



ANNE ARUNDEL COUNTY RETIREMENT AND PENSION SYSTEM

Board of Trustees Minutes of October 17, 2023, Virtual Meeting

Members Present: Christine Anderson, Howard Brown, Anne Budowski, Karen Henry, Rhody Holthaus, Mary Lu Hughes, Alan Hyatt, Kevin Nethers, Billie Penley, Ronald Seldon, M. Kathleen Sulick, Chris Trumbauer, and Leroy Wilkison

Staff Present: John Hammond, Kelly Lovett, and Beth Zimmerman

Staff Absent: Lori Blair, Lynn Daitch, Wendy Graulich, and Amy Lukas

Guests: Rhett Humphreys, Christian Wilson, William Theriault, Thomas Duff, Gar Chung, Joe Ebisa, and Hujia Hasim

Recorder: Stacy Kish, Audio Associates

Ms. Anderson called the meeting of the Board of Trustees of the Anne Arundel County Retirement and Pension System (Board) to order at 12:01 p.m. The minutes for the September 19 meeting were approved unanimously.

Manager Interview

Voya Investment Management

Christian Wilson, William Theriault, and Thomas Duff

Mr. Duff introduced Chris Wilson, who will discuss the core-fixed income allocation, and Bill Theriault, who will discuss the large-cap growth portfolio. Mr. Wilson explained that Matt Toms has been elevated to Global CIO. This is not a hierarchical shift but will provide improved communication across the organization. There have been no changes to the investment process, and the company is outperforming net-of-fees.

The portfolio is performing on a gross-of-fee basis ahead of the ag and the one-year and five-year indices year-to-date. Total asset allocation is 0.23%, security selection is 0.7%, and total duration is at zero. Spreads have not moved too much. Security selection has been driving the changes, which reflects navigating the regional bank crisis and leaning into BBB investment-grade corporate bonds. Asset-backed securities reflect credit-sensitive investment relative to the benchmark.

There have been no significant changes in portfolio year-to-date. As the margin shifts, the company is taking money out of investment-grade corporate bond market, but the portfolio is still 2.5% overweight. The company is more inclined to have risk in asset-backed security for a broad swap (e.g., private student loan program, auto loans, and other off-benchmark aspects of the market). Voya aims to lean toward higher-rated insurers.

Duration is matching the index. Yield on portfolio is out yielding the benchmark (e.g., AA-). Credit quality is underweight in treasurers and AAA issuers and overweight in AA and to a lesser degree A and BBB.

The key conclusions remain the same. Inflation is trending in the right direction but will remain above the 2% target. This trend will allow the Fed to pause adjustments to interest rates but believes there will need to be degradation in the economy or labor markets for the Fed to cut interest rates again. Voya Investment Market does not anticipate more rate cuts until the second half of 2024, which could affect the market.

The big picture is that China aims to focus on domestic market but is diversifying where it is sourcing supplies. The DM central banks is tightening but emerging markets central banks should begin cutting interest rates before the European bank and Fed, which would reflect trending lower inflation rate in the United States.

Mr. Hammond: What is the overall rating for the CMBS portfolio?

Mr. Wilson: It is investment grade, probably AA- right now. Leaning more toward AAA but have some A as well.

Mr. Hyatt: Do you anticipate credit problems with higher rates being around for a while?

Mr. Wilson: The biggest risk is in the floating rate sector, which does not affect this account. Voya is most worried about CCCs and is keeping an eye on lowest-rated insurers. Banks are re-calibrating after COVID.

Mr. Theriault discussed the team that manages the equity portfolio. The company has made investments in technology and increased talent on the management team (i.e., Leigh Todd) and the tech team (i.e., Eric Ross, Javon Colins, Bill Marble). Voya Investment Management has also added to the consumer space (i.e., Mike Napolitana) and Health care (i.e., Deepak Khanna). The new senior analytical team members have covered their space for decades and have experience in public and private markets.

Year-to-date, the equity market began strong early in the year. Seven stocks out of S&P500 drove over 71% of total return of index (e.g., comms services, technology, and consumer discretionary). It was a difficult year for managers that has been driven by the regional bank crisis in spring and hype around AI. There is some exposure in the portfolio to AI.

Year-to-date, performance early in the spring has led to treading water as the year progressed. As the market has slowly broadened, the company anticipates better performance through the end of the year. Overall, attribution from individual sectors, like industrials, financials, and health care (e.g., NVIDIA Corporation) have been on top. The drags have been consumer

discretionary and communications (e.g., Tesla, Inc., Estee Lauder Companies Inc., Keysight Technologies Inc.).

Overall, the portfolio characteristics have been managed in a sector-neutral fashion. Voya is holding tight to the benchmark for sector weights. Stocks top ten holdings and ten largest active weights have a good distribution across names and sectors (e.g., Visa Inc., Microsoft Corp., Amazon.com, Inc., Constellation Brands, Inc., Paycom Software, Inc., Eli Lilly and Company, Meta Platforms Inc, NVIDIA Corporation, Workday, Inc and Intuitive Surgical, Inc.).

Mr. Hammond: Can you talk about Meta vis-à-vis the request to increase it?

Mr. Theriault: We have had a bet in Meta since the beginning of the year. The company has gone through a bit of a change and is returning to its historical roots. Voya believes Meta will exceed expectations moving forward. At this time, the company has a rule that it cannot own more than 1.5% of weight of a stock in an index. With an increased bet on Meta, Voya would like to take the portfolio from 1.4 to a 1.7%. Voya is looking to have an exception made to have an increase in size of Meta in the portfolio.

Mr. Humphreys: Voya did come to Mr. Trumbauer, Mr. Hammond, and himself. A few things for the board to consider. This is not new. The Board has adjusted percentages before. Policy is a set of guidelines to keep a portfolio in a particular lane. NEPC agrees that this change makes sense and would urge the Board to grant Voya this waiver.

Mr. Trumbauer: We are comfortable with this request. He made a motion to accept this waiver.

Mr. Hyatt: Seconded.

The Board voted in favor of the motion and it was approved.

New England Pension Consultants
Rhett Humphreys

Mr. Humphreys gave a quick update to the Board. September was brutal for markets. Everything was down. It was driven by continued market worry about the economy, continued increase in interest rates across the yield curves, and the price of oil. The Board's portfolio through September has been hit in the third quarter (e.g., equities are down). NEPC has updated their system to put more asset-class, style-specific classes into the report.

Total fixed income and core fixed income bonds for the quarter and year-to-date are down. The non-core fixed income are down, except for Loomis Sayles bank loan which is positive for the quarter and has avoided the most aggressive part of high-yield market (e.g., mostly BB). The portfolio is positioned to be highly defensive.


Administrative Report

Ms. Lovett reported on 21 retirements in October, mostly from the employees plan and six fire DROP retirements. The pension unit is now fully staffed. The retirement seminars are set for the first and second week of December (e.g., fire and police, detention and deputy sheriffs, and employees plan).

Other Business

The next meeting will be held on November 21st, in person. The meeting adjourned at 12:54 p.m.

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.



Anne M. Budowski
Secretary to the Board

11/30/2023
Date