

**RETIREMENT BOARD
COUNTY OF DELAWARE, PENNSYLVANIA
SPECIAL MEETING**

JULY 27, 2022

(In-person and hybrid meeting in County Council Meeting Room at 3:30 pm)

TO: Members of the Retirement Board

FROM: Joanne Phillips, Board Secretary and County Controller

PRESENT: Board Chair and County Councilwoman Christine Reuther; Board Secretary and County Controller Joanne Phillips; Board Member and County Council Chair Monica Taylor; Board Member and County Councilwoman Elaine Paul Schaefer; Board Member and County Treasurer James Hackett; Board Solicitor Jonathan Lichtenstein; Bruce Besecker and Michael Courtney, RBC Wealth Management; and Helen Hurilla, Relationship Manager, Principal Custody Solutions.

- 1) Meeting was called to order by Councilwoman Reuther at 3:35 pm.
- 2) Public Comment.

There were no public comments.

- 3) New Business.

a. RBC presentation on new investment managers. Bruce Besecker discussed the RBC report describing the core Fixed Income Manager Search. Assets formerly managed by Swarthmore Group are currently being monitored by Birch Run. Swarthmore is separated into two accounts: one with a shorter duration (Swarthmore Short Duration), one with a longer duration (Swarthmore Aggregate). RBC's recommendation is to consolidate the assets into one longer term portfolio to core fixed income, which will allow for taking advantage of the recent increase in interest rates for bond portfolios with yields of 5% to 6%. The assets would be lumped into one core portfolio totaling around \$50 million and would be custodied at Principal. The benchmark is the Bloomberg Barclays Aggregate Bond Index. The five candidates to review today are Garcia, Hamilton and Associates ("Garcia"); MetLife Investment Manager ("MetLife"); Nuveen; Pugh Capital ("Pugh"); and Ramirez Asset Management ("Ramirez"). Mr. Besecker noted MetLife's fixed income team is located in Philadelphia. RBC looked to maintain the spirit of finding minority managers because the Swarthmore Group was a minority manager. Garcia, Pugh and Ramirez are all minority-based managers, and the RBC report includes the diversity, equity and inclusion initiatives at Nuveen and MetLife.

Councilwoman Reuther asked if Emerald Advisors is also a minority-based manager.

Mr. Besecker answered that Emerald Advisors is not a minority-based manager, though in the past they had a partnership with StoneRidge, which is a minority-based manager. However, the performance of the managers indicated on this report is better than StoneRidge.

Mr. Besecker continued with page two of the report, which outlined RBC's research process, reiterating that the firm continually evaluates current managers but also assesses new potential managers. Page three presented the firm summary of each of the five candidates. In terms of asset base, Ramirez is the smallest of the five candidates with \$7.2 billion dollars in firm assets. All five candidates do a good job, have a significant amount in assets in this product space, and a competitive fee structure of 25 basis points. Page four compared the managers' performance, with each exceeding the benchmark (the Bloomberg Fixed Income Index). Based on performance only, MetLife ranks highest followed by Nuveen and Garcia.

Page five showed the calendar year returns, as RBC likes to see consistency in performance. While Garcia's numbers are relatively good, they have some good years followed by bad years. Pugh is close to Garcia in terms of inconsistency, both with five of the eight years below median. Nuveen is slightly more consistent, with only two years below median. Both MetLife and Ramirez each only had one year median or worse (2020). MetLife and Ramirez in this analysis show best in terms of being good replacement manager(s) for Swarthmore Group.

Page six shows the three-year risk-reward on a standard deviation chart. The goal is to be north and left of the chart's red line, which indicates more return with less risk. None of the candidates fall directly into that camp, although Nuveen and MetLife have higher returns. As to the measure of risk, Ramirez is at the far right of the chart. Page seven shows the risk reward on a five-year basis, and page eight shows the seven-year basis. MetLife and Nuveen are above the line, performance-wise, as is Ramirez, but Ramirez is again to the right on a standard deviation basis. The others have lower risk, and lower rates of return. Mr. Besecker stated they're all good managers, the question is which one will fit best within the portfolio. Looking at the seven-year number on page eight, Garcia has the least amount of volatility with the lowest rate of return. So which is more important? Mr. Besecker stated performance and would be willing to accept volatility. Page nine shows various statistics on the managers. The yield to maturity for MetLife is 3.1, close to median in the universe; Nuveen and Ramirez with their higher yields needed to do something different than the market place. Effective duration is another measure of risk in the bond market. MetLife had a higher duration than the others but was close to the benchmark. Garcia was very defensive with a 5-year duration, which means they probably had relatively good investment performance this year. But, Garcia tends to have more volatility in their performance. We tend to stress no surprises on the fixed income side. Page 10 shows the relative rankings of credit ratings of the securities. Please note Garcia did not report this information to the provider. Pugh has the highest allocation to AAA & AA securities, followed by MetLife, Ramirez, and Nuveen.

Councilwoman Reuther said Ramirez and MetLife are close to average in most of these statistics, but in terms of credit distribution, one is much higher. MetLife has triple A versus double A securities. Mr. Besecker clarified that AAA indicates holdings in government-backed and mortgage-backed securities.

Councilwoman Schaefer commented that all of the characteristics in these two charts on pages 9 and 10 are looking backward. But looking forward, it's a whole new world, a whole new investment landscape. Are there any characteristics shown on these two charts that you think are more important in this new world with higher interest rates and higher yields? Mr. Besecker recommended turning back to page five showing investment performance. In 2015 through 2018, the Federal Reserve was raising interest rates. In 2019, it looked like they were almost through raising interest rates. In 2020, we know what happened with COVID-19. In 2021, we know what they did in terms of reducing interest rates. Through this, you see a picture of how these managers adapt to these environments of steadily increasing interest rates, then dramatically reducing interest rates. How consistent is this manager relative to performance in navigating the market? The better ones during that period of time were Ramirez and MetLife.

Discussion ensued about interest rates and bonds.

b. Board discussion and action on new investment managers. Secretary Phillips said a manager's performance and their quality of securities weighs heavily for her. MetLife and Ramirez hold high quality investments. Councilwoman Schaefer stated she felt strongly about minority management over a diversity, equity and inclusion program and felt Ramirez had better performance and better products. Councilwoman Reuther said there are two decisions here. Do we want to focus on a minority-owned firm? If so, with acknowledgement we are dealing with hair-splitting differences here, Ramirez stands out in their quality of investments and consistent performance.

Secretary Phillips said she is focused on performance but will give some credit to an organization's diversity, equity and inclusion programs. We previously had two funds with one firm. Is there a reason we couldn't choose two managers: Ramirez and MetLife?

Councilwoman Reuther said we want to be diversified, but the question is how diversified should we be in terms of managers. Between MetLife and Ramirez, there's no difference in their fee structures. The only manager that had a lower fee structure is Garcia, but their performance keeps them out of consideration. Regarding the number of managers, Secretary Phillips commented we have a far more streamlined process due to the assets being custodied at Principal.

Councilwoman Reuther asked if the Board can focus their attention to Ramirez and MetLife. (There was no objection.) Are these managers on Principal's platform? Helen Hurilla answered that setup should not be a problem. It may take a little longer for setup to occur if the managers are not already working with Principal. Councilwoman Reuther stated we have Birch Run currently monitoring the portfolio. Michael Courtney commented that the Birch Run agreement is just a monitoring agreement. It would be in the best interest of the Fund to make a decision today. Bruce Besecker added it would take at least a month if not longer, considering the time to finalize contracts and setup accounts at Principal.

Treasurer Hackett asked for a comparison of Ramirez to Swarthmore Group. Mr. Courtney said Ramirez is a smaller shop. They have a team, and succession plans are in place. Mr. Besecker commented on RBC's experience with Ramirez. We have been working with the same fixed

income staff for three or four years. Sam Ramirez is the portfolio manager, and he has a strong background in fixed income.

Secretary Phillips asked for clarification on the total amount in assets held by Swarthmore Group and the percentage of the County's portfolio. Mr. Besecker replied that, based on the May 2022 report, the assets formerly managed by Swarthmore Group totaled \$50 million or 8.5% of the County's portfolio.

Councilwoman Reuther polled the Board. Treasurer Hackett and Secretary Phillips said they preferred to split the funds between Ramirez and MetLife. Councilwoman Schaefer preferred to consolidate but would be agreeable to splitting. Councilwoman Reuther said Council Chair Taylor had to depart for another meeting but said she would choose MetLife. Councilwoman Reuther said she was fine with splitting and asked about costs. Ms. Hurilla said Principal charges an incremental cost per account of \$2,150 per year.

Secretary Phillips asked for clarification on what Birch Run manages for the County, outside of the monitoring. Mr. Besecker said, as of May 2022, the amount of Birch Run's assets was just under \$42 million.

Councilwoman Schaefer made the motion to take assets formerly managed by Swarthmore Group that are currently being monitored by Birch Run and move 50% of the monitored amount to Ramirez and 50% of the monitored amount to MetLife, in the products described in materials distributed to the Board today. Seconded by Treasurer Hackett.

The motion passed 4-0. (Council Chair Taylor was not present for the vote.)

Secretary Phillips made a motion to allow the Board Secretary and the Board Solicitor to have the authority to execute any documents necessary. Seconded by Councilwoman Reuther.

The motion passed 3-0. (Council Chair Taylor and Councilwoman Schaefer were not present for the vote.)

4) Public Comment

No public comment.

Councilwoman Reuther inquired about a communication received from Nationwide. Mr. Besecker said, per verbal agreement, the rate on this annuity will not fall below 2%. The communication received from Nationwide was notification of a rate decrease to 1.23%. An individual at Nationwide noticed the error and raised the rate back to 2%.

5) Meeting was adjourned by Councilwoman Reuther at 4:26 pm.