PENSION FUND COMMITTEE

Minutes of Meeting

November 7, 2012

The Sussex County Pension Fund Committee met on November 7, 2012, at 10:00 a.m. in the County Council Chambers, Georgetown, Delaware. Those in attendance included members: Susan Webb, Todd Lawson, Karen Brewington, Jeffrey James, David Baker, Lynda Messick, and Hugh Leahy. Michael Shone of Peirce Park Group, the County's Investment Consultant, was also in attendance.

On October 31, 2012, the Agenda for today's meeting was posted in the County's locked bulletin board located in the lobby of the County Administrative Office Building, as well as posted on the County's website.

Ms. Webb reviewed today's agenda.

Approval of Minutes

The minutes of the August 2, 2012 meeting were approved, as distributed, by voice vote.

Performance Reports of the Pension and OPEB Funds

Mr. Shone provided copies of the "Sussex County Investment Performance Report – September 30, 2012", which included 2 subsections for the County's Pension and OPEB Funds, as well an introductory section regarding the overall Market Environment for the third quarter of 2012. Also provided were a quarterly newsletter, "Peirce Park Perspective – Fall 2012"; "Sussex County Pension" (rebalancing information); "Sussex County OPEB – Provisional Performance Summary as of October 31, 2012"; "Sussex County – Considering the Road Ahead – November 7, 2012" (an education piece); "PPG Proprietary Analysis" (portfolio as of September 30, 2012); and an article, "More state plans cutting assumed return rates", dated July 23, 2012. Although the Investment Performance Report should be referenced for a more detailed analysis, highlights discussed include:

Market Environment – 3rd Quarter (Page 1)

- Global stock markets regain positive momentum

  Across the world, stock market returns have been very positive in 2012.

- The ECB (European Central Bank) begins government bond purchases
- Summer job growth raised upwards
- Unemployment rate falls to 7.8 percent
- Fed announces stimulus (QE3) until unemployment falls to an acceptable level
- Consumer confidence continues to improve
- House prices and construction continue to trend upwards
- Strong September gains for automobiles and home furnishings
- Second quarter real GDP (Gross Domestic Product) growth revised downward
- Global growth expectations much lower than 2010/2011
- Weakness in U. S. exports
- Bond inflows continued to outpace equities
- Items to consider: (1) impact of weak third quarter earnings on stock markets, (2) impact of economic weakness abroad on the U. S. economy, (3) impact of recent election on U. S. economy, and (4) possible "fiscal cliff"

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- Equities outperformed bonds for the quarter and year-to-date
- International and emerging market equities outperformed U. S. equities for the quarter, but trail year-to-date
- Emerging market bonds continue to do well

  Emerging markets were the best performers last quarter (7.7 percent rate of return) and 14.7 percent for the year. Emerging markets include Brazil, Russia, India, China, eastern Europe and Latin America. Year-to-date, the U. S. has been the best performer (16.1 percent return through the end of the third quarter). At the end of September 30, 2012, the U. S. bond market was up 1.6 percent.

- U. S. Equity Returns by Style – Large Cap Growth Stocks realized a 6.4 percent return for the quarter (Large Cap Growth includes Apple, technology, and healthcare); Large Value outperformed Growth for the quarter (6.8 percent vs. 6.4); Large Cap Value outperformed Small and Mid-cap year-to-date (Large Cap includes energy stocks, utilities, and some financials); and Large Cap Growth performed the best in 2012, or an 18 percent rate of return.

- Sector Returns – Energy stocks outperformed for the quarter, but trailed all other sectors – except utilities – year-to-date; and consumer discretionary and telecommunication stocks posted a strong quarter (8.0 percent) and outperformed year-to-date (25.6 percent). Year-to-date, the worst performer was utilities at 4.5 percent.

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- Intermediate term bond yields declined during the quarter (as interest rates decline, bond values increase)

- Intermediate term bonds outperformed short and long term bonds for the quarter

- High yield bonds outperformed for the quarter and year-to-date

- Treasuries have underperformed for the quarter and year-to-date as spreads have narrowed

Tab II – Pension Fund

- Portfolio gained over $2 million during the quarter – 3.9 percent return (approximate year-to-date gain of $3.5 million, or 9.4 percent)

- Fund consistently outperforms benchmark in down markets and underperforms in up markets

- The State's piece of the County's portfolio, or approximately 65 percent, realized good long-term returns, but not as good quarter and one year (relative to benchmark)

- Wilmington Trust had very good returns

- The County needs to invest $1.3 million

- Items to consider: (1) are actuarial assumed rates too high given the low interest rate environment and the County's asset mix, and (2) possible future inflation

Page 10 – Over the last three years, the County outperformed its Policy Index. When the markets are up, the County, generally, underperforms.

In discussion regarding the fund's performance and the County's very conservative investment nature, Mr. Shone noted that consideration may need to be given to revising the County's assumed rate of return.

Page 12 – Returns versus Benchmarks - The County's return for the quarter was 3.9 percent, versus the policy index of 4.4. The State of Delaware Investment Pool was up 3.7 percent, versus an index of 4.6; DuPont Capital – up 6.1 percent, versus a 6.4 index; Fidelity Low Price – up 7.0 percent, versus an index of 5.3; and Wilmington Trust – up 1.0 percent, versus a .6 index.

The County's investment guidelines and restrictions (25 percent U. S. Grade A Corporate Bonds/75 percent Treasuries), contained within the Investment Policy were discussed. Any changes to the Investment Policy would be recommended by the Committee for approval by Council. At the time that Peirce Park originally drafted the County's Investment Policy, initial recommendations would have put the County more in line with their other county clients (70 percent stocks/30 percent fixed income). Currently, the County's portfolio includes 60 percent stocks/40 percent fixed income.

At the Committee's upcoming meeting in February 2013, Mr. Shone noted that it may be time to talk about the fixed income piece of the Investment Policy to allow the bond manager more flexibility to realize additional returns.

When questioned regarding what additional conservative investment options would be available in lieu of straight bonds, Mr. Shone (in working with his other clients) offered the following approaches/examples: (1) allow bond manager to invest up to 10 percent of bonds into international bonds, (2) look at GTAA (Global Tactical Asset Allocation) – managers have the ability to invest anywhere in the world, (3) include higher dividend oriented stocks, higher yield, and (4) low volatility approach.

It was, again, suggested that the actuary provide a report noting the impact to the County in differing markets and, if the assumed rate of return is decreased, what the impact would be to the funding levels and the annual required contribution.

Page 14 – Total Fund Composite and Fee Schedule. At the present time, Peirce Park does not provide returns net of fees, but those numbers can be provided. As of September 30, 2012, the total Pension Fund composition includes:

	Market Value	Estimated	Estimated

Account	as of 9/30/12	% of Portfolio	Annual Fee ($)	Annual Fee (%)
Dupont Capital Investment	$ 9,005,345	16.3	$ 31,519	.35%
Fidelity Low Price Stocks	$ 3,567,752	6.4	$ 29,612	.83%
Wilmington Trust Bonds	$ 6,069,522	11.0	$ 12,139	.20%
Operating Account	$ 1,210,055	2.2	----	----
State of Delaware Investment	$35,524,980	64.2	$277,095	.78%
Investment Management Fee	$55,377,655	100.0	$350,365	.63%

Overall, DuPont and Fidelity are performing as expected, with Wilmington Trust having a very good quarter and year.

Tab III - OPEB

- Portfolio gained approximately $850,000 during the quarter; and a gain of $1.7 million year-to-date

- Investment performance much improved – manager changes and lowered allocation to small cap

- Items to consider: (1) increase mid cap stocks; (2) are actuarial assumed returns too high (given interest rate environment and the County's asset mix), and (3) possible future inflation

Mr. Shone referred the Committee to a separate handout, "Sussex County OPEB – Provisional Performance Summary as of October 31, 2012". Black Rock was down .6 percent, versus a -.5 index; Vanguard Dividend Growth – down 1.2 percent, versus an index of -1.9; Ridgeworth – up .6 percent, versus a -1.3 index; and Dodge and Cox – up .2 percent, versus an index of -0.7.

Mr. Shone noted that he would not recommend any manager changes for the Pension Fund. For the OPEB, the addition of Mid Cap stocks is recommended, or approximately 5 or 6 percent of the portfolio (2 percent from Ridgeworth and 4 percent from the Vanguard Russell 1000 Index Fund).

Ms. Webb provided copies of a worksheet entitled, "Pension and OPEB Annual Contribution", which reflects the cash balance, budgeted contributions, and expenses to be reimbursed to the General Fund.

Annual Contribution/Investment for Pension and OEP Funds

A Motion was made by Mr. Baker, seconded by Ms. Messick, that the Sussex County Pension Committee recommends to the Sussex County Council that the 2013 OPEB contribution of $2,106,808 be invested in short-term cash.

Motion Adopted: 7 Yea.

Vote by Roll Call: Mr. James, Yea; Mr. Baker, Yea;
Mr. Lawson, Yea; Ms. Brewington, Yea;
Mr. Leahy, Yea; Ms. Messick, Yea;
Ms. Webb, Yea

A Motion was made by Mr. Leahy, seconded by Ms. Messick, that the Sussex County Pension Committee recommend to the Sussex County Council to rebalance the OPEB Fund by reallocating $1,500,000 to the Vanguard Mid Cap Index ($500,000 from Ridgeworth and $1,000,000 from the Vanguard Russell 100 Index Fund).

Motion Adopted: 7 Yea.

Vote by Roll Call: Mr. James, Yea; Mr. Baker, Yea;
Mr. Lawson, Yea; Ms. Brewington, Yea;
Mr. Leahy, Yea; Ms. Messick, Yea;
Ms. Webb, Yea

A Motion was made by Mr. Baker, seconded by Mr. Leahy, that the Sussex County Pension Committee recommend to the Sussex County Council to make the 2013 Pension Fund contribution of $3,198,312 and to also rebalance and invest the additional cash of $1,300,000 as follows: $120,000 – DuPont Capital, $30,000 – Fidelity Low Priced Stock, and $1,150,000 – Wilmington Trust Bonds.

Motion Adopted: 7 Yea.

Vote by Roll Call: Mr. James, Yea; Mr. Baker, Yea;
Mr. Lawson, Yea; Ms. Brewington, Yea;
Mr. Leahy, Yea; Ms. Messick, Yea;
Ms. Webb, Yea

It was noted that the Pension and OPEB Funds were 93 and 73 percent funded, respectively, as of the last actuary report, 2012.

Meeting Dates and Goals

Ms. Webb will send out an email to determine convenient quarterly meeting dates for February, May, August, and November 2013, as well as goals for 2013. Several possible goals include: Investment Policy Statement update, fixed income guideline revisions, and an actuary study to determine the effects of a possible reduction in the assumed rate of return of 8 percent.

Additional Business

Mr. Shone referred members to the handout entitled, "Sussex County – Considering the Road Ahead, dated November 7, 2012", more specifically, pages 4 and 5. The information presented reflects the challenge facing Sussex County regarding their assumed rate of return and its impact on contributions and earnings.

It was noted that the Committee's recommendations will be brought before Council at their December 4, 2012 meeting, with Mr. Shone also in attendance.

At 11:35 a.m., the meeting was adjourned.

Respectfully submitted,

Nancy J. Cordrey
Administrative Secretary