

MEETING NOTICE & AGENDA
KENT COUNTY
PENSION REVIEW COMMITTEE
Quarterly Meeting
Kent County Administrative Complex, Room 221
555 Bay Road, Dover, DE
Thursday, August 17, 2023 – 2:00 p.m.

CALL TO ORDER
ROLL CALL AND DETERMINATION OF A QUORUM
ADDITIONS/DELETIONS TO THE AGENDA
APPROVAL OF AGENDA
APPROVAL OF MINUTES FROM PREVIOUS MEETINGS
May 11, 2023 - Quarterly Meeting

NEW BUSINESS:

- 1) Election of Chairman and Vice-Chairman
- 2) Segal Marco Advisors – Quarterly Pension Investment Performance Report
- 3) Segal Marco Advisors – U.S Equities Fund Manager Transition Update
- 4) Segal Marco Advisors – Large Cap Growth Fund Manager Search
- 5) DSPO – Retiree Benefits Investment Performance Report
- 6) Staff – Pension Valuation Report (January 1, 2023) Update
- 7) Staff – FY23 OPEB Contribution Update (\$2,521,091)
- 8) Staff – OPEB Assumptions Update
- 9) Staff – Biennial OPEB Valuation Status Update
- 10) Staff – Quarterly Pension Activity Report
- 11) Any other business properly brought before the Committee.

PUBLIC COMMENTS

NEXT MEETING DATE: *Thursday, November 16, 2023, at 2:00 p.m.?*

ADJOURN

29 Del.C. 10004(e)(2). The Agenda items as listed may not be considered in sequence. This Agenda is subject to change to include additional items or the deletion of items which arise at the time of the Meeting.

POSTING DATE: 08/07/2023
POSTING TIME: 12:00 noon
POSTED BY: Allan Kujala, Pension Administrator
TAKE DOWN: 08/17/23 @ 4:00 p.m.

KENT COUNTY PENSION REVIEW COMMITTEE
Quarterly Meeting & Annual Appreciation Lunch Minutes
Thursday, May 11, 2023
Vincenzo's Italian Restaurant
1035 Forrest Avenue, Dover, DE

Call to Order & Determination of a Quorum: 12:00 noon.

Members Present:

Davis C. Craik, Chairman
Susan Durham, Vice-Chair
Kristopher Connelly
Ken Decker
Timothy R. Horne
Tammy Ordway
Christopher S. Smith

Members Absent:

None

Others Present:

Allan F. Angel, Levy Court Commissioner
Trudena Horsey, Payroll/HR Administrator
Tanya Keady, Segal Marco Advisors
Allan Kujala, Personnel Director & Pension Administrator
Terri Desanto, Strategic Insurance Partners
Mark Grossbard, Strategic Insurance Partners
David Wildt, Strategic Insurance Partners

Chairman Craik presiding.

Call of the roll revealed a quorum was present. Chairman Craik welcomed new Kent County Administrator/Committee member Ken Decker to his first meeting.

1. Approval of the Minutes of February 16, 2023, meeting.

A motion was made by Ms. Durham, seconded by Mr. Horne, and carried unanimously to approve the minutes for the November 17, 2022, meeting.

2. Segal Marco Advisors – 1st Quarter 2023 Fund Performance Report.

Segal Marco Advisors Primary Consultant Tanya Keady presented an “Analysis of Investment Performance” through March 31, 2023. The report showed the ending market value of total pension assets as \$54,839,624 with a quarterly increase of +\$5,349,114 (+\$3,970,654 annual pension contribution, +\$2,095,624/investment gain, - \$717,164/withdrawals for invoices & 2 monthly pension payments). At quarter’s end, 40.9% of the assets were invested in domestic equities, 8.9% in international equities, 9.7% in global tactical asset allocation (balanced), 4.6% in real estate, 2.1% in emerging markets equities, 33.8% in fixed income, and 0.0% in cash. The pension fund underperformed for the quarter with a return of +4.2% versus +4.7% for the Policy index. For the one-year period, the Total Fund underperformed the Policy Index -7.2% vs. -5.1%, and for the three-year period it outperformed the Policy Index +9.8% versus +8.2%. Since inception, the Total

Fund has returned +9.2% compared to +8.5% for the Policy Index.

INTECH (Large U.S. Cap Growth – 10.9%), which started December 2003, underperformed the index for the quarter with a return of +8.8% compared to +14.4% for the Russell 1000 growth index. For the one year, INTECH returned -19.1% versus -10.9% for the comparative index and maintains a +12.0% return rate compared to +14.6% for the index after 10 years. Since inception, INTECH has returned +9.7% compared to +10.6% for the Policy Index.

Wedge Capital (Large U.S. Cap Value – 18.6%), which started October 2004, outperformed the index for the quarter with a return of +2.0% compared to +1.0% for the Russell 1000 value index. The Wedge investment returns for the one-year period were -4.8% compared to -5.9% for the index and maintains a +10.8% return rate compared to +9.1% for the index after 10 years.

SSgA International Equity Index Fund (International – 8.7%), which replaced *AQR International Equity Fund II* effective February 2022, matched the index for the quarter with a return of +8.5% matching the MSCI NET EAFE index. Per Committee direction, AQR liquidated assets on December 31, 2021, and transferred to a State Street Advisors (SSgA) index fund. For the one-year, International Equity returned -1.0% outperforming the index at -1.4%. Since inception, International Equity with SSgA has returned -1.9% slightly better than the policy index at -2.1%, and the international equity allocation has returned 0.0% versus +2.3% for the index.

Invesco Balanced-Risk Allocation (GTAA – 9.4%) was established May 2014 and underperformed for the quarter with a return of +3.0% versus the +5.9% for the Invesco Policy Index benchmark. For the one-year period, the balanced risk investment returns were -9.6% compared to -5.6% for the policy index and for the five-year period it underperformed the Policy Index +4.1% versus +5.8%.

Segal Marco Fixed Income Group Trust (Fixed Income – 32.8%), which started January 1, 2019, outperformed for the quarter with a return of +3.6% compared to +3.0% for the Bloomberg Barclays U.S. Aggregate Bond index. For the one-year period, the Bond composite allocation returned -3.9% compared to -4.8% for the index. Since inception (5-years), Segal Marco Fixed Income has returned +1.2% compared to +0.7%, while the total fixed income composite allocation has returned +3.0% compared to +2.8 for the index.

RCTS Emerging Markets Equity-RBC/Wells (Emerging Equities – 2.0%) was established March 2018 and outperformed for the quarter with a return of +5.1% compared to +4.0% for the MSCI EM (net) policy index. The RCTS investment returns for the one-year period were -6.2% compared to -10.7% for the policy index. Since inception, the emerging markets allocation has returned +0.1% compared to -1.3% for the index.

Principal U.S. Property Account (Real Estate – 4.4%) was established April 2018 and underperformed for the quarter with a return of -3.2% matching the NCREIF ODCE Equal Weighted policy index. The Principal investment returns for the one-year period were -6.3% compared to -3.1% for the index. Since inception, the real estate allocation has returned +6.8% compared to +7.8% for the Policy Index.

SSgA Russell Small Cap Completeness Index (SMID – 10.1%) was established February 2022, and performed as expected for the quarter with a return of +5.9% matching

the Russell Small Cap Completeness Index. For the one year, SSgA slightly underperformed with a return of -13.3% compared to -13.2% for the index. Since inception, SSgA has returned -10.9% matching the Policy Index.

GCM Grosvenor MAC Fund III (Opportunistic – 3.1%) was established August 2022, resulting from a \$1,575,756 funds transfer from fixed income (Segal Marco Fixed Income-FIGT) of an expected total \$3,750,000 commitment, however reporting lags due to the type of investment format and was not included in the report.

Ms. Keady reported that the overall market performance was positive for the quarter, although the recent bank failures have caused much uncertainty within the investment market. She said the pension fund had no direct exposure to the specific banks involved. She pointed out that inflation is down slightly, but the Federal Reserve continues to steadily increase interest rates to combat it. She said she does not expect Grosvenor to call for the remaining commitment in the upcoming quarter. She concluded her report by saying that April was a positive month with earnings up three-quarters of a percent.

3. Segal Marco Advisors – International Equities Fund Manager transition update.

Ms. Keady recalled that a fund manager search had been completed for the previous meeting and per Committee direction the transition of the International Core Equity allocation from the State Street Advisors (SSgA) MSCI EAFE index strategy to MFS Investment Management’s International Equity Fund had occurred on April 17, 2023, with the transfer of \$4,874,044.35.

4. Segal Marco Advisors – U.S. Equities Update & Discussion.

Ms. Keady presented a report titled “U.S Equity Updated” dated May 11, 2023, which informed the Committee that the current Large Cap Growth fund manager – INTECH Investment Management LLC had been downgraded from “hold” status to “not recommended” due to sustained underperformance when compared to the benchmark. In comparison the actively invested Large Cap Value fund manager – Wedge has maintained a trend of long-term of outperformance.

As a result, three courses of action were presented including replacing Intech with a new growth/active fund manager, moving the assets to an index fund on an interim or replacement basis, or combining the Large Cap Growth and the Wedge Large Cap Value allocations.

Mr. Kujala noted that Intech was selected as the large cap growth manager back in 2003 after the dot.com tech bubble burst and assets declined significantly. He recalled the committee especially liked Intech’s systematic investment approach based on a mathematical model designed to optimize volatility.

Despite several unsuccessful attempts to tweak the process with enhancements to their model, Ms. Keady pointed out clients have continued to pull investments and Intech’s total assets under management have plummeted 62% since “hold” status was put in place.

After much discussion, a motion was made by Mr. Craik, seconded by Mr. Connelly, and carried unanimously to terminate the Intech relationship and transfer assets to an index fund with State Street Advisors and conduct a new large cap growth fund manager search for further discussion at a future meeting.

5. **DSPO – 1st Quarter 2023 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 +3.0% compared to +5.7% for the DPERS Policy benchmark. The State Pension fund return was reported as -8.8% versus -6.2% for the benchmark for the one-year period.

The unaudited DEL RIP report for January 1 – March 31, 2023, showed a market value balance of \$27,024,999.15 for a quarterly decrease of -\$384,081.03. For the quarter, the County's portion of the fund assets (0.20520%) decreased by -1.4% (-\$1,200,000 reimbursement to County for retiree health insurance premiums; +\$62,236.50 interest, +\$41,100.12 dividends, +\$292.82 securities lending income, +\$417.94 net change accrued income, +\$308,479.51 unrealized gain/loss change, +\$417,303.26 realized gain/loss, -\$150.66 custodian fees, -\$43.92 securities lending fees/expenses, -0.38 professional fees, -\$14.79 accrued expense change-investment manager, -\$13,271.51 investment manager/advisory fees, -\$422.00 transaction fees/credit, -\$7.92 legal/investment fees).

6. **Staff – OPEB Assumptions Recommendations.**

Mr. Kujala noted that proposed OPEB assumption revisions resulting from the Experience Study completed by Milliman in September 2022 were reviewed at the previous meeting, but the Committee requested that the actuary determine the financial impact to the Actuarially Determined Contribution (ADC) for each proposed assumption before further consideration.

The proposed OPEB assumptions include:

- Update the mortality assumption to use the Society of Actuaries' Pri-2012 series of mortality tables versus Milliman's recommendation to use Society of Actuaries' Pub-2010 series of mortality tables.
- Change the basis of the salary increase assumption to service-based and update the rates used, including increasing the ultimate rate from 3.25% to 3.5%.
- Adjust the termination and retirement rates based on observation of Plan experience.
- Reduce the currently used disability rates by 50%.

After some discussion about the overall beneficial impact to the ADC, a motion was made by Mr. Horne, seconded by Mr. Connelly, and carried unanimously to recommend approval of the proposed assumption revisions for the upcoming OPEB valuation.

**Impact of Proposed Assumption Changes as of June 30, 2022 for Development of
Projected Cash Contribution Payable June 30, 2024**

	Actuarial Accrued Liability as of June 30, 2022	ADC Payable as of June 30, 2023	Projected Cash Contribution as of June 30, 2024
Current Assumptions	\$49,538,000	\$3,420,129	\$3,381,338
Impact of:			
7. Demographic Assumptions and Salary Scale	1,288,000	83,234	60,171
PRI-2012 Headcount-	<u>(1,313,000)</u>	<u>(143,129)</u>	<u>(152,078)</u>
Total	(25,000)	(59,895)	(91,907)
Proposed Assumptions	\$49,513,000	\$3,360,235	\$3,289,431

As shown, the update to the demographic actuarial assumptions increased the actuarial liability by \$1.29 million, the ADC by \$0.08 million and the projected cash contribution by \$0.06 million. The update to the mortality table decreased the actuarial liability by \$1.31 million, the ADC by \$0.14 million, and the projected cash contribution by \$0.15 million. The net impact was a decrease in the actuarial liability by \$0.03 million, the ADC by \$0.06 million and the projected cash contribution by \$0.09 million.

Staff – Draft Pension Valuation Report (January 1, 2023).

Mr. Kujala reported that the Pension Actuary – Milliman had completed the annual pension valuation and prepared a draft report which was emailed to the members before the meeting.

He noted that the final actuarially determined contribution of \$4,340,152 for Fiscal Year 2024 was slightly above the estimate provided in March, but considerably higher than the Fiscal Year 2023 figure of \$3,970,654. According to the report, the higher ADC is the result of an increase of the unfunded actuarial accrued liability from \$20.48 million to \$22.24 million, which was primarily due to a loss on the actuarial value of assets and demographic changes partially offset by the changes to the actuarial assumptions.

According to the report, the actuarial loss is due to:

- Lower than expected investment returns (5.03% vs 7.25% assumed on an actuarial basis),
- Higher salary increases than expected (8.1% vs 3.4%),
- More retirements than expected,
- New members added to the plan, and
- Higher actual retiree cost-of-living adjustments granted than expected (2% versus 1%) partially offset by actuarial gains due to 5 more deaths than expected.

On the other hand, the net effect of the experience study recommended pension assumption revisions and the elimination of the COLA assumption resulted in a decrease in

the actuarial accrued liability by approximately \$582,000 and a slight increase in the ADC by \$42,000.

Valuation Date	Market Value of Assets	Actuarial Value of Assets	Actuarial Accrued Liability	Funded Ratio	
				Market Value	Actuarial Value
01/01/2023	\$49,844,446	\$61,008,410	\$83,251,722	59.9%	73.3%
01/01/2022	60,019,493	58,126,856	78,604,240	76.4%	73.9%
01/01/2021	51,338,383	47,888,979	71,636,098	71.7%	66.9%
01/01/2020	45,246,187	43,508,180	69,238,732	65.3%	62.8%
01/01/2019	37,771,956	40,944,564	61,137,089	61.8%	67.0%
01/01/2018	40,396,997	39,077,674	56,506,230	71.5%	69.2%
01/01/2017	34,942,834	36,698,385	52,233,204	66.9%	70.3%
01/01/2016	33,140,779	35,145,019	46,186,132	71.8%	76.1%
01/01/2015	33,630,887	33,630,887	42,749,221	78.7%	78.7%

8 Staff – 2022 Annual Report to Levy Court update.

Mr. Kujala advised that the Annual Report to Levy Court approved by the Committee at the previous meeting had been revised as discussed to provide updated 457 deferred compensation account details and submitted to the Commissioners.

9. Staff –FY23 Pension & OPEB Contribution report.

Mr. Kujala reported that per Committee direction, the full actuarially determined contribution (ADC) of \$3,970,654 for FY2023 was wired to the fixed income account (FIGT) on March 3, 2023. He said the OPEB contribution of \$2,521,091 should be completed by early June.

10. Staff – FY24 Budgeted Pension & OPEB Contributions update.

Mr. Kujala advised that the Fiscal Year 2024 budget will be introduced on May 23, 2023, with the full pension ADC of \$4,310,152 and the Other Post-Employment Benefits (OPEB) biennial ADC of \$2,521,091 contained therein. He said the budget’s public hearing is planned for June 13, 2023.

11. 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
May 1, 2023	\$349,820.49	277	+1(R); +2(P) w/retros \$2,912.05 & \$462.52; -1 (P)

April 1, 2023	\$340,074.16	275	+2(R); -1 (R); +2(B); +1 (QDRO); +\$12.14 & +\$5.00 debit removal
March 1, 2023	\$333,159.92	271	-2 (R); -(P); -(B); -\$1,975.06 (B) double listing; -\$18.21 (R) & -\$10.00 (R) interest rate adj
February 1, 2023	\$339,010.54	276	+1(R)**; +1(B) w/retro
January 1, 2023	\$335,547.06	273	+1(R)**; +1(R); +1(R) w/retro; -2(R)
December 1, 2022	\$330,191.18	272	+1(P) w/retro; +1(B) w/retro; +1(QB); -1(R)
November 1, 2022	\$331,072.05	270	+3(P); -1(P)
October 1, 2022	\$330,715.51	268	+2(R); -1(B)
September 1, 2022	\$328,817.88	267	-\$34.04 (R) remove retro cola credit
August 1, 2022	\$328,834.90	267	+2(R); +1(P); -2(R); -2 (B); +\$34.04 cola credit retro
July 1, 2022 (2% cola-act)	\$328,281.57	268	+1(P); -1(R); +\$5,334.93cola; -\$17.02 (R) cola error & - \$28.20 dec. cola
June 1, 2022	\$323,921.02	268	+4 (R) w/retro; -1 (P) retro; +1(B) w/retro
May 1, 2022	\$318,173.50	264	+1(R); -1 (R)
April 1, 2022	\$318,335.74	264	+2 (R); +3 (P) w/retro; **Int. Adj.
March 1, 2022	\$309,208.42	259	+2 (R); -1 (R); **Int. Adj.
February 1, 2022	\$307,728.66	258	+2** (R); -2 (R) retro; +1 (B)
January 1, 2022	\$300,326.49	257	+2 (R) (1**)
Pending Pensions - Type	Effective Date	Service Years/Age	Estimated Benefit
(R)	06/01/23	19 yrs; 67	\$999.86/mo. Life?
(B)	05/01/23		\$1,371.53/mo. Life Ben of active employee (retro)
(P)	05/01/23	5.8 yrs; 62	\$246.32/mo. Life?
Pensions started – Type	Effective Date	Service Years/Age	Monthly Benefit/Type
-(P)	05/01/23		-\$234.14/mo. Died 04/07/23; no beneficiary
+(P)	05/01/23	11.3 yrs; 62	\$582.41/mo. CA100% (retro to 12/01/22)
+(R)	05/01/23	23.8 yrs; 64	\$5,792.23/mo. CA50%
+(P)	05/01/23	8.4 yrs; 62	\$231.26/mo. CA100% (retro to 03/01/23)
+(B)	04/01/23		\$239.01/mo. Life- (retro to 03/01/23)
-(R)	04/01/23		-\$716.53/mo. Died 02/27/23; w/CA 50%; (retro to 03/01/23)
+(QB)	04/01/23		\$382.18/mo. Life-QDRO (retro to 11/01/22)
+(B)	04/01/23		\$1,743.57/mo. CC10yrs ben. (retro to 12/01/22)
+(R)	04/01/23	12.1 yrs; 60	\$2,056.91/mo. CC5yrs
+(R)	04/01/23	40 yrs; 64	\$3,191.96/mo. Life (retro to 03/01/23)
-(B)	03/01/23		-\$610.03/mo. Died 01/28/23 (retro to 02/01/23)
-(P)	03/01/23		-\$150.48/mo. Died 02/03/23; no beneficiary
-(R)	03/01/23		-\$1,671.50/mo. Died 02/15/23; no beneficiary
-(R)	03/01/23		-\$1,415.34/mo. Died 02/14/23; no beneficiary
+(R)	02/01/23	8 yrs; 68	\$500.89**/mo. CA100%
+(B)	02/01/23		\$987.53/mo. Life w/retro to (12/01/22)
-(R)	01/01/23		-\$1,258.38/mo. Died 11/26/22 w/CA100% (retro 12/01/22)
-(R)	01/01/23		-\$533.11/mo. Died 12/04/22; no beneficiary
+(R)	01/01/23	32 yrs; 57	\$3,251.54/mo. CA50% (retro to 12/01/22)
+(R)	01/01/23	30 yrs; 54	\$3,377.08/mo. Life
+(R)	01/01/23	12 yrs; 69	\$518.75**/mo. CA100%
-(R)	12/01/22		-\$1,743.57/mo. Died 11/07/22 w/10yrs CC
+(QB))	12/01/22		\$312.33/mo. Life (retro to 11/01/22)
+(P)	12/01/22	6.3 yrs; 62	\$236.75mo. CA50% (retro to 11/01/22)
+(B)	12/01/22		\$313.62/mo. Life-Beneficiary (retro to 11/01/22)
-(P)	11/01/22		-\$659.17/mo. Died 10/04/22 w/CA 50% beneficiary
+(P)	11/01/22	6.7 yrs; 62	\$460.55/mo. CC10yrs & QDRO @ \$382.18/mo.
+(P)	11/01/22	7.0 yrs; 62	\$210.65/mo. CA100%
+(P)	11/01/22	8 yrs; 62	\$344.51/mo. Life (retro to 10/01/22)
-(B)	10/01/22		-\$187.69/mo. Died 09/10/22
+(R)	10/01/22	8 yrs; 65	\$341.75/mo. Life
+(R)	10/01/22	15 yrs; 60	\$1,743.57/mo. CC10yrs

R=Retiree from active service; P= Pensioner, vested former employee; R/EO=Active Elected Official receiving pension 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

12. SIPrisk Insurance – Fiduciary Liability Insurance Coverage Information.

Mr. Kujala introduced three representatives of the County’s Property & Liability insurance broker – Strategic Insurance Partners. He noted that Committee members had inquired about the County’s insurance coverage. The representatives provided brief details about the coverage.

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

A. Levy Court Appreciation.

In addition to comments made by the County Administrator, Commissioner Allan Angel speaking on behalf of Levy Court thanked the members for their service on the Committee. He noted that the prior year was particularly busy with the added tasks involved with the employee deferred compensation program (457b) and the experience study.

14. Public Comments.

None

15. Next Meeting.

Committee members agreed by consensus to schedule the next quarterly meeting for Thursday, August 17, 2023, at 2:00 p.m. at the Kent County Administrative Complex.

A motion was made by Mr. Horne, seconded by Ms. Ordway, and carried unanimously to adjourn the meeting at 1:58 p.m.

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