

# ANNE ARUNDEL COUNTY RETIREMENT AND PENSION SYSTEM

## *Board of Trustees Minutes of September 17, 2024, Virtual Meeting*

**Members Present:** Christine Anderson, Anne Budowski, Rhody Holthaus, Mary Lu Hughes, Alan Hyatt, Kevin Nethers, Billie Penley, Joseph Solari, M. Kathleen Sulick, Chris Trumbauer, and Leroy Wilkison

**Members Absent:** Karen Henry and Ronald Seldon

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

**Staff Absent:** Lynn Daitch

**Guests:** Rhett Humphreys, John Norman, Caldwell Calame, Donald Cleven, Bradley Bennett, Peyton Grenley, Lea Johnson Michelle Boyles, Ann Sturner, and Amy Lukus

**Recorder:** Stacy Kish, Audio Associates

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The virtual meeting of the Board of Trustees of the Anne Arundel County Retirement and Pension System (Board) was called to order at 12:01 p.m. by Ms. Anderson. The minutes for the August 20, 2024 meeting was approved unanimously.

### **Investment Committee**

#### ***Wedge Capital***

***John Norman, Caldwell Calame, Donald Cleven***

Mr. Norman began with a quick update on Wedge Capital. The company manages \$7.8 billion for 149 clients. Four team members are dedicated to the small-cap traditional equity strategy that makes up the Board's portfolio. He noted one planned retirement in March 2024, of which the Board was notified.

Mr. Calame explained how the company manages small-cap value. The portfolio consists of high-quality, undervalued companies that are showing improvement. The company has two elements in this process — quantitative models and analyst doing bottom-up research. He attributes 20% of added value to the quantitative element and 80% added value from the analysts. This portfolio is a research-driven portfolio. The quantitative elements provide a way to screen the universe to identify companies. Analysts are performing financial statement analysis to pick the best companies identified by the models.

The average annual performance since inception is 10.43%, ahead of the benchmark. In the past year, the portfolio is up 16.02%. Key drivers of performance include a favorable market and stock selection. The ending market value is \$84,321,000.

Mr. Cleven gave an update on the portfolio. The long-term ROE is double the market-level ROE. While this could be a loss in growth, the company shows moderate growth compared to benchmark. For valuation, the cash flow is higher than the benchmark. PD is in line. The portfolio is double quality, faster growth at less valuation. The portfolio is broadly diversified and balanced between cyclicals and non-cyclicals. The largest overweights are capital goods and consumer staple. The portfolio is underweight in healthcare and retail.

Mr. Trumbauer asked if the market is at an inflection point can Wedge Capital prognosticate if the underlying foundations will be strong for value going forward?

Mr. Cleven noted the valuation of small cap since 1995. He anticipates a bit of a change but does not anticipate zero rates.

Mr. Cleven noted two good take-aways. Valuation has allowed the company to outperform and should bode well into the future. In the past year, small-cap value has been the cheapest quintile and has done better than anything else. Quality is also coming back. The long-term history of small cap value has been largely out of favor. Wedge Capital thinks this will revert at some point. Small-cap value is one of the best places to be during a recession.

***Sigular Guff***

***Bradley Bennett, Peyton Grenley, Lea Johnson***

Ms. Grenley gave an overview of the company, which focuses on niche markets in the private market space. The Board is invested in Distressed Opportunity Fund III, IV, and V. Sigular Guff also has a new opportunity in tactical credit with options in evergreen and draw-down funds.

Mr. Bennett gave an overview of the funds in the Board's portfolio. Funds III (\$200,000 remaining) and IV (\$2.2 million remaining) are in final stages of liquidation, which should be completed in next 3–6 months. The Funds generated 1.6- and 1.5-times money multiple with 10.5% and 8.25% net IRR. The remaining Fund III assets are real estate that have not been leased or sold due to pandemic. The Board's investment is recovering 90% of NAV at the beginning of the year. Fund IV is using a similar strategy for investing in distressed and special situations. The Board has committed \$15 million and distributed 135% with \$2.25 million left. The company is using a similar strategy to wind down the fund. The company anticipates an 8% net IRR with a gross return of 11%, which is weighed down by extended duration of investment. The average price of recovering of NAV is 85%.

Mr. Hammond asked if Sigular Guff anticipates the need for an extension for Fund IV.

Mr. Bennett said no. Fund IV is a 2010 vintage fund. It has been extended once. The end of the term is March 2024. At the end of this year, there will be two assets left. One can be sold to liquid equity and the other can be sold or distributed.

Fund V is a \$20 million commitment, which is a mix of private assets that take advantage of market dislocation of distressed real estate (25%), corporate (40%), energy (20%), and legal claims. Current returns on the fund are 8.75% gross return and 7.25% net return. The company expects resolution of positions — corporate investments have 400 basis points of IRR uplift, real estate has 400 basis points IRR uplift, energy is marked as anticipated, and legal claims have significant upside. Most investments are in this country with a few European and Canadian investment (~18%) and some in emerging markets.

Top investments include SG Energy Opportunities Fund, Persist Oil & Gas Inc. Paceline Equity Partners Opportunities, AHF Products, Frontier Communications, Memorial MRI, Horton Plaza, VR Global Fund, Visa/Mastercard Interchange Settlement Claims, York Special Opportunities Fund III. The fund accounts for about 60% of the portfolio. Drivers of performance include Frontier Communications, Sigular Guff Energy Opportunities Fund, Park Truck Holdings, VR Global Fund, Navig8 SG JV LLC. Detractors of performance include Slate Canadian Real Estate Opportunity Fund, Slate-Project Windsor, Harris Corners, Jive BTG Pactual, and Service Properties Trust.

Mr. Hammond asked about the vacancy rate of Horton Plaza.

Mr. Bennett stated that this is a large-scale redevelopment project that is at the finishing stages of completion. At this time, the building is vacant, but the city has a deal to buy the property for office space. This would take risk off the table.

Mr. Wilkison asked about the next fund.

Mr. Bennett stated that Sigular Guff is in the market with a tactical credit strategy that takes capital in on a quarterly basis pursuing investments in privately negotiated corporate credit and specialty finance. Sigular Guff welcomes the chance to discuss this opportunity in more detail with the Board at another time.

***New England Pension Consultants***  
***Rhett Humphreys***

Mr. Humphreys discussed VIX, a measure of implied risk in the market. The markets have been volatile, but the portfolio ended positive for the end of August. Year-to-date, the portfolio is almost 9.5% based on what has been priced out (does not include private markets). The rolling five-year number is at 7.6%, bringing the since inception number to 7.5%. The actuary is pleased. This has been motivated by equities. Growth managers are both doing well relative to benchmarks. Fixed income is doing well due to diversification.

Western Asset Management has had three investigations from the FCC, Department of Labor, and internal to the company. The company has received a Wells notice, and the CIO Ken

and plan to meet with Western Asset Management in the coming weeks. Mr. Trumbauer will share information that is learned with the Board.

### **Administrative Report**

Ms. Lovett reported 11 retirements for September. Cheryl Weingarten, a pension analyst, is returning to the Office of Personnel. Ms. Penley did not have a report.

The meeting adjourned at 1:08 p.m. The next meeting will take place virtually on October 15, 2024.

### **Joint BOT–POC Discussion**

The joint meeting with the Pension Oversight Commission opened at 1:30 p.m. with a brief discussion of the 2024 comprehensive financial report. Mr. Hammond noted that the balance in the fund has grown to \$2.5 billion, which is good progress from a funding standpoint. The fund is 78–79% funded. Vincent Carbonaro opened the floor to questions.

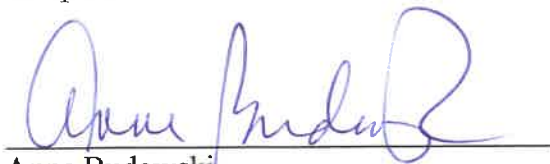
Mr. McIntosh asked if there are any other concerns from the Board regarding the Western Asset Management.

Ms. Anderson noted that the Board is having further conversations with the company and have offered them an opportunity to provide feedback from their end.

Mr. Trumbauer continued that periodically there is significant change in management or change in a fund. NEPC will make a recommendation to put the company under review. NEPC recommended the company come in to answer questions and then determine the next steps. If there are any follow-up emails or questions from members, please direct them to the chair for a timely follow-up.

The joint BOT–POC session adjourned at 1:37 p.m.

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



Anne Budowski  
Secretary to the Board

10/29/2024  
Date