

**RETIREMENT BOARD
COUNTY OF DELAWARE, PENNSYLVANIA
MEETING OF JUNE 17, 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 Jon Lichtenstein; Executive Director Marianne Grace; Bruce Besecker and Rick Courtney with RBC Wealth Management; Helen Hurilla, Relationship Manager Wells Fargo Retirement and Trust

1) Meeting was called to order at 2:00pm.

2) Approval of Minutes from the February 25, 2020, meeting.

Secretary Phillips made the motion to approve the minutes, and Councilwoman Reuther seconded the motion. **Motion passed 4-0 (Councilwoman Schaefer had not yet joined the meeting).**

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 May 31, 2020 the market value of the fund was \$522,890,330, including the annuities. This represented a decrease from the beginning of the year of \$39,714,590. Councilwoman Reuther made a motion to accept the Treasurer's Report, and Secretary Phillips seconded the motion. The **Motion passed 5-0 vote.**

Councilwoman Reuther asked if the decrease was due specifically to market valuation changes. Rick Courtney of RBC answered that yes, a large majority of the decrease was due to market volatility. Secretary Phillips commented that at one point earlier in the year that there had been a greater decline in market values, but the Fund had recovered a bit from March and April.

4) Public Comment.

There was discussion as to the protocol for the virtual meeting and how the public could submit comments for this meeting. Board Chairman Zidek asked viewers to submit a public comment via email at PublicComment@co.delaware.pa.us or via phone at 610-891-4431. Councilwoman Reuther asked viewers to please reference "Retirement Board Meeting" in the subject line of their email.

5) New Business:

a. RBC Update – Market Report

Rick Courtney submitted RBC's report. Mr. Courtney reported that valuations are changing quickly and dramatically due to volatility, but that the market is most recently experiencing a rebound. Mr. Courtney noted that the selloff has been dramatic in the bond market. To their credit, the Federal Reserve has announced they are going to backstop exchange-traded funds (ETFs), high yield bonds and government sponsored enterprises (GSEs). Mr. Courtney remarked that the Federal Reserve has nationalized the bond market and the actions will reinforce the economy.

Mr. Courtney discussed the market recovery was expected to be a "v-shaped recovery," exhibited in large cap and small cap space. There is concern about potential future mortgage foreclosures and he noted that corporate bankruptcies were on the rise. If a second wave of the pandemic occurs, it is difficult to predict what a resurgence of COVID-19 would bring. Mr. Courtney remarked that Treasury Secretary Mnuchin has stated that the government will not shut down the economy a second time.

Bruce Besecker of RBC discussed the changes that had been made to the Fund. The termination of Dalton Greiner and transfer of assets to Boston Partners was completed on May 11. He reported that we are in the final stages of the transition from Cambiar, an international manager. Further changes in Ryan Labs and Bryn Mawr Trust will be taken in accordance with the decisions made by the Board. However, because the market is quite volatile right now, we want to move carefully. Mr. Besecker added RBC is working with the Controller's Office in a prudent manner to make the moves.

Secretary Phillips discussed the issues in performing these transactions and terminating funds with WF Advisors. The transactions required a fair amount of work, and these difficulties have been discussed with WF Advisors. Due to the volatility of the market, these transactions have been completed sequentially. The transactions required coordination of work with RBC, Helen Hurilla/custodial bank, and Controller's Office staff. Secretary Phillips expressed her thanks to RBC and Ms. Hurilla.

Mr. Besecker commented that the Cambiar assets were liquidated prior to a market drop the previous week and Secretary Phillips said the Cambiar transaction should be wrapped up this week.

Board Chairman Zidek asked if the liquidated funds could be used for cash flow for monthly payroll pension needs. Mr. Besecker answered that \$20.6 million is available from Cambiar and that we planned to hold \$2 million to fund the next pension payment, with the balance being invested.

Board Chairman Zidek observed that the total fund performed better than the policy benchmark in May but not overall. He expressed his concern that it is imperative to meet the County's policy benchmark on a regular basis. Discussion followed concerning how often the Fund has met the benchmark in previous years, and how to achieve that going forward.

Bruce Besecker continued the discussion and individual fund performance. Overall, the investment report shows the portfolio is down 6.1% to date. Secretary Phillips said with the volatility being experienced, it is not clear what investment will meet the benchmarks and that we need to look at return in the long term. The Board discussed the investment policy and opportunities to meet the desired return. Fixed income returns have changed drastically from the past. The Fund has taken a step to invest private equity, but the transaction was labor intensive and requires continuing capital calls to be made.

Board Chairman Zidek asked RBC their view of REITS. He added he knows they've been badly beaten up and are facing headwinds from people working from home and online shopping. Rick Courtney replied there's a legitimate concern there. Mr. Courtney said he is concerned about the outlook for REITS, which had been a decent diversifier in the past. RBC expressed that they would have more conversations with the REIT manager before recommending that to the Board.

Board Chairman Zidek stated that in terms of changing the portfolio he would like to see more international funds for the long term, but not necessarily in the short term. Bruce Besecker commented that if the dollar starts to weaken, he would recommend investing in more international funds.

Board Chairman Zidek asked how much cash flow is needed per month. Secretary Phillips said we require about \$2 -2.2 million per month. She added that we used the County contribution earlier in the year toward pension payments. The payments also include lump sum payments (return of funds) to people who leave County employment. Board Chairman Zidek asked about the interest and dividend income and whether that could be used for the monthly retirement payments. Secretary Phillips commented that we can explore that approach.

Councilwoman Schaefer commented that no one knows what will happen with the market given these conditions, and prefers to hold the course to limit risk. She expressed concern over what might happen at the end of the year in the markets.

Councilwoman Reuther said it might be unreasonable to expect the assumed 7% return to be realized in the short term.

Rick Courtney stated that if you look back at the Fund for the past 20 years, in every year except 2017, there has been some negativity. Nonetheless, the Fund has achieved 7.5% in returns and survived the tech bubble of the early 2000s and the credit crunch in 2008.

Bruce Besecker offered a perspective that during the 2008 global financial crisis, quantitative easing supported by the Federal Reserve took five years to buy \$2.5 trillion in securities. This year, the Federal Reserve accomplished that in a month and a half. The Federal Reserve is supporting capital markets. The market is respecting it, which is why stock and bond markets are behaving the way they are.

Board Chairman Zidek requested that RBC present its report only net of fees, which RBC confirmed can be done.

Secretary Phillips commented on the number of transactions and changes to the Fund completed most recently by the Controllers' Office. She noted that in her first two years in office, only one fund had been terminated in 2018. However, since late 2019, the Fund had acquired a private equity investment, terminated two funds and made reinvestments in two more funds, all of which was made more difficult by COVID-19. A brief discussion about capacity to handle the transactions was discussed.

Executive Director Grace commented on the high level of engagement of the current Retirement Board.

b. Helen Hurilla – Update on Wells Fargo/Principal transition

Going back to a question raised by Chairman Zidek, Helen Hurilla of Wells Fargo explained that dividend and interest earned varies month to month. The average was \$600,000 during each of the past three months. While the earnings are not enough to offset the monthly pension payment, there may be an opportunity to help fund the monthly need.

Ms. Hurilla continued with an update on Wells Fargo's transition with Principal. The transaction closed in July 2019. The complete transition date has been pushed back to Labor Day weekend 2021. Until that time, we will be continuing as Wells Fargo. Principal has made decisions to use the same platform as Wells Fargo, and the service teams will stay in place.

She added Wells Fargo will shortly be rolling out online services for retirees. Retirees will be able to log in, access payment information, see what address we have on file, their number of deductions, and it can be done on an inquiry basis. If the County chooses, we can allow retirees to make changes to their address, direct deposit information, etc.

Secretary Phillips commented that Helen and her team have provided excellent customer service.

Ms. Hurilla said her team will draft communication to send to County retirees once the rollout of online services occurs. She added that an agreement will be sent for the Board to review, so they can decide if retirees can access the online system for inquiry only or if they will be allowed to make their own changes.

6) Old Business:

a. Boston Partners Transition

Board Chairman Zidek and the Board agreed that this was covered adequately during the meeting in discussion of the Fund.

b. Continued Fund Moves

Board Chairman Zidek and the Board agreed that this had been discussed at length already.

c. Litigation Report

Solicitor Lichtenstein stated there is no update on litigation. He and Secretary Phillips have been approached by a few firms to provide representation in class action cases, in addition to the firms already engaged. We will provide an update for the September meeting.

7) Discussion of correspondence received or sent to the Board

Secretary Phillips provided copies of correspondence regarding the annuities in the Board members' packets.

8) Individual reports by Board members or committees.

Executive Director Grace reminded the Board that, they have been talking about online services in the past, and previously discussed having a third-party administrator on the front end. This is just a future thought. Secretary Phillips commented she has made a note of that.

Solicitor Lichtenstein referenced an email sent to Secretary Phillips from HR regarding buying back time. Secretary Phillips explained that there is a recent request from an employee who went out on unpaid leave and would like to buy back time to retire as scheduled (which includes payment by the employee of the employee's contribution and the County's time); this request has to be approved by the Board. She added she could not provide the exact amounts to be paid by the employee who is scheduled to retire in September.

Councilwoman Reuther asked if we must add this item to new business.

Councilwoman Reuther said these unpaid leaves are of relatively short duration, the expectation is many people will be back by September. She questioned whether we wanted to approve buybacks of time for those who were placed on unpaid leaves, subject to solicitor review. The thought being that this may not be the only person making the request.

Board Chairman Zidek stated he did not have enough information to vote on this because he wanted to better understand this before moving forward. If necessary, a special meeting can be set up. The Board agreed to defer the issue to a later meeting.

9) Adjourn

Councilwoman Schaefer made a motion to adjourn the meeting. Secretary Phillips seconded the motion. (**Motion passed 5-0**). The meeting was adjourned at 3:16pm.