

RETIREMENT BOARD
COUNTY OF DELAWARE, PENNSYLVANIA
MEETING OF SEPTEMBER 28, 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 with RBC Wealth Management; David Reichert and Kris Seets with Korn Ferry; and Helen Hurilla, Relationship Manager with Principal Custody Solutions.

1) Meeting was called to order by Councilwoman Reuther at 3:01 pm. Secretary Phillips joined at 3:03 pm. Council Chair Taylor joined at 3:04 pm.

2) Approval of Minutes from meetings of June 22, 2022, and July 27, 2022. Motion made by Councilwoman Schaefer. Seconded by Treasurer Hackett to approve the minutes.

Motion passed 5-0.

3) The Treasurer's Report.

Treasurer Hackett reported that as of August 31, 2022, the value of the fund was \$567,579,158, including the annuities. (Annuities were valued as of June 30, 2022, at \$3,639,999.)

4) Public Comment.

There were no public comments.

5) New Business.

a. RBC Update. Michael Courtney started on page one of the investment report. Year to date, the Fund is down 13.6% at the end of August, compared to the benchmark of -14.5%. Our asset allocation is 50% in the U.S. market, 14% in the international equity market, 31% in fixed income, 4% real estate and 1% in private equity. One manager, Logan Capital, is on the watchlist, even though their investment performance has slightly improved over the trailing three months.

Bruce Besecker said, as of close of business on September 27, the stock market as measured by the S&P was down 22.6% year to date, and the bond market was down 15.2%. By way of background, this performance of stocks and bonds is comparable to 1931. Taken together, the County's fund managers have held up fairly well year to date.

Page four shows we are within range of the investment policy. The County has an overweight in domestic equity and underweight in international equity; averaged together, that leads to a slight overweight to total equity. Page five shows how the asset allocation translates to investment performance. The Fund is doing slightly better than the market. The portfolio is down 13.6%, and has outperformed by 90 basis points, the -14.5% benchmark return of the various asset classes. There is similar outperformance for the trailing one year, as the portfolio is down 11.7% and exceeding the benchmark down 12.6%. Looking at three years, the Fund is slightly ahead of the benchmark, and five years, the Fund is at the benchmark. Year to date, domestic equity shows Boston Partners is three percentage points better than the benchmark, Philadelphia Investment Partners is slightly behind. The Vanguard Index Fund is at plus or minus five or 10 basis points to cover their fee. While Logan Capital is on our watchlist, one month and one quarter shows Logan is pulling ahead a bit over their benchmark. In Logan's defense, it was noted that we have not seen any active growth managers do well vis-à-vis their benchmark as this has been a very difficult environment for them. If we go back to the December 31, 2021, report and review Logan's performance the past five years, they have performed above their benchmark. Year to date, Emerald is slightly ahead and positive across the board, similar to REIT manager Center Square. Page six shows the international index manager Vanguard is in line with the benchmark considering the higher trading and custodian costs for international funds. We also know for international investment performance there is a time differential between when the index is measured and when the fund closes. In fixed income, Birch Run is holding in very well. Cumberland has strong numbers long term, but has been behind since last November. RBC anticipates, given their strong background, that Cumberland will recover. They were very defensive early in the year and a little early in extending maturities. Nationwide is the guaranteed investment contract in the portfolio. They have had positive relative performance across the board. PGIM reports strong numbers historically but was not strong in the last year. However, there has been some recovery in the month of August. The two Swarthmore portfolios are monitored by Birch Run. Page seven shows PGIM short duration high yield, which is down 5.8%, but the benchmark is down 11%. Very good performance by PGIM. Lastly, in reviewing the private equity fund, their IRR through June is 33%.

There was discussion on Met Life, which was selected by the Board along with Ramirez to take over managing funds following the closing of Swarthmore Group. The contracts are in process with work by RBC, the Controller's office, the solicitor and Principal. Mr. Courtney reported that the head of public fixed income at Met Life contacted RBC to disclose that a portfolio manager recently departed the company. Secretary Phillips noted the significant effort to get the documents for Met Life and Ramirez in place. The Board acknowledged that Met Life is a large firm and appreciated that this manager's departure was disclosed. Mr. Besecker said once the Met Life and Ramirez contracts are signed, RBC will coordinate with Principal for transfer of the assets to the new managers, who will make the buy and sell decisions - versus liquidating the portfolio.

b. Korn Ferry update. Kris Seets went through the *Overview of the 2022 Actuarial Valuation and County Contribution* and explained the asset smoothing method. Page seven shows that, as of January 1, 2022, the Plan had \$677,312,754 in assets, and Korn Ferry recognized \$604,596,249 in (smoothed) assets for the valuation. Page eight provides a summary

of key member information. We did see less active participants in 2022 compared to 2021. We expect to see lower numbers in 2023 due to difficulty in filling open positions.

Korn Ferry recommended the County adopt the Pub-2010 mortality table, which better reflects the life expectancy of Pennsylvania public sector employees. Councilwoman Schaefer asked how often the mortality tables are updated. Mr. Seets said the tables are updated annually; however, the Pub-2010 mortality table is a significant change - moving from private sector employees to public sector employees. Annual changes to the mortality tables will be small. Councilwoman Reuther asked about the impact of COVID-19 and the opioid epidemic. Mr. Seets said each year's valuation reflects the actual experience of the Plan's members, including actual deaths. Our goal is to have a reasonable expectation of how long members will live. Our research shows this new mortality table best reflects that experience for the public sector. Page 11 shows the effect of adopting the mortality table in 2022. Although it creates an increase relative to the old assumption, \$6.1 million was budgeted by the County for its 2022 contribution, but \$5,607,636 will be the actuarial defined contribution for 2022. Secretary Phillips commented that about 75% of counties have adopted the new mortality table recommended by Korn Ferry today. Councilwoman Schaefer asked what would occur if we adopt the new mortality table, then the new experience changes due to some unforeseen circumstance. Mr. Seets said the Plan members' experience would be reflected in the annual valuation. It would continue to be "trued up" with each valuation. The new mortality table reflects the public-sector experience versus the private sector experience. Councilwoman Schaefer asked how adopting the new table affects the funded ratio and what happens in subsequent years, relative to the percentage of payroll. Mr. Seets said the County's ongoing commitment is closer to \$5.6 million. Secretary Phillips said there was only one year the contribution was very low. In 2018, the Retirement Board modified some of the assumptions to reflect the realistic activity of the market. At that time, the Board adopted the smoothing method and reduced the investment performance assumption from 7.5 to 7.

Discussion commenced concerning the 2022 budget. Mr. Seets said, given the size of the plan and the benefits provided, even a contribution as a percentage of payroll of 4.27%, is still a good experience for the County. To stay at the current 2.07% of payroll is not a realistic expectation of the future contributions needs to fund the benefits.

Solicitor Lichtenstein asked if Korn Ferry completed an estimated calculation of the 2023 contribution. Mr. Seets said their calculation is dependent upon if the Board adopts the new mortality table and how the markets close on December 31, 2022. We hope the 2023 contribution will be relatively stable to the \$6.3 million contribution budgeted in 2022. Secretary Phillips explained the Controller's Office provides Korn Ferry with the market values of the assets as late as possible in the year to provide the best information regarding value of the plan, and Korn Ferry provides an estimated contribution for the following year's budget based on those asset values. We expect to receive an estimated contribution for budgeting purposes by mid-October.

Councilwoman Schaefer made a motion to adopt the Pub-2010 mortality table for public sector employees resulting in an actuarial determined contribution of \$5,607,636 for 2022. Council Chair Taylor seconded the motion. Treasurer Hackett commented he agreed with adopting the

new mortality table, which is in line with the majority of other counties. Council Chair Taylor concurred.

Motion passed 5-0.

6) Old Business.

a. Litigation Update. Jon Lichtenstein, Esq. reported nothing new on various cases. The UBS action continues with arbitration ongoing; information is being collected for discovery. There is one request for disability pension, which raised some questions that would be best addressed by the Retirement Board. An executive session will be scheduled in October.

7) Individual Reports.

Ms. Helen Hurilla echoed Mr. Besecker's earlier comments and said Principal will be ready to work with the new Met Life and Ramirez managers for trading. Everything is progressing.

There were no other individual reports.

8) Correspondence Received.

Secretary Phillips commented we regularly receive correspondence in the ordinary course of business, but there is nothing to bring to the attention of the Board.

There has been no other noteworthy correspondence.

9) Public Comment.

There are no public comments.

10) Adjournment.

Secretary Phillips made the motion to adjourn, and Treasurer Hackett seconded the motion.

Motion passed 5-0.

Meeting adjourned at 4:20 p.m.