ANNE ARUNDEL COUNTY RETIREMENT AND PENSION SYSTEM

Board of Trustees
Minutes of January 21, 2025
Meeting

Members Present: Christine Anderson, Anne Budowski, Karen Henry, Rhody Holthaus, Mary Lu Hughes, Alan Hyatt, Kevin Nethers, Ronald Seldon, Joseph Solari, and Leroy Wilkison

Members Absent: Billie Penley, M. Kathleen Sulick, Chris Trumbauer,

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

Staff Absent: Lori Blair, Amy Lukas, and Cheryl Wyngarden

Guests: Rhett Humphreys, Louise Smith, Richard Wiltshire, Julia Seelye Carson, Jim Wilson, Lauren Zletz, and Huija Hasim

Recorder: Stacy Kish Audio Associates

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 from the December 17, 2024 meeting were approved without changes.

Investment Committee

Apogem Capital
Louise Smith, Richard Wiltshire, Julia Seelye Carson

Ms. Smith began the presentation with an update on the Board's four commitments to the multi-manager strategy: PASCBF V, PASCPEF VI, PASCPEF IX, and APEF X, which all target the lower-middle market but with different portfolio construction and strategies.

Fund V is a $340 million (2012) fund and Fund VI is a $350 million (2014) fund. Both are de-risked. Fund V will be fully realize by the end of the week with a 1.8x net MOIC. Fund VI has returned about 135% of called capital and distributed about 15% of capital back to the fund. It is on track to meet target returns. Apogem Capital will pursue sale on secondary markets over the next 18 months.

Fund PASCPEF IX (2020) is a $473 million fund and is on track to return on the high end. It is fully committed and approaching 100% called. The portfolio is valued at 1.5x net MOIC. Fund APEF X (2020) is a $424 million fund and is fully committed, approaching 50% called. It benefited from a few early exits. It is valued at 1.2x net MOIC.

Net of all fees and expenses, Apogem Capital has outperformed private and public equity benchmarks. The multi-manager portfolio has continued to send liquidity back to investors, returning between 30–80% of capital.

Mr. Wiltshire continued with an overview of three co-investment funds: PASCCIF (2016), PASCCIF II (2020), and ACI VII (2022). The goal is to generate two times investment. The investments are majority in buy-out transactions with no exposure to venture capital investments. PASCCIF, with a $20 million commitment, is in the harvest stage with 2.3x net MOIC. PASCCIF II has a $30 million commitment and is both fully committed and performing well (1.6x net MOIC and returned 30% of investment capital). Fund ACI VII has a $50 million commitment and is the early stages with a 1.1 x net MOIC.

The exit environment strategy has been strong. Apogem Capital has generated meaningful liquidity through six exit events that generated close to $19 million net-of-all-fees and expenses. Four of the six exits were to strategic buyers.

Warburg Pincus
Jim Wilson, Lauren Zletz

Mr. Wilson reminded that the firm is one of the oldest private equity firms and over $1 billion in AUM. It is still a privately owned company. The firm's performance was highlighted on slide 7 of the slide deck.

Ms. Zletz continued with an overview of tech. Warburg Pincus has focused on mission-critical, market-leading, solution-based businesses. She called out Varicent, a leading provider of managed sales software that helps companies with compensation and payout calculations. Warburg Pincus has invested $379 million and owns 40% of the company. The firm believes that the category of sales performance management is mission critical in how to motivate and pay the sales force. This is a leading vendor in the arena. Warburg Pincus has made significant improvements in valuation and margin expansion.

Mr. Wilson continued that the firm remains a consistent, net-provider of capital to LLPs. The Board's portfolio has delivered strong performance, achieving a 15% net IRR. It has paid in at 0.5 times, returned $29 million in distributions, and called $2.4 million in capital for new investments. The overall portfolio is driven by consistent performance across three funds (WPGG14, WPGG, and WP XII) producing value of $97 million. WPGG14 is 70% committed but only 47% of the capital has been called. The remaining deployment for WPGG 14 will be diversified across technology, financial service, industrials, and healthcare with a concentration in North America, Europe, and India. WP XII is performing well with a 2.0x net multiple and continues to improve net IRR.

Mr. Hammond asked where the fund stands with [garbled] in Fund XII?

Mr. Wilson stated that the company is continuing to perform but that is one where there will be a time to find a path to end it.

New England Pension Consultants
Rhett Humphreys

Mr. Humphreys provided a flash report ending December 31, 2024. The fourth quarter was relatively flat – global public equities were down 1% and global investment-grade bonds were down 3–5%, but credit did OK. NEPC needs to update the numbers with the private market numbers, but the total allocation index is at 9.5% for one-year, which should bump up the five year smoothing.

For the fiscal year, the portfolio for equities (domestic 21.9%; international 4.9%; and emerging 10.1%) is doing well. NEPC will continue to monitor Lazard. The bond portfolio is at 3.9% (e.g., investment grade at 1.4% and non-core fixed at 6%).

Mr. Humphreys continued with a policy recommendation to formalize the investment policy statement around Environmental (E), Social (S), and Governance (G) (e.g., environmental measure of company's carbon footprint; diversity and inclusion metrics that track ethnic and gender diversity; and board diversity and executive pay ratio relative to employee). The Board through NEPC has been involved in ESG since 2018. Every firm that the Board has hired in the past five years has been rated based by NEPC's internal committee on ESG.

NEPC has an approach with a formalized rating system [on a scale of 1(best)–5(worst)] with an example provided on slide 17 as well as draft language for an ESG policy on slide 19 of the slide deck.

Mr. Wilkison asked how many companies have 2 vs 1 rating.

Mr. Humphreys noted that every fund in the last five years has had a rating of 1 or 2.

Mr. Wilkison asked if any recommendation going forward would fall within the 1 to 2 category.

Mr. Humphrey affirmed.

Ms. Anderson asked if the Board should clarify this rating requirement in the policy.

Mr. Humphrey noted that the scale is how NPEC rates things now but this could change. By formalizing it in the Board's policy, it may require changes in the future.

Mr. Wilkison asked if NEPC will report the rating for new managers moving forward.

Mr. Humphreys noted that any recommendation will continue to be in the book and has been for the past five years.

Mr. Nethers asked if this is customary with municipal or government pension trusts.

Mr. Humphreys noted that endowments and municipal public plans are taking the lead in this area. The Board would not be an outlier.

Mr. Hyatt raised the primary duty of the Board is to provide the appropriate return to the fund. He wanted to caution against being side tracked.

Mr. Holthaus wants to ensure that this approach will not keep options from the Board.

Mr. Hyatt suggested monitoring the results to evaluate the policy

Ms. Zimmerman asked if there is another place where there are benchmarks outside of NEPC to see how we are doing with ESG.

Mr. Humphreys said no. There is no standardized approach to look at this.

Ms. Anderson stated that the benchmark used by NEPC may be the best approach to start.

Mr. Humphreys notes this is more how managers are invested and voting through proxies. It is not divestment. The Board has 20 years of private equity track record with NEPC, and ESG has been implemented in the past five years. It is good to review output during this time.

Mr. Hyatt made the motion to the Board and Ms. Budowski seconded. The motion carried with no opposition. Mr. Humphreys will continue to work with Mr. Trumbauer on this topic.

Administrative Report

Ms. Daitch reported 18 retirements on January 1, 2025. The January 1 statements were distributed to DROP participants, and her group is currently sending the January 1 pension data to Bolton for the annual valuation. The group is trying to move up the pension statements earlier in the year.

Ms. Zimmerman did not have a finance report. She noted the reconciled cash for December is $31million, and there are a bunch of capital calls coming up for approximately $6.8 million.

The meeting adjourned at approximately 1:30 p.m. The next meeting will take place in person on February 18, 2025.

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

Anne Budowski
Secretary to the Board

3/10/2025
Date