ANNE ARUNDEL COUNTY
RETIREMENT AND PENSION SYSTEM

Board of Trustees
Minutes of April 16, 2024,
Virtual Meeting

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

Members Absent: Howard Brown and Rhody Holthaus

Staff Present: Lynn Daitch, Abigail Fanshaw, John Hammond, Kelly Lovett, Amy Lukas, Alesia Smith, and Donald Spencer

Staff Absent: Lori Blair, Wendy Graulich, Hujia Hasim, and Beth Zimmerman

Guests: Rhett Humphreys, Sarah Van Ness, Alessandro Valentini, Frank Sposato, Mike Bennett, Jimmy Bork, Ann Sturner, Michelle Boyles, Tom Vincente, and Christine Hagan

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 March 19 meeting were approved unanimously.

Manager Interview

Causeway International Value and Equity CIT
Sarah Van Ness, Alessandro Valentini

Ms. Van Ness stated that there have been no changes to the portfolio management in the past year. The firm manages about $47 billion in assets across all equity strategies. The ownership structure (employee-owned) has not changed in the past year.

Mr. Valentini continued that the strategy is value focused. The valuation is comparable with MSCI EAFE. Causeway expects return on equity to improve as the companies in the portfolio undergo restructuring. Dividend yield is ahead of MSCI EAFE but behind MSCI value index.

During the past year, Causeway has underperformed, but the fundamental process and stock selection have performed well. The first quarter of 2024 has been difficult as value has been out of favor. The first quarter of 2023 was quite good but not included in the one-year performance. Long-term, Causeway is still ahead of the benchmarks.

Mr. Valentini pointed to stock selection and the market not favoring value to explain the firm's underperformance. Value improved in March, but underperformed due to one security and Japan, where the plan is underweight. Causeway has added several members in Japan to evaluate the situation, but does not plan on changing their overall approach.

Drivers of performance include transportation, capital goods, and banks. Drivers of underperformance include insurance, pharmaceutical & biotechnology, automobiles & components, and household and personal products.

Ms. Anderson: Why is Causeway using MSCI EAFE as a comparison with the Board's portfolio performance?

Ms. Van Ness: The MSCI EAFE is the standard index for mid- to large-cap that is commonly used.

Mr. Valentini continued that Causeway invests in individual companies in a bottom-up process. When reviewing the data, Causeway appears to be overweight in the United Kingdom. This does not reflect the exposure in the portfolio. Exposure by listing and revenue are presented on slide 34 of the presentation. United Kingdom exposure includes Rolls Royce, Barclays, BP, AstraZeneca, Reckitt, but the companies are global. The exposure by revenue is more balanced. The portfolio exposure to United States and North America is 24% and emerging markets is 30%.

The positive contributions to the portfolio's performance is due to Rolls Royce, UniCredit, SAP SE, Samsung Electronics, SK Hynix Inc., Barclays, ING Groep, RELX Pic, Ryanair, and GSK Pic. The portfolio's largest deficits are from Alstom, Prudential, Reckitt Benckiser Group, Bayer, FANUC Corp, Kering SA, Valeo SE, Beijing Capital International Airport, Diageo Pic, and Roche Holding. Alstom's underperformance is driven by cash flow generation. Prudential's market concerns are in China.

The outlook and current portfolio position is exposed in staples, utilities, and healthcare. Causeway is using a defensive posture to find cash flow and restructure opportunities to be attractive. The portfolio is less exposed in energy. The companies that have been presented for possible inclusion in the portfolio are in the cyclical areas.

Lazard International
Michael Bennett, Jimmie Bork, Frank Sposato

Mr. Sposato informed the Board that Bob Deconcini has retired. The asset data that will discussed is current to December 31, 2023. He turned the presentation over to Michael Bennett. Mr. Bennett gave an update on the team. Mark Little, who stepped back from management of portfolios in 2022, has retired. He referred the Board to the team of focused resources, sector specialists based in New York and London (slide 7).

During the past quarter, international markets rose continuing a strong rally. Index is up 6% for first quarter of 2024 and 15% for past year. The biggest difference between EAFE and ACW ex-US is that EAFE does not include emerging markets or Canada.

While there are some negative numbers, the pattern of performance has not changed. Beginning in 2020, market volatility has exceeded two- and three-standard deviation events. Lazard is core and plays the middle. The company does not benefit during periods of extreme value or extreme growth.

Mr. Bork continued that there are a variety of strategies for different parts of the market to generate performance. This includes compounders, which are high-quality companies that can reinvest in business and create value over time. This is a defensive part of the portfolio. Mispricing stocks are companies that have characteristics of being cyclically depressed. Lazard can take advantage of bias in the market. Structuring stories are companies undergoing changes to business model that becomes driver of better returns. This approach creates flexibility. Lazard is exploring all three approaches as the market normalizes.

The Board's portfolio now contains Ashtead, BFF Bank, CRH, Douglas, London Stock Exchange, MTU Aero Engines, Piraeus Financial Holdings, Samsung, Shimadzu, STMicrolectronics, ULVAC, and Weir. Lazard has sold Advantest, AIA, Akzo Nobel, Alibaba, DBS, ESR Group, Genmab, HSBC, Infineon, Kokusai Electric, Thales, UMG, and Vestas.

The focus on financial productivity compared to valuation of companies is good. The firm sees good results where conditions are normalizing (e.g., healthcare).

Ms. Anderson: Why is GenMab on the sell list?

Mr. Bork: The company is at a point, where despite health and sensible commercial development, it is facing a difficult next 12 months. If the next-gen product is not approved, it will be difficult for the company. It is impossible for Lazard to have an analytical edge. Once the company clears this cliff, it will be possible for Lazard to analyze and see how valuation moves and reassess the opportunity

Mr. Bork continued that Lazard is seeing opportunity develop in the IT space, and as the cycle matures and valuations move, Lazard is redeploying capital to where the cycle is lacking.

Lazard is positioning a portfolio that includes quality compounders, cheap cyclicals, and turnaround stories to create a balance of companies that have a bit more quality to improve the return profile.

New England Pension Consultants
Rhett Humphreys

Mr. Humphreys began with the March flash report. The first quarter was a risk-on market (e.g., equity and credit did well but not treasuries). CPI came out higher than expected in April, suggesting only two rate cuts in 2024. Other items that are affecting the market are the price of all commodities along with instability in the Middle East.

Through March 31, 2024, equities are 1.7% in March, 4.3% for first quarter, and 12.9 % for the past year. Domestic equities are leading international and emerging. Total fixed income portfolio is positive for the quarter. The non-core is positive for the quarter and 1.1% for bonds. Bank loans with Loomis and Penn Capital are driving this. Pimco is breaking even for past quarter.

As a note, the Anne Arundel pension portfolio has a policy statement that defines MSCE EAFE index as the long-term benchmark for managers.

Bolton
Ann Sturner, Michelle Boyles, Tom Vincente

Ms. Sturner began with highlights of January 1, 2024 actuarial valuation. Funding valuation aims to provide the County's funding policy contribution for FY 2025. The foundation of valuation is assets and liabilities.

The assets include a market value return of approximately 12%, while the actuarial value rate of return is approximately 6%. The 2023 market gains will continue to be recognized over past four years. (see slide 5 for the multi-year smoothing evaluation). As of January 1, 2024, the market value of assets is slightly less than the actuarial value.

Ms. Boyles said the liabilities include changes in salary increases in 2023 (i.e.,10% average increase for Employees vs. 3.75–7% assumption; 10% average increase for Policy vs 4–7.25% assumption; 13% average increase for Fire vs 3.75–7.5% assumption; and 9% average increase for DODS vs 4.25–6.5%) and the Cost-of-Living Adjustment that went into place in July 2023.

The actual accrued liability increased from January 1, 2023 to January 1, 2024 due to a growing active population. By combining liability results with assets, it is possible to see the change from 2023 to 2024. The funded ratio went down slightly. The market value of assets went up slightly. The volatility in market value is expected to continue.

As a percentage of pay, the funding methods put into effect for entry age normal is designed to keep the percentage of pay level over time. The contribution as a percentage of pay has stayed level. The funding method is providing intended results. The contribution amounts have increased (approximately 9–10%).

In aggregate, normal cost is approximately 45% of the total contribution and amortization of unfunded liability, which is approximately 55% of the total contribution. The split between normal cost and amortization varies by plan (e.g., Employees: 37%/64%; Police: 48%/52%; Fire: 55%/45%; and DODS 46%/54%).

The NASRA survey (discount rate) has median at 7% similar to the Board's plan. The Board's plan is solidly funded. Bolton has no concerns regarding the Board's plan. The COLA for benefits accrued after February 1, 1997 increased by 2.1%.

Mr. Vincente discussed emerging topics (e.g., inflation challenges, retention challenges, low default risk obligation measure (LDROM)). LDROM provides a risk assessment and will be included in formal reports in 2024. Risk assessments examine plan growth in relation to size of employer, payroll of the participating employees, and the natural growth of the plan.

Mr. Trumbauer: Given the trends, will the Board's plan be good for three years, ten years? How soon should the Board start thinking about adjusting plans?

Ms. Sturner: NEPC makes predictions and applies them to the Board's portfolio. That information will provide input when to make a change. Seven percent is a number that groups are settling around. Bolton can continue this conversation to see if there is an opportunity or desire to de-risk portfolio and decrease the discount rate. For now, everything is good.

Mr. Humphreys: Looking at the chart on page 11, 7% is below average, but it has settled in. The beta forecast is subdued in the near term, suggesting the next 5–7 years earning 7% may be difficult but long-term it should meet the needs of the plan.

Mr. Trumbauer made a motion to accept Bolton's actuarial recommendation. Ms. Sulick seconded the motion. The Board voted and passed the motion unanimously.

Mr. Humphreys gave props to Bolton and their presentation and work.

Administrative Report

Ms. Lovett stated there were five retirements in April. Ms. Daitch has been promoted to senior personnel analyst in charge of the Pension Unit.

Ms. Penley did not have a report this month.

Mr. Spencer noted that the cash balance is at $72,865,377 million as of March 31, 2024. The March 31 statements have not closed. The April projection is $19,810,174.34. This includes capital call from Apogem, benefits, and projected contributions. He flagged that $10–20 million may need to be made available to cover investment rebalance. This is advisory.

Mr. Wilkison: Can you provide an update on the Administration's position on Bill 23-24?

Ms. Anderson: The bill was narrowly drafted by Councilman Volke. It allows one former police officer, who had retired and began collecting on police pension and then rehired in 2015, to change from the employee pension fund back to the police pension fund. The employee believes he was given bad information and would have preferred to re-enter police pension rather than the employee pension. Administratively, the Board offered to redo the election in 2022 but the employee had to repay missed contributions. The employee has been working with Congressman Volke to reopen the police pension. The administration is not supportive. Bill 23-24 was held. The Administration is working with Councilman Volke on this matter.

Mr. Wilkison: Will the Board take a position on this matter?

Mr. Trumbauer: The Board does not take positions on legislation, historically. In lieu of Board taking a position, Mr. Wilkison could consider attending a meeting and stating his position as a long-term Board member.

Mr. Hammond: Typically when a pension bill is introduced, the clerk of the County Council sends a copy to the Board and asks if they had a position. Typically, the pension bills have originated from the administration rather than the County Council.

Mr. Wilkison encouraged other Board members to make their opinions heard.

Mr. Trumbauer: The pension oversight committee have taken a position in writing and in person.

Other Business

The next meeting will be held in person on May 21. The meeting adjourned at 1:36 p.m.

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

Anne Budowski 6/10/2024

Anne M. Budowski Date
Secretary to the Board