

**RETIREMENT BOARD MINUTES  
COUNTY OF DELAWARE, PENNSYLVANIA  
MEETING OF NOVEMBER 28, 2018**

TO: Retirement Board

FROM: Joanne Phillips, Board Secretary and Controller

PRESENT: Board Chairman and Council President John P. McBlain; Councilman Michael F. Culp; Councilwoman Colleen P. Morrone; Board Secretary and Controller Joanne Phillips; Treasurer Jack Dowd; Executive Director Marianne Grace; Pension Consultant Rick Courtney and Bruce Besecker of RBC Wealth Management (RBC); and Councilman Brian Zidek

ATTENDING BY PHONE: Board Solicitor Francis J. Catania joined by teleconference.

1. Meeting was called to order at 2:10 p.m. by Vice Chairperson Morrone.
2. Ms. Morrone began the meeting asking for a motion to accept the minutes of the September 26, 2018 meeting and minutes from the May 23, 2018. Treasurer Dowd made the motion and Councilman Culp seconded the motion. **(Approved 4-0 vote)**
3. The Treasurer's Report – Report submitted and was to be delivered to County Clerk by Treasurer Dowd.
4. No public comments were received or submitted.
5. New Business (Chairman McBlain arrived and took over as Chair of the meeting.)
  - (a) RBC report – Rick Courtney & Bruce Besecker
    - RBC began the presentation by reviewing two handouts that demonstrated market changes over an extended period of time to give context to the current market conditions. In October the market experienced its second decline of the year. The first decline was experienced in February but resulted in a fairly quick rebound, and RBC views the recent changes as ordinary adjustments. The handouts were intended to demonstrate historical market activity. Although the market again had experienced additional losses in October, RBC believes the market will end in positive territory through the end of the year on the basis of two recent developments: 1) positive tariff discussions, and 2) that the Chair of the Federal Reserve had indicated that there would be no further interest rate increases for the year.
    - The second handout was entitled “Market Pulse”, which is an internal report that tracks certain types of investments, including equities, global equities, commodities, and fixed income investments, and compares quarterly and year to

date returns. Based on the County retirement fund's underlying investment policy, there was no way to avoid the recent results because of our fund's exposure to equities. However, for the fund to achieve the returns needed, that exposure is needed. Although RBC does not want to overreact to the volatility of the market, RBC expressed some concern about future returns. Board Secretary Phillips questioned whether other peer counties were investing differently. Mr. Courtney expressed that one focus area is in very small funds and in private equity investments. Investing in private equities may be an option to consider and something they will watch for possible future investment. Often the rate of return on private equities can be 12% to 18%. These investments typically require a long term investment of up to 10 years and therefore have not been attractive. Chairman McBlain inquired how one tracks the return of these funds since they are not publicly traded. Mr. Besecker explained that the internal rate of return is calculated every quarter or every month and investors receive an estimate of market value upon which the return and market value is estimated. The valuation is supported by periodic audits, but there is always a lag in verifying market value. Mr. Zidek noted that until there is a liquidity event, one does not know the actual value. Mr. Courtney expressed that the Board might consider these kind of investments, perhaps a \$5-10 million investment, but members would need further information and need to educate themselves on this type of investment. The board members expressed interest in learning more about these types of investments.

- RBC continued with its performance review, with a discussion of the fund performance through September, and then through October, where market volatility took a toll on the fund. Page 24 of the report illustrates how the fund matches up with other large public defined benefit plans. All in all, RBC believes we are on firm footing, especially if there is a year-end rally. Through the end of September, the fund was up 4.6%. However, October losses were significant in international and domestic equity holdings and erased 2018 gains.. Please refer to the RBC report for details.
- RBC continued with a discussion of fund managers. RBC saw bright spots in funds that were taking a more defensive oriented approach and noted that investment funds with significant FANG (Face book, Apple, Netflix and Google) investments had been hardest hit. Executive Director Grace inquired whether these companies are considered overvalued. Mr. Courtney said that they were but that the market correction has made these same investments more affordable, although most people have not sold off these stocks. Mr. Courtney thinks that we may need to make a change with certain funds that are not performing as well, such as Philadelphia Trust. The REIT fund, Center Square, is doing well and overall fixed income is performing in line with expectations. International investments are being crushed by the tariff disputes and the strength of the U.S. dollar. Chairman McBlain brought up the performance of Dalton, Logan and Philadelphia Trust and the approach for investment with these funds. Mr. Courtney expressed some concern that investment in Logan may need adjustment but that currently Philadelphia Trust and Dalton do need to be changed at this

time. However, RBC will keep a watch on these companies and will meet with the managers. RBC will discuss these companies at a future meeting in 2019.

(b) Cost of living increase (COLA)

- Controller Phillips reported that she had received a letter from the County's actuarial firm, Korn Ferry, dated 11-9-18, which stated that the Board needs to consider a cost of living increase; however, the Board is not required to grant a COLA. If a COLA is offered, the increase will be applied going forward and has no retroactive impact. The last increase was made in 2005. Ms. Phillips stated that she has not noticed that a lot of calls coming in about increasing the pension payments, but Treasurer Dowd said that he has received several calls in the past from pensioners. Councilwoman Morrone inquired as to whether an increase must be given at the beginning of the year or if it can be given at any time. Counselor Catania stated that he believes it can be given at any time. There was a discussion about the impact of any proposed COLA on the fund and the impact to the budgeted actuarial determined contribution (ADC) that is made by the County through the budget. Chairman McBlain questioned the application of the increases quoted by Korn Ferry and the board discussed the financial projections. Ms. Phillips stated that we are currently asking RBC to generate about 1.2 mil dollars each month to fund payments to current participants. Mr. Besecker explained how RBC raises the needed funds each month. Councilwoman Morrone suggested that we table this consideration until the January meeting in 2019 and all members agreed to make this an agenda item in January. On a final note, Chairman McBlain expressed that he believes it is proper to give the retirees an increase.

(c) USA Technologies Litigation

- In the early part of November, Ms. Phillips was contacted by outside counsel Laura Stein regarding possible litigation that the firm thought the Delaware County Retirement Fund should be involved with as a lead plaintiff. In order to participate, we were required to act before there was time to get a vote from the Retirement Board. After discussion with Mr. Catania, Ms. Phillips circulated an email to the members of the Board and received the go-ahead to proceed, subject to ratification by the Board at the next meeting. Ms. Phillips asked for the Board to ratify the participation in the case. There is no cost to proceed, other than time of Ms. Phillips and others to cooperate with counsel to pursue the claim. We hold approximately \$45,000 of the stock in our funds and we do not need to hold it throughout the litigation. Mr. McBlain questioned whether it was worth the time in getting involved but Solicitor Catania stated that it is worth getting involved just to police the market and believes it is worth pursuing. Ms. Phillips does plan to keep track of the time spent on this matter. Mr. Dowd made the motion to ratify the actions of the Board Secretary in moving forward with the litigation and Mr. Culp seconded the motion. **(Motion was approved 5-0)**

- (d) Mr. Catania's Request
  - Solicitor Catania would like to review the investment policies with RBC Investments and Council members for discussion at a future meeting. Chairman McBlain and members of the Board agreed that would be a good idea.
  - Mr. Catania signed off of the conference call after this request.
- 6. Old Business
  - (a) Approval of RBC contract renewal
    - A follow up discussion was held to approve the addendum presented by Mr. Courtney and Mr. Besecker to extend the contract for another year with RBC Investment Management. Councilman Culp made the motion to approve and Treasurer Dowd seconded the motion. **(Motion was approved 5-0)**
    - Mr. Courtney expressed his appreciation to the Board for extending the contract for another year.
- 7. Correspondence received - All correspondence was already discussed.
- 8. Individual Reports – None
- 9. Motion to adjourn the meeting was made by Treasurer Dowd and seconded by Councilman Culp. The meeting adjourned at 3:15 p.m. Future meetings for 2019 shall be advertised.

Respectfully submitted by Joanne Phillips, Secretary