High Yield	2.6%	2.6%	2.4%	2.2%	2.0%
Emerging Market Debt	2.0%	2.0%	1.8%	1.7%	1.5%
Global Fixed Income	2.8%	2.8%	2.6%	2.4%	2.2%
Total Fixed Income	33.5%	33.5%	31.0%	28.5%	26.0%
Multi-Asset Class Solutions (MACS)	10.0%	10.0%	10.0%	10.0%	10.0%
Private Equity	0.0%	0.0%	0.0%	2.0%	2.0%
Private Credit	0.0%	0.0%	0.0%	0.8%	0.8%
Hedge Funds - Opportunistic	0.0%	0.0%	0.0%	1.8%	1.8%
Real Estate - Core	4.0%	4.0%	4.0%	4.0%	4.0%
Real Estate - Opportunistic	0.0%	0.0%	0.0%	0.3%	0.3%
Infrastructure	0.0%	0.0%	0.0%	0.3%	0.3%
Total Alternative	14.0%	14.0%	14.0%	19.0%	19.0%
10 Year Expected Return (Arithmetic)	5.5%	5.5%	5.8%	5.9%	6.1%
10 Year Expected Return (Geometric)	4.9%	5.0%	5.2%	5.3%	5.5%
Standard Deviation	10.5%	10.7%	11.3%	11.1%	11.7%
Sharpe Ratio	0.42	0.42	0.42	0.44	0.44
20 Year Expected Return (Arithmetic)	6.3%	6.4%	6.7%	6.8%	7.0%
20 Year Expected Return (Geometric)	5.8%	5.9%	6.1%	6.2%	6.4%

The Committee expressed interest in learning more about opportunistic private markets.

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

Ms. Layton provided an update of the 457 fund selection recommendations expected to be presented at the next quarterly meeting for more discussion and possible implementation. She noted that current plan with ICMA-Retirement Corporation, now MissionSquare, includes

166 enrollees including 95 active employees and 71 retired. She noted that only 1/3 of the employee base participate and suggested that engagement strategies and perhaps auto-enrollment be considered.

Ms. Layton said that upon review of the current investment line up, she would recommend fewer options noting that 3 options have no participants and an average plan has much fewer per the chart below:

	Your Plan	Average Plan
Total # of Investment Options*	36	20
Target-Date <u>or</u> Lifestyle series	Both	One
% of Assets in TDF/Lifestyle	> 50%	> 50%
Fixed Income Options	4	2
US Equity Options	20	7
Int'l Equity Options	5	2

* Accounts for Lifestyle and Target-Date each as one option

and Target-Date each as one option

Mr. Craik asked if the Committee would be selecting the investment funds or making a recommendation to Levy Court.

With respect to the 457(b) deferred compensation program, Mr. Kujala advised 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.”

5. DSPO – 2nd Quarter 2021 Retiree Benefits Investment Performance Report.

The State Pension Office reported that the comingled Delaware Public Employees Retirement Investment Pool (DEL RIP) experienced a quarterly increase of +8.0% compared to +5.7% for the DPERS Policy benchmark. The State Pension fund return was reported as +38.4% versus +25.8% for the benchmark for the one-year period.

The unaudited DEL RIP report for April 1 – June 30, 2021 showed a market value balance of \$29,241,688.39 with an increase of +\$3,409,041.57. For the quarter, the County’s portion of the fund assets (0.19962%) increased by +13.2% (+2,735,837 annual contribution, -\$1,470,513.87 retiree benefit expense withdrawals(2)/reimbursement, +27,977.76 interest, +\$33,895.74 dividends, +\$359.86 securities lending income, +\$861.12 net change accrued income, +\$1,474,210.93 unrealized gain/loss change, +\$619,629.14 realized gain/loss, -\$286.63 custodian fees, -\$122.92 accrued expense change, -\$53.97 securities lending fees/expenses, -\$35.68 accrued expense change-investment manager, -\$15,221.97 investment manager/advisory fees, -\$2,400.25 transaction fees/credit, -\$94.69 legal-investment fees.)

6. Staff – FY2021 Partial Pension & OPEB Contribution Report.

Mr. Kujala advised that the second half (\$2,062,897) of the total annual pension contribution of \$4,125,794 was deposited on June 15, 2021 into the fixed income account (FIGT). In addition, he advised the full OPEB contribution of \$2,735,837 was deposited with DEL RIP on April 19, 2021.

7. Staff – Actuarial Services RFP Update.

Mr. Kujala reported that the Request for Proposal for Actuarial Consulting Services was posted on July 30, 2021 with a due date of August 31, 2021. He said a notice of the RFP was published in the newspaper and mailed to 30 potential consulting companies, including the incumbent. He noted that the RFP included Pension and OPEB experience studies as an option.

Mr. Craik advised that pending the number of responses received, a subcommittee composed of himself, Mr. Horne, Ms. Durham, and Mr. Kujala would review the proposals, interview respondents, if necessary, and rank those determined to be qualified, and then submit a recommendation to the full Committee at the next quarterly meeting.

8. Staff – OPEB Valuation Report.

Mr. Kujala advised that the biennial OPEB valuation process is underway with Nyhart as part of their existing services agreement. He said the benefits census has been submitted and staff is gathering other information and documents necessary to complete the valuation. He

estimated that a draft valuation report should be ready for review by the next quarterly meeting.

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, 2021	\$296,473.48	253	+2 (R)
July 1, 2021	\$293,382.46	251	+1 (R) w/retro; +1 (R)
June 1, 2021	\$289,121.64	249	+1(R) w/retro; +2 (R)
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); +\$92.01benefit 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)
December1, 2020	\$272,783.86	241	
November 1, 2020	\$272,783.86	241	+1 (P)
October1, 2020	\$272,556.14	240	+2 (R); +1 (B)
September1, 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
+(P)	01/01/21	5.9 yrs; 62	\$147.73/mo. Life?
+(DR)	08/01/21	34.6 yrs; 53	\$961.61/mo. CA100%
Pensions started – Type	Effective Date	Service Years/Age	Monthly Benefit/Type
+(R)	08/01/21	15 yrs; 62	\$1,016.47/mo. Life
+(R)	08/01/21	21.5 yrs; 62	\$2,064.55/mo. CA50%
+(R)	07/01/21	21.9 yrs; 55	\$1,704.36/mo. CA100%
+(R)	07/01/21	25.2 yrs; 56	\$2,566.46/mo. CC10yrs (retro to 06/01/21)
+(R)	06/01/21	16.8 yrs; 61	\$1,448.88/mo. CC5yrs
+(R)	06/01/21	15.1 yrs; 60	\$1,257.50/mo. Life
+(R)	06/01/21	24.9 yrs; 60	\$3,275.38/mo. CA50% (retro to 05/01/21)
+(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 err

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; DR=Disabled retiree; *benefit addition or deletion retroactive to eligibility month. (#-multiplier calculation error correction)**pension interest may adjust benefit (^late death notice-same ben. \$) Life=Life Annuity; CA=Contingent annuitant (beneficiary) & %; CC=Continuous & certain for # years

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

A. Levy Court Appreciation.

Commissioner Angel thanked each of the Committee members for their service to the employees and citizens of Kent County. He reiterated the Levy Court’s sincere appreciation for the important role the Committee members have in helping the pension plan and retiree benefits program and now the deferred compensation plan meet future investment performance and funding goals.

11. Public Comments.

None

12. Next Meeting.

By consensus, Committee members agreed to schedule the next quarterly meeting for Thursday, November 18, 2021 at 2:00 p.m. in the Kent County Administrative Complex in person (if possible).

A motion was made by Mr. Horne, seconded by Ms. Durham, and carried unanimously to adjourn the meeting at 1:45 p.m.

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