

**RETIREMENT BOARD
COUNTY OF DELAWARE, PENNSYLVANIA
MEETING OF SEPTEMBER 22, 2020 (Virtual Meeting)**

TO: Retirement Board

FROM: Joanne Phillips, Board Secretary and County Controller

PRESENT: Board Chairman and Council President Brian Zidek; Councilwoman Christine Reuther; Councilwoman Elaine Schaefer; Treasurer Charlene Mangano; Board Solicitor Jonathan Lichtenstein; Executive Director Howard Lazarus; Michael Courtney and Rick Courtney with RBC Wealth Management; Helen Hurilla, Relationship Manager, and Neil Dodek, Client Service Associate, with Wells Fargo Retirement and Trust; David Reichert and Kristopher Seets with Korn Ferry; Acting Budget Director Jim Hackett.

1) Meeting was called to order at 2:02 pm.

2) Approval of Minutes from the June 17, 2020, meeting.

Councilwoman Schaefer made the motion to approve the minutes, and Councilwoman Reuther seconded the motion. **Motion passed 5-0.**

3) Treasurer's Report.

The Treasurer's Report was submitted and will be delivered to the County Clerk by Treasurer Mangano. The Treasurer reported that as of August 31, 2020, the market value of the fund was \$568,559,006, including the annuities. This represented an increase from May 31, 2020, of \$45,668,676. Councilwoman Schaefer asked for clarification on the loss reported at the previous meeting. Secretary Phillips made a motion to accept the Treasurer's Report, and Councilwoman Schaefer seconded the motion. **Motion passed 5-0.**

4) Public Comment.

There were no public comments submitted to the Board. Instructions on how to submit comments were provided to the public.

5) New Business:

a. RBC Update – Market Report.

Rick Courtney went through the fund performance report. A manager transition update showed which managers have been terminated and when the transitions were completed. RBC is currently working with on the transition of the UBS portfolio from the private bank to the U.S. Wealth management group. The transition should be completed by the end of the week. Mr. Courtney explained that due to anti-money laundering provisions and some of the requirements of Dodd-Frank, these transitions do not happen as quickly as in years past.

Secretary Phillips added she really appreciated the work of RBC and Helen Hurilla of Wells Fargo on these transitions. It appears seamless but requires a lot of follow through.

Rick Courtney discussed what is moving the market dramatically, namely Facebook, Apple, Amazon, Netflix and Alphabet's Google (the FAANG stocks). The FAANGs resulted in a 36.7% return over five years period comparing to the S&P 500 with a 12% return. However, there are limitations in how much can be invested in one stock even with active management.

Councilwoman Schaefer asked about the percentage limitation in investing. Rick Courtney answered that the County cannot own more than 5% in any one name in our portfolio.

Board President Zidek asked if this was an RBC constraint. Rick Courtney replied that this is a Delaware County policy. Councilwoman Schaefer asked if this is a typical standard practice in formulating an investment policy. Rick Courtney believes it is standard practice to ensure diversification.

Michael Courtney discussed the performance of the Russell 1000 Index and Russell 2000 Index. Smaller names are struggling, and larger names driven by tech stocks are severely outperforming. International markets are also struggling. He also discussed cash flows for the trailing three months. We started June with \$519.6 million and took \$2.1 million out for benefits and expenses. We had a gain of \$47.5 million and ended with \$565 million at the end of August. In response to Mr. Zidek's concerns, Mr. Courtney confirmed that all reports show performance net of fees. Mr. Courtney reviewed the individual fund performances, particularly the domestic equity managers. Boston Partners has a return of 14.9% and is off to a good start. Philadelphia Investment Partners is doing very good this year and is up 10% year to date. Vanguard is up 9% versus the S&P 500 of 9.7%. Logan Capital, our large cap growth, has struggled a little bit. Emerald, small cap growth, is performing well. Our last manager, Center Square, only buys REITs and is a little bit behind the index, but it's doing better in the last trailing quarter, getting some of that capital back.

Moving to the international managers, we had made some adjustments. Rick Courtney added that, on the international side, we are starting to see some weakness in the dollar.

Michael Courtney went over the fixed income composite. Both Birch Run and Cumberland had a solid quarter. Mr. Courtney explained that Nationwide is a guaranteed investment contract, so the returns are only updated on a quarterly basis. We're seeing returns from June, which are updated quarterly, and the investment should do very well. Prudential Global Investment Management (PGIM) is up 1.8 versus benchmark. Swarthmore Short and Swarthmore Core had good solid quarters. Mr. Courtney turned to the final page showing the private equity investment. He said it's very early on with this investment, and market value is slightly under. Any distribution payments received were for reimbursement of negotiated lower fees.

Secretary Phillips asked RBC for their opinion of how the markets will perform in the coming three months, six months, a year.

Rick Courtney answered he thinks the market will be influenced by the FAANG names. We're starting to see sponsorship of industrial names. Indexes will be moved by those five, six big

names. Mr. Courtney believes the market is reacting to the political scene such as the relationship with China, and the Federal Reserve backstopping everything. The last Federal Reserve meeting clarified inflation: interest rates will remain at zero. The market will be positive moving forward. Mr. Courtney offered that he did not believe the winner of the presidential election will affect the markets, but that having the decision made and removing unknowns will benefit the markets.

Brian Zidek noted he remains concerned about meeting the policy benchmarks and discussed the concept of being completely invested in the Index 500, which would have returned 6% more on over half of our overall portfolio. If we look at the total fund since inception, almost 10 years now, we're 6/10th of a point behind our policy benchmark. Board Chairman Zidek said he believes the Board should consider if the Board should continue this approach.

Rick Courtney responded with a discussion of the influence of the FANGS, and noted that a similar environment existed in the late nineties with the dot.com companies influenced the return of the indexes. RBC does not disagree that some of funds should be indexed but believes active management should also play a key role. One example is the Emerald manager who works in the small cap arena.

Board Chairman Zidek clarified that he is not advocating to put all the funds into growth like an internet stock fund. He expressed a view that we should consider something broader that would include both growth and value stocks. Where we currently have active managers doing value, active managers doing growth, an index would handle both in a more efficient way, and the Board should consider pursuing an index strategy to improve on the return that the fund has seen over the last ten years.

b. Helen Hurilla and Neil Dodek - Wells Fargo/Principal integration and benefit participant online service.

Helen Hurilla discussed the executive summary provided to the Board. In August, Wells Fargo issued 119 checks and 1,652 direct deposits to retirees. We continue to encourage direct deposit. She noted Wells Fargo provides GASB 40 reporting for the fixed income portfolio to assist the County's auditors.

Ms. Hurilla also discussed the integration with Principal. There will be no changes to account numbers. Account history will be retained. Assets will stay invested. Most importantly, we will retain service team members.

Secretary Phillips said that at some point we should have an introductory meeting with Executive Director Howard Lazarus and Chief Financial Officer Drae McComas to explain what Helen Hurilla and her team does for us in more detail. Wells Fargo's current platform is good for looking at the accounts, managing transactions and making pension payments.

Helen Hurilla turned the discussion to possible online services for retirees. She noted that data entry is not up and running, but we do have inquiry-only service available. She noted that they were working on a data entry feature for defined benefit plans.

Secretary Phillips noted she would like retirees to have access to see their benefits and make changes in a portal and that her office had explored this over the past two years, but there wasn't the will to make these changes.

Councilwoman Schaefer asked about how pensioners currently make changes or have questions answered, and whether they go through the County or Wells Fargo. Neil Dodek answered that Wells Fargo does have a pensioner call center, and the phone number appears on the pensioners' advices. Wells Fargo mails the pensioners an address form, a tax form, an ACH form, then they mail back the forms showing the changes requested. In addition, Secretary Phillips noted that the Controller's Office works with pensioners and Wells to ensure changes are made.

Councilwoman Schaefer asked whether an online service would have a positive effect on the staffing levels or workload of the County. Secretary Phillips noted that only one person in the Controller's Office handles these tasks now. This would provide a better service to the retirees, and it provides a necessary redundancy. We currently have a limited ability to provide access to the accounts and in the future, it would be a goal for people to have more ability to understand their own finances.

Neil Dodek performed a walk-through of the participant online service portal.

Board Chairman Zidek agreed. He noted anyone who has a 401(k) with another organization can find their balance. We would like our employees to have that same option, at some point, and to have our employees recognize the value of the pension benefit. And the role it plays in overall compensation.

Helen Hurilla clarified that this inquiry service is only for the current retirees to see their payment information and taxes. It's not to help employees plan for retirement and that is another program. Helen Hurilla explained that implementation for current employees would require Wells Fargo to work closely with Korn Ferry to get actuarial information and County payroll information. This is being explored on the Principal platform. The feature discussed today is limited to information for retirees, which allows retirees to see their current payment information, print out their own 1099-R, etc. Helen Hurilla added that the goal was to present this for retirees today and discuss a solution for current employees at November's Retirement Board meeting.

Board Chairman Zidek expressed that it would be beneficial to have this offering for our current employees.

Secretary Phillips said over the past two years, we've spoken to other vendors about pension technology, and the discussion today was presented as a baby step to get something to existing retirees with our custodial bank. These services were not a priority for the previous Board. Secretary Phillips added there are other vendors and stand-alone systems as well.

Councilwoman Schafer noted that if we ever have any hope of adjusting compensation for current employees or incoming employees, and giving them some choice of bigger benefits or higher pay, they need to be able to understand the value of the benefits.

Councilwoman Reuther noted this is a great tool, especially for the computer literate. She noted that she was in favor of it but suggested that since a wage and compensation study was underway and the County has a chief human resources officer onboard, we should get some of their input as to the utility and see whether this feature would make a difference in the short-term.

[Councilwoman Schaefer left the meeting.]

Councilwoman Reuther continued. We must consider if it would make sense to roll this out now or as part of another tool in the future to benefit current employees. She did not see it as something immediately germane to our employment situation. Board Chairman Zidek said he was intrigued by a comment Secretary Phillips made regarding outside services we could retain. It would seem inefficient to have one system for current retirees and one system for employees.

Board Chairman Zidek asked if a motion to implement this feature is before the Board today. Secretary Phillips thought we would need a cost proposal first.

Helen Hurilla said there is no additional cost to implement benefit payment online services. That is included within the current fees for benefit payment processing. There is an agreement that would need to be signed to implement it and sample communications to review before sending out to the retirees. Secretary Phillips responded if there is no cost involved, she would make a motion to explore adding this to our existing service.

Helen Hurilla said the access is currently housed at WellsFargo.com. Once we become Principal, the access will be at Principal.com. Functionality will be similar but will be different for retirees. We will be communicating changes to retirees.

Treasurer Mangano seconded the motion.

Board Chairman Zidek commented there may be confusion for retirees if the County eventually uses an outside vendor for a comprehensive system other than Wells Fargo/Principal. However, he noted he was in favor of the current motion.

Motion passed 4-0.

c. Korn Ferry- actuary presentation.

Kristopher Seets commented one downside to traditional pension plans is the lack of understanding and visibility to participants. It is good to see the Board discussing ways to increase that visibility. Mr. Seets then walked through the 2020 actuary update. He noted the retirement of Hank Stiehl, who had served Delaware County and many counties throughout the Commonwealth for many years.

The recommended contribution to the fund by the County in 2020 was \$5.2 million. This amount is comprised of amortization charges for payments toward the unfunded liability, plus cost allocated to current-year benefits for actively working employees, less employee contributions. A smoothing method is used where investment earnings that are actualized are compared to what was expected, and the excess is recognized over a period of five years. This

smoothing method leads to a relatively stable funding ratio. Korn Ferry commended the County for making recommended contributions.

Board Chairman Zidek asked about the legal requirement to make the annual contribution and about the actuarial value as distinct from market value. Mr. Seets responded that it is their understanding is there no requirement to make contributions, but there is a legal requirement to pay the benefits. Only about two thirds of benefit payments come from investment earnings and the remaining one third comes from County contributions. There is not a legal requirement to make contributions into the plan, but the legal requirement is to pay benefits to members in retirement.

Councilwoman Reuther commented there has been a very notable shift from active participants versus retirees. She also asked about the impact on increasing compensation, and how that is reflected in the actuarial projections.

Mr. Seets confirmed the plan is accumulating more and more retirees. When making the valuation, they look at the expected value of benefits over time, for all current retirees and current employees. The plan uses accrual accounting to determine costs; benefits will be accrued when the employees are providing the services to the county. The County accrues those costs at that time as opposed to accruing the costs when those employees are retired. Social security, conversely, is not prefunded. Social security is directly dependent upon social security tax withholdings from active participants to pay benefits to retirees. The County's pension plan is funded by active employees into their own member accounts, which is essentially a separate amount.

Secretary Phillips noted that is her understanding that the legal obligation of the Board is to present the actuarially determined contribution (ADC) to Council for budgeting purposes, and it is a separate question as to what Council does with it. The value of the Pension goes into the comprehensive annual financial report. Lastly, the budgeted amount for 2020's ADC was somewhat more than needed, so the excess is returned to the General Fund in a prorated way. The excess, \$668,000, will be allocated between the General Fund, Fair Acres, Workforce Development, COSA and Human Services.

Board Chairman Zidek asked if we budgeted \$5.9 million. Secretary Phillips said yes, and \$5.2 million was the actual amount needed.

Board Chairman Zidek asked how we determine 2021's contribution. Secretary Phillips said the packet from Korn Ferry contains a letter addressing 2021's contribution, which is \$5.9 million. Based on the actuarial assumptions, that letter will be delivered to County Council for the budget. Secretary Phillips added that the Board had made updates to the assumptions in 2018 and changed the assumed rate of return to 7% from 7.5%, and the smoothing method. One assumption that we have not adopted is the new mortality rate indicating that government workers live longer. That would result in a greater liability, which is explained in Korn Ferry's letter.

Kristopher Seets said he recommends holding as much money as possible in the budget.

6.) Old business:

a) Pension buyback approval.

Secretary Phillips explained that an employee planned to retire in September. The employee was furloughed for two weeks. She requested to buyback time, which is permitted under the Plan. She must pay her contribution plus what the County would have paid for the two weeks' time. The buyback amount is \$526. She made a motion to approve the buyback. There is no cost to the County or the Plan. In fact, it would cost more to have her make up the two weeks.

Treasurer Mangano seconded the motion.

Board Chairman Zidek said he understood from Secretary Phillips that this would save the County money so he could support it.

Motion passed 4-0.

b) Solicitor's report.

Solicitor Lichtenstein said both items he has for the Board's attention involve legal representation for the Board. He commented there is a question whether the Board or the Solicitor determines legal representation for the Board, which may have to be revisited if there is ever a difference of opinion in the future.

The first item for the Board to consider is whether to proceed with Laura Stein of Robbins Geller Rudman & Dowd. This firm has worked with the County before. They brought to our attention that a securities fraud class action was filed against Cabot Oil & Gas. The allegation is that they concealed violations of various environmental laws in Pennsylvania. There is currently a case against them pending in the southern district of Texas. Robbins Geller believes the Delaware County Employees' Retirement Fund would be best suited to represent the interest of the class as a Pennsylvania-based plaintiff. The retirement fund lost \$159k on its investment during the period for which they propose to establish a class.

Secretary Phillips said while we don't typically receive a lot of money from these cases, there is no cost to the County except time and effort to support the case. If there is recovery in the class action, we may recover cost of our time incurred to support the litigation. Robbins Gellar is very sophisticated. The Controller's office has already negotiated the retention letter and the forms of complaints acceptable to us.

Secretary Phillips said October 12th is the filing deadline. She made a motion to proceed with Robbins Geller. Councilwoman Reuther seconded the motion.

Motion passed 4-0.

The next item for Solicitor Lichtenstein concerned monitoring of securities litigation. Wells Fargo provides this service at no cost. We also have a firm, Chimicles and Schwartz, which provides the County a quarterly monitoring report. A number of firms have inquired about this work and considering that it seems worthwhile to have a request for proposal (RFP) process for a securities monitoring firm. Generally, most firms will provide this monitoring service free of

charge. Mr. Lichtenstein would propose not to advertise in the paper but on the website, and contact firms who have previously expressed interest in providing this service. The motion would be to approve sending out a request for proposals for securities monitoring and litigation services and for Mr., Lichtenstein and Secretary Phillips to recommend the selection.

Secretary Phillips said she would make the motion but requested another Board member assist with reading proposal submissions.

Councilwoman Reuther seconded the motion and offered to read the proposals.

Motion passed 4-0.

[Board Chairman Zidek left the meeting.]

Secretary Phillips commented on the settlement of a Cyan class action.

c. Plan Summary Document.

Secretary Phillips reported that Korn Ferry had prepared a revised Plan Summary. She advised that she re-circulate it and provide a copy to Human Resources Director Jim Kane for his thoughts.

7. Discussion of correspondence.

Secretary Phillips said most of correspondence received this summer dealt with the termination of and reinvestment of funds as approved by the Board in prior meetings. There were no inquiries from retirees or any other correspondence.

8. Individual reports by Board members or committees.

None.

9) Adjourn.

Secretary Phillips said the next meeting is scheduled for November 18 at 2pm. Councilwoman Reuther made the motion to adjourn.

Treasurer Mangano seconded the motion.

Motion passed 3-0. Meeting adjourned at 3:50 P.M.