RETIREMENT BOARD
COUNTY OF DELAWARE, PENNSYLVANIA
MEETING OF JUNE 22, 2022
(In-person and hybrid meeting in County Council Meeting Room at 3pm)

TO: Members of the Retirement Board

FROM: Joanne Phillips, Board Secretary and County Controller

PRESENT: Board Chair and County Councilwoman Christine Reuther; Board Secretary and County Controller Joanne Phillips; Board Member and County Council Chair Monica Taylor; Board Member and County Councilwoman Elaine Paul Schaefer; Board Member and County Treasurer James Hackett; Board Solicitor Jonathan Lichtenstein; Bruce Besecker and Michael Courtney, RBC Wealth Management; and Helen Hurilla, Relationship Manager, Principal Custody Solutions.

1) Meeting was called to order by Councilwoman Reuther at 3:02 pm.

2) Approval of Minutes from March 23, 2022, meeting. Motion made by Secretary Phillips. Seconded by Councilwoman Taylor to approve the minutes. Councilwoman Schaefer abstained due to absence at the March 23 meeting.
Motion passed 4-0 with one abstention.

3) Public Comment.

There were no public comments.

Councilwoman Reuther noted that the Board held an executive session on June 21.

4) The Treasurer's Report.

Treasurer Hackett reported that as of May 31, 2022, the value of the fund was $598,985,290, including the annuities. (Annuities were valued as of March 31, 2022, at $4,161,264.)

5) New Business.

a. <u>RBC Update</u>. Michael Courtney went through the executive summary. He reported the markets had trouble with stocks and bonds. The market value of the fund as of May 31 is down 10.3% versus a benchmark of -10.9%. We have two managers on the watch list, Logan Capital and Swarthmore Group.

Bruce Besecker commented we are in a year of transition. The Federal Reserve has been tightening, and there is turmoil in the fixed income market. Page five through nine of RBC's written report shows the economy is in significantly good shape with factors including healthy economic activity, historically low unemployment rate and initial unemployment claims, recordhigh job openings, and wage growth at the highest levels in 40 years. Page 11 shows there are supply chain issues. Page 13 shows the last two (2) years, the government issued a great deal of debt to support the economy. Debt stands today at around 28 trillion. Page 14 shows the Federal Reserve buying bonds in a more significant amount starting in 2008-2009, stopping on 2022. Page 16 shows why the Federal Reserve is focused on increasing interest rates, with the spike in inflation.

Secretary Phillips asked why we think the damage to the bond markets is behind us. Mr. Besecker said some believe the lion's share of the damage is done because the worst of the inflation increase is behind us. If the Federal Reserve increases interest rates to 4% or higher, the economy will slow down. Specifically, the focus is on long-term rates such as the 10 Year Treasury, as the health of the bond market is generally measured by the yield on 10 Year Treasuries.

Michael Courtney remarked bonds are typically supposed to be safe. The worst bond market was in 1994 when we were down 3%. We have tripled with what happened in 1994 with bonds. It has been drastic and quick. The reasons can be attributed to technology and information flow. The good thing is rebounds have been quicker.

Councilwoman Reuther asked if tighter policies are driving this and if there are credit risks. Mr. Besecker cited inflation, the price of money, housing costs and percentage of CPI calculations. He pointed to the change in the mortgage rates from a year ago compared to today. He spoke of the Federal Reserve having purchased a significant amount of securities. Michael Courtney said we think the banks are well capitalized. Bond markets and higher interest rates may be more attractive to retail investors and retirees. For retirement planning, bonds are attractive.

Councilwoman Schaefer asked where the numbers on page three of the report showing the U.S. economic outlook through 2023 originated. Mr. Courtney and Mr. Besecker answered these are RBC's estimates, showing the year over year.

Michael Courtney continued with page 28 of the report, which showed $7.3 million withdrawn for pension payments and a $71.4 million dollar-loss, year to date. Page 29 shows the fund's asset allocation, which within the range allowed by the Fund's investment policy. Page 30 shows domestic equity is down 12.7% year to date, outperforming the benchmark of -13.9%. Boston Partners is down 1.3% year to date with their benchmark at -4.8%. Philadelphia Investment Partners is down 5.9% and is under the benchmark, which is down 4.5%. However, this manager has been a strong performer since inception, at 260 basis points above index. The Vanguard 500 Index Fund is the largest manager and is matching up against the benchmark. Logan Capital surprised us a bit. They are performing at -24.5% this year, below the benchmark of -21.9%. We have Logan on a watchlist, and we may have to address some issues at a future meeting. Emerald is down 21.9%, versus the benchmark of -24.8%. Long-term, Emerald has done a good job for the County. CenterSquare is down 12.3% for year to date and is another fund that has performed well for the County.

Moving to international equity, Vanguard International Index Fund is meeting the established benchmark.

Fixed income is down 6.0%, versus their blended benchmark of -5.7%. Birch Run is down 4.8%, versus the benchmark of -5.7. Cumberland missed here, down 8.6% compared to their benchmark of -5.7%. The guaranteed investment contract with Nationwide adds value here, with a positive return. Prudential was brought on board two years ago and has exceeded their benchmark since inception. Year to date, they are down 10.5% against a benchmark of -8.9% due to their exposure to corporate bonds. Swarthmore is down 9.5%. Swarthmore Short Duration is down 1.6%. PGIM Short Duration High Yield, year to date, is down 3.8 with a benchmark of -7.7%. The private equity investment with Siguler Guff is at a market value of $3.8 million with an IRR of 31%.

Councilwoman Schaefer asked about insight into Logan's direction. Mr. Besecker referenced page 30 of the report, which shows Logan is 500 basis points behind, and at five years, they are 90 points behind. The damage in the last year has impacted their long-term performance.

Councilwoman Reuther asked about Prudential and Cumberland and the impact of long-term duration bonds. Was this a mistake or will they adjust?

Mr. Besecker said Cumberland began with four-year duration bonds. Interest rates went down, and they moved out to six-year bonds. They were defensive, so when interest rates rose, they extended. They will admit they moved too early. For Prudential, their benchmark is the U.S. Aggregate, and they were overweight to corporates. As the stock market turned, they got caught up in that. However, they are ahead of the benchmark since the County brought them on two years ago.

Discussion turned to the Swarthmore Group, who informed the Board they would be closing their business effective June 30. Mr. Besecker said Swarthmore Group is one of the County's active fixed income managers. They have two portfolios. One is valued at $32 million, and the other is valued around $19 million as of the end of May. Mr. Besecker expressed concern about what is going on in the bond market. We do not want to force a liquidation of Swarthmore funds when the market is not receptive, and pricing would be poor. The County has two active fixed income managers, Birch Run and Cumberland. RBC reached out to Birch Run and Cumberland to perform an additional monitoring side service of the Swarthmore portfolios, and both agreed. Birch Run proposed to charge a fee of five basis points annually. Cumberland would charge 8.5 basis points but would like to review the portfolio first. RBC's recommendation is for the Board to accept Birch Run's proposal.

Councilwoman Schaefer asked about the difference between monitoring and managing. Mr. Besecker explained monitoring is more passive.

Councilwoman Reuther asked for confirmation that these funds would not go into Birch Run's own portfolio and inquired about communication with Swarthmore Group. Would Birch Run continue to monitor the funds using Swarthmore Group's strategy? Would the funds remain with our custodial bank? Bruce Besecker said we would work with Principal to ensure Birch Run has access to monitor the funds as discussed.

Councilwoman Reuther asked about the transition process once a permanent manager is selected. Michael Courtney answered we would turn Birch Run off in Principal and turn on the new manager. Bruce Besecker added the transition will be as seamless as possible.

Treasurer Hackett asked for clarification on whether Birch Run would be adopting Swarthmore Group's investment strategy. Mr. Besecker said Birch Run will be focused on if there are any bad credits in portfolio and take action as needed. He added Birch Run will need to forward an agreement to the Board Solicitor. Helen Hurilla added, for operational purposes, Principal may need to move the Swarthmore Group funds to new custody accounts instead of adding the funds to Birch Run's existing custody account.

Councilwoman Taylor made a motion to accept RBC's recommendation to move the assets to Birch Run and authorize the Retirement Board President or the Secretary to make any actions necessary to execute any required documentation. Councilwoman Schaefer seconded the motion.
The motion passed 5-0.

The Board agreed to hold a special public meeting on July 27 at 3:30 pm to discuss options for permanent management of the Swarthmore Group funds.

Secretary Phillips moved to authorize RBC to investigate and find alternative managers for the Swarthmore Group funds. Councilwoman Schaefer seconded the motion.
The motion passed 5-0.

b. Korn Ferry update. Councilwoman Reuther said Korn Ferry representatives were not present at the meeting. Secretary Phillips said she would follow up with Korn Ferry. The actuaries will produce an actuary report in August. Korn Ferry will discuss their valuation report at September's meeting along with the "true up" of the actuarial determined contribution (ADC). The estimated 2023 ADC will be completed in October, for budgeting purposes. If desired, Korn Ferry can go through their report and explain their ratios. We should keep an eye on assumptions including the salary increases at 3.5%, the investment rate of return of 7% and the smoothing method. Korn Ferry will likely also draw attention to the mortality table. We are using 2013's table, which is not based on public sector employees and their lifespan. There is a newer mortality table recommended by Korn Ferry. The valuation will contain the ADC estimates based on both mortality tables. Secretary Phillips added she had a conversation earlier this year with Korn Ferry, who did not express any concerns with the addition of the Health Department and Prison staff in 2022.

6) Old Business.

a. Litigation Update**.** Jon Lichtenstein, Esq. reporting nothing new on class actions. The UBS action continues with arbitration scheduled on February 6, 2023.

7) Individual Reports.

Secretary Phillips reported that things are going well with Principal and noted the Controller's Office recently added frequently asked questions on the County's Retirement Board webpage for view by the approximately 1,900 active pensioners. She also noted the process for raising monthly funds is intact with collaboration between RBC, Principal, and Controller's staff.

There were no other individual reports.

8) Correspondence Received**.**

Correspondence received was the notice of imminent closing of the fund from Swarthmore Group. Secretary Phillips added the only other correspondence were monthly statements and bills.

There has been no other correspondence.

9) Public Comment.

There are no public comments.

10) Adjournment.

Councilwoman Taylor made the motion to adjourn, and Councilwoman Schaefer seconded the motion.
Motion passed 5-0.