

ANNUAL REPORT - 2008

Kent County Pension Review Committee Annual Report to Kent County Levy Court February 19, 2009



Background

The Kent County Pension Review Committee was established by the 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 members of the community appointed by Levy Court – including David Craik, Tom Leary, and Duke Strosser, the Kent County Finance Director Susan Durham, a Kent County Employee Council representative Kelly Crumpley, 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.

Per Levy Court Ordinance #06-38 adopted on October 10, 2006, the Committee is also responsible for reviewing investment performance of the new Retiree Benefits program (OPEB). On February 1, 2007, the County invested \$7,362,826.01 with the Delaware Retirement Investment Pool (DelRIP) operated by the State Pension Office to fund future retiree benefits in compliance with GASB 45. On May 31, 2008, the State Pension Office transferred all County funds in DelRIP to a new State of Delaware Local Government OPEB Pool to achieve compliance with a new law approved by the State Legislature at the recommendation of State Pension Office tax attorneys.

Investment Strategy

Per the Pension Investment Policy adopted by Kent County Levy Court, the Committee is committed to maintaining an average 60/40 asset investment ratio between equities (stocks) and fixed income (bonds).

The portfolio is structured to maintain an average balance of 25% for large capitalized growth stocks, 25% for large capitalized value stocks, 10% for international non-US growth stocks, and 40% for fixed income. Rebalancing can occur as necessary, but historically happens once per year upon transfer of the County's annual contribution.

In early April 2008, the County was advised by its fixed income manager, Weiss, Peck & Greer, that it was withdrawing from the market on June 1, 2008 to focus on large cap funds, so the pension consultant initiated a search for a new fixed income manager. After reviewing the performance of several possible managers, the Committee recommended to Levy Court the selection of Amalgamated Bank's Long View Core Bond Fund and \$10.1 million in assets were transferred on April 30, 2008.

During 2008, the Committee closely examined the benefits of investing all retirement funds with the State Pension Office and received approval from Levy Court to transfer the assets at the appropriate time. Due to the unsettled market, the Committee has postponed the transfer until the market stabilizes.

Investment Managers

The Pension Fund's investment managers include INTECH (large cap growth) effective November 30, 2003; Wedge Capital Management (large cap value) effective September 30, 2004; Weiss, Peck & Greer (core bond) effective August 31, 2004 through April 30, 2008 and replaced by Amalgamated Bank (core bond) effective May 1, 2008; and McKinley Capital Management (international growth) effective November 30, 2007. Segal Advisors Inc. serves as pension consultant responsible for independently evaluating investment manager performance. Wachovia Retirement Services performs pension custodian services including distribution of monthly pension checks/direct deposits.

Fund Performance

The unsettled market seriously impacted the performance of the fund in 2008. The fund decreased from \$24.6 million to \$18.3 million. This figure includes a \$1,221,003 annual contribution recommended by the pension fund actuary, Aon Consulting in its report dated January 1, 2007. Over the one year period the total Fund declined 21.39% while the policy index (50% S&P 500/40% Lehman Brothers Aggregate/10% MSCI EAFE) declined 22.81% over the same time period. For the year, INTECH performed slightly better than the Russell 1000 growth Index (-38.44%) with a return of -33.66% in the large cap growth segment. Wedge declined 39.60% in the large cap value segment, which underperformed the Russell 1000 Value Index (-36.85%). Weiss Peck & Greer returned 1.96% over the partial year. Amalgamated Bank returned 3.53% for the balance of the year while Barclays Capital Aggregate returned 3.22 for the same time period. McKinley Capital Management, posted a 49.89% loss while the MSCI EAFE index returned -43.38% for the year.

The retiree benefits fund managed by the State Pension office experienced modest losses during the year declining 20.6% through its commingled investments compared to -23.4% for the policy benchmark for a year end market value of \$7,047,685.47.

Fund Expenses

Pension and fee payments are drawn from the fixed income (bond) segment and transferred to Wachovia on a monthly basis. For 2008, pension payments totaled \$1,062,263.79 with a total of 143 recipients at year end. The annual fee for pension consultant Segal Advisors was \$26,000, although the current agreement expired July 1, 2006. The fund custodian fee paid to Wachovia Retirement Services was \$17,863.79 for processing checks, reports, and trades. The actuary expenses were \$4,807 paid to AON Consulting for pension benefit calculations. The fund manager fees not assessed from proceeds totaled \$27,352.68.

Following an RFP and interviews on November 12, 2008, the Pension Plan Actuary was changed from long serving AON Consulting to SMART Business & Advisory Consulting LLC effective January 1, 2009

The next biennial actuarial valuation of both the pension and retiree benefits programs is being performed as of January 1, 2009.

Comments and Recommendations

Overall, the pension fund underperformed in 2008 like most plans, but the Committee is optimistic that moving all assets to the State program will enhance future performance. The Committee has no specific recommendations at this time.