

**RETIREMENT BOARD
COUNTY OF DELAWARE, PENNSYLVANIA
MEETING OF MAY 16, 2024
(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 Secretary and County Controller Joanne Phillips; Board Member and County Council Chair Monica Taylor; Board Member and County Council Member Elaine Schaefer; Board Chair and County Council Member Christine Reuther; Board Member and County Treasurer James Hackett (zoom); Board Solicitor Jonathan Lichtenstein; Executive Director Barbara O'Malley; Michael Courtney with RBC Wealth Management; Helen Hurilla, Relationship Manager with Principal Custody Solutions.

- 1) Meeting was called to order by Councilwoman Reuther at 3:10 pm.
- 2) **Approval of Minutes** from meeting of February 1, 2024. Motion made by Councilwoman Schaefer. Seconded by Councilwoman Taylor to approve the minutes. **(Motion passed 5-0).**
- 3) **The Treasurer's Report.** Treasurer Hackett reported that as of March 31, 2024, the value of the fund was \$649,202,260 including the annuities. (Annuities were valued at \$3,927,037.)
- 4) **Public Comment.** There were no public comments.
- 5) **New Business.**
 - a. RBC Update – Mr. Michael Courtney.

The performance report for the first quarter had a return of 5.5%, which is slightly below the benchmark of 5.6%.

The Nationwide transition is ongoing. The Controller's Office and RBC have completed documentation and have been working on this. Funds will be transitioned to a total return bond fund similar to existing managers. The balance will be shifted to Principal. Councilwoman Reuther inquired about the time for completion of the process. Mr. Courtney said it is a matter of waiting for timing of the market value.

Mr. Courtney discussed allocating more funds to fixed income to rebalance the Fund in accordance with the investment policy. RBC recommended reallocating \$25 million out of the index fund to fixed income to be closer to 35% fixed income as set by the policy. Board Chair Councilwoman Reuther confirmed that the reason to do this is to make us more

closely aligned with our investment policy. RBC recommended the funds be divided between three existing fixed income managers- MetLife, Ramirez and Prudential. Councilwoman Reuther asked for a motion to approve the move from S&P 500 into a fixed income account. Motion was made by Secretary Phillips. Councilwoman Schaefer seconded the motion.

(Motion passed 5-0).

Councilwoman Reuther asked how often other counties look at their investment policy. Mr. Courtney said that some counties look at it yearly or every other year. Councilwoman Reuther inquired as to whether the Board could review the investment policy at the next meeting. Mr. Courtney agreed that this could be reviewed at the next meeting.

On a review of the portfolio, it was noted that equity markets did very well in the first quarter. The S&P 500 was up 10.6% then for the trailing one year, up 29.9%. Other major economies across the globe were up with the only negative being China. The ten-year yield ended the first quarter at 4.2%, and it ended 2023 about 3.9%. The pullback causing the markets to be lower in April was attributed to talk that the Federal Reserve may have to increase rates again as inflation began to uptick in the first quarter. The CPI's latest read was 3.32%, which was a reduction from the previous month at 3.4%.

As an overall review, RBC also touched on several markets and indicators. First, it was noted that RBC monitors commodities and that crude oil was up over 15% in the first quarter. Mr. Courtney explained that RBC monitors the market because of the real effect on consumers. The unemployment rate remains low at 3.9%, which has been a strong indicator of the strength of the economy. Large cap growth is very strong and mid cap growth is strong as well. The value stocks continue to lag. The growth in the first quarter centered around artificial intelligence (AI), with change happening at a very fast pace.

Currently, there are very attractive bond yields. As a rule of thumb, the beginning yield continues to be a good indicator of what you are going to earn over the next ten years. This has been a significant change, with today's rates at 4.9 percent compared to rates at 1 to 2 percent three years ago. With very low bond yields, equities were forced to do a lot of the work to achieve the assumed 7% return. Delaware County will not be alone moving more money to fixed income.

Overall, the Fund started the second quarter at \$621 million dollars. Even with taking out almost \$6 million for benefits and expenses, the investment gain for the quarter was almost \$33 million, bringing us to the ending market value of \$649 million.

Moving to performance, RBC discussed the results as reflected in its report presented to the Board. In summary, the Fund saw a domestic equity return of 9.3% in the first quarter versus the Russell 3000 index of 10 percent. Boston Partners had a strong quarter, at 9 percent versus the benchmark of 8.6. The Vanguard S&P 500 performed well, and the Vanguard Russell 1000 growth fund added last year are performing as expected and matching up to that index. Emerald was a little soft for the quarter, with 5.7 percent return against a benchmark of 7.6, but the long-term numbers are strong. We have a good group of managers working on the fixed income allocation. Birch Run was soft for the quarter bringing down their one-year number, but their 5-year number is ahead of the benchmark.

Cumberland, which suffered in 2023, rebounded 40 basis points, and their one-year number was very strong at 4.5% versus 2.7%. The Prudential total return is positive. Ramirez was hired in 2022, and they are just matching up against their benchmark. MetLife had a solid quarter.

The Fund has one private equity manager, Siguler Guff, which is providing a solid IRR of 20.76%. They are starting to move into the distribution phase, which is part of the private equity investment cycle. We have invested about 86 percent of the \$5 million of capital commitment. The managers have a good track record of returning capital and turning a profit.

Secretary Phillips asked for details about moving the \$25 million from Vanguard and how the funds would be allocated. It was discussed that the Fund would move \$8 million to MetLife, \$8 million to Ramirez, and \$8 million to Prudential. The \$1 million balance would be used to help with monthly pension needs. Councilwoman Schaffer questioned how those three investments were chosen. Mr. Courtney said that they are all benchmarked to the aggregate with an expected yield in the 5-6% range. Councilwoman Schaffer asked if there was a fee difference in the management between fixed income managers and Vanguard. Mr. Courtney said that Vanguard is very inexpensive at 4 basis points, where the fixed income managers charge 25-30 basis points. In this case, the fixed income funds provide security against the volatility inherent in the equity market. Secretary Phillips made the motion to move \$25 million dollars from the Vanguard 500 fund and invest it as discussed with one million dollars being used for retirement costs. Councilwoman Schaffer seconded this motion. **(Motion passed 5-0).**

b. Custodial Bank – Principal Custody Solutions – Ms. Helen Hurilla.

Ms. Hurilla reviewed the process that has taken place changing over from Wells Fargo to Principal, which took place almost two years ago. She feels that the transition is complete, and they are in growth mode. Some of the accomplishments in 2023 are making sure the documentation they have on file is up to date. They have enhanced online access for pensioners. Also, Mr. Hackett did not have online access, but that has also been remedied. Also, they have added the trade entry functionality that will allow online trades to be much easier. Retirees are also able to access payment information online on an inquiry basis to see payment information or to access their 1099 forms or other basic forms.

Ms. Hurilla included contact information for the County's service team. She also presented a report titled "Relationship at a Glance", which shows all of the services available to everyone. She praised the Board for being so forthcoming in accepting online abilities with Principal.

At the end, Ms. Hurilla showed some key statistics showing the nice increase Delaware County had under the Board's watch and with our investment managers and RBC. Delaware County had unrealized gains of \$33 million in 2023.

Secretary Phillips spent a few minutes saying that Principal was very expedient in resolving issues and never left the County without answers to problems. She felt that Principal has done a great job at partnering with the Retirement Program.

c. Board Secretary Compensation.

Led by Board Chair Christine Reuther, a discussion about the Board Secretary's salary (paid to the Controller in her role as Secretary to the board per the Pension law) was initiated. Currently, the Controller in her role as the Retirement Board Secretary is paid an additional \$2,400 a year. The base salary for the Controller is set at \$46,000, making the Delaware County Controller (Class 2-A) the lowest paid controller in the commonwealth even with the stipend for the board work. In a review of the other Pennsylvania counties (except for Philadelphia and Allegheny counties), Secretary Phillips explained that Delaware County has the most employees (3,600- FT and PT), has the second most retirees, and had the second largest pension fund at the end of 2023 (behind only Bucks County). Montgomery County (Class 2-A County) has 100 fewer employees, and the Controller is paid \$79,125 a year in total for the part time position. In Chester County (Class 3) with 1600 fewer employees, the Controller was paid \$82,513 in 2023 and receives no additional compensation for being on the retirement board. Lancaster County (Class 2-A) with 1,494 full time employees pays no additional compensation for the retirement board but in 2023 paid the Controller \$86,527 a year.

Councilwoman Reuther proposed that the Board decide whether to increase the compensation being paid to the Controller as the Secretary of the Board. There was a discussion of the nature and substantial amount of work being done by the Controller and her office directly for the benefit of the Fund. The board discussed the current range of compensation paid by a number of counties to other controllers in their capacity as the retirement board secretary. Following discussion, it was proposed that the Controller's compensation as Secretary be increased to \$9,600 a year for the Retirement Board position if passed through a vote. Treasurer Hackett commented on his observations of the hard work being done by Secretary Phillips and supported a compensation increase for this work. Council Chair Dr. Taylor made a motion to grant an increase to \$9,600. Councilwoman Schaeffer seconded the motion. Secretary Phillips abstained from voting.

(Motion passed 4-0).

6) **Old Business.**

a. Litigation Update – Jon Lichtenstein, Esq.

Solicitor Lichtenstein reported that there are two class action settlements to report in which the Delaware County Fund is the lead plaintiff. The cases were brought to us by Robbins Geller. In both cases, the settlements are subject to Court approval, so they are not quite completely settled.

The first case is with Adapt-Health in which claims were made against them because the head of the company was criminally charged with the largest tax fraud in European history. The second claim was based on how they presented their financials. The two charges together led to a settlement for \$51 million in cash plus a one million dollar fine against the principal.

The second case is Cabot Oil & Gas. This case involved a fracking company, which allegedly contaminated wells and ignored Pennsylvania environmental laws even though they reported that they were in compliance. The company had been charged by the Attorney General with nineteen counts of violating environmental laws. The company is based in Texas and moved the court venue to Texas, making litigation more difficult. In the first year of this suit, Cabot offered \$1 million dollars to settle the suit, but the current offer to settle is \$40 million.

7) Individual Reports of Board members or committees.

a. Committee Update – Councilwoman Reuther

It was suggested that the Board form a committee that could do a deeper dive into looking at the Investment Policy and make recommendations. This flowed from a discussion that Board Member Councilwoman Schaffer has continued concerning her requests to conduct an RFP to select an investment advisor. Councilwoman Schaffer noted that it is not best practice to have not put out an RFP in almost 14 years. Board Chair Councilwoman Reuther stated that before we move to the RFP process it is important to be knowledgeable about the different styles of investment management available. Councilwoman Reuther suggested setting up a committee to learn more about the process and the types of models for investing and managing a fund that are used in the pension fund investment world. Secretary Phillips acknowledged the issue raised by Councilwoman Schaefer but stated that she is not in favor of making changes now owing to concerns about stressing the system and staff, especially as advisory services and fees are fixed and transparent, the processes in place in her office are stable, and the Fund continues to be performing and well-funded.

8) Adjourn Public Meeting.

Motion made by Secretary Phillips to adjourn this meeting at 3:50 P.M., Councilwoman Schaefer seconded this motion (Motion passed 4-0).

Next meeting - September 12, 2024, 3:00 P.M., Council Meeting Room 1st floor