ANNE ARUNDEL COUNTY
RETIREMENT AND PENSION SYSTEM

Board of Trustees
Minutes of March 19, 2024,
Virtual Meeting

Members Present: Christine Anderson, Anne Budowski, Karen Henry, Rhody Holthaus, Mary Lu Hughes, Alan Hyatt, Billie Penley, Ronald Seldon, Chris Trumbauer, and Leroy Wilkison

Members Absent: Howard Brown, Kevin Nethers, and M. Kathleen Sulick

Staff Present: Lynn Daitch, John Hammond, Hujia Hasim, Kelly Lovett, Alesia Smith, and Beth Zimmerman

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

Guests: Rhett Humphreys, Kevin Gore, Travis Carr, Kevin Balaod, Brian Haskin, Geoff Shreeves, Daniel Sturridge and Gar Chung

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 February 20 meeting were approved unanimously.

Manager Interview

Western Asset
Kevin Gore, Travis Carr

Mr. Gore, the relationship manager for the Board, began with Western Asset's strategy, which seeks to maximize total return via a well-diversified, long-term, value-based core fixed income portfolio that includes limited opportunistic exposure to the plus sectors — high-yield, non-U.S., and emerging market debt.

Since March 2003, Western Asset's investment performance has exceeded the benchmark and outperformed for all time frames.

Mr. Carr continued with an update on 2023 and the position of the agency in the Board's portfolio. Yield started and ended the year at about the same point, but the non-movement masks underlying volatility (e.g., fear of slow economy, rate cut uncertainty, and changes in growth). Yields flipped around as the growth narrative changed. In the final months of 2023, the economic data was beginning to slow. Inflation data continued to slow, which allowed the Fed to pivot. This caused a positive backdrop for fixed income and all risk assets.

In 2024, the narrative continues to shift. The direction of yield is lower, and growth will continue but at a slower pace. This is a positive backdrop for fixed income. The company likes to have multiple strategies in the portfolio that are diversified.

The Board's portfolio has been moving up in credit quality. The presenter's technology was garbled, so the Board moved on to a report from NEPC. The Board plans to reschedule Western Asset during a future meeting.

New England Pension Consultants
Rhett Humphreys

Mr. Humphreys began with the February preliminary flash report. Equity is up and bonds are mixed with the biggest dip in the duration market. The Board's portfolio is up 2.5% (preliminary, net-of-fees) for first two months of 2024, but the report is incomplete, missing more than 20% of the fund held in private markets. The good news is that equities are up (total equity up 4.5% and domestic up 6.9%). International is up 1%, and international emerging is up 1.7%. Hardman Johnston (international growth) and Axiom (emerging growth) have been down, but Axiom is ahead of the benchmark by 3%. This is a short-term frustration. Fixed income and credit are negative (-0.4 total and -0.9 investment grade). Non-core fixed income is flat. Loomis Sayles is positive. Penn Capital (high-yield bond) is at 0.4%. PIMCO (emerging market debt) is -0.7%. The last few months have been a struggle. The bonds in the credit portfolio have been flat.

Mr. Humphreys continued with an update on Penn Capital. NEPC research conducted a recent review of Penn Capital. The client review has been in effect for the past year, and nothing has changed. Penn Capital had some financial troubles. Seaport is purchasing 55% of Penn Capital from Sprouting Rock. NEPC met with Seaport, which provided a positive, committed story (e.g., cash on hand and experience working in credit). Penn Capital has also experienced organizational challenges. NEPC has interviewed three one-rated managers — Advent Capital Management, Barings Capital, and Wellington Management Company. NEPC recommendation the Board transition to Barings Capital, as the new high-yield manager. NEPC has worked with Barings Capital, which has created a comingled trust. Barings is offering the trust to the Board at a management fee on the order of 30 basis points.

Mr. Trumbauer made a motion to follow NEPC's recommendation: transfer from Penn Capital into a separate account for Barings. Ms. Hughes seconded the motion. It was approved without opposition. Mr. Trumbauer thanked NEPC for their efforts.

Mr. Humphreys noted that the motion does not need to be amended. Barings will transition as many assets in kind as possible without trading costs. He also noted that Penn Capital has been part of the Board's portfolio for 15 years, and the Board did make money with this company. NEPC's recommendations is in no way an indictment on Penn Capital or Seaport. Due to the size of the Board's portfolio, it was prudent to make a change.

Mr. Humphreys continued that the Board made a $50 million investment in the Apogem co-investment fund. NEPC recommends investing the remaining $40 million in HarbourVest, a six-year fixed income fund. The fund has a three-year ramp up period, with three one-year extensions. The fund will have 65 to 75 highly diversified investments. The management fee is at 40 basis points. This plan has a profit-sharing interest. The company will take 10% of profit. Profits are defined as after net-of-all-fees after 7% to the client. Before any profits are removed, the Board has earned the actuarial rate. NEPC recommends this approach.

Mr. Trumbauer made a motion to follow NEPC's recommendation to invest $40 million with the HarbourVest direct lending fund. The motion was seconded by Ms. Henry. The Board approved the motion with no opposition.

Mr. Trumbauer gave a status update from Aetna and, moving funds out of the Voya fund and redeploy to Western Asset.

Administrative Report

Ms. Penley did not have a report this month. Ms. Zimmerman noted that the cash balance decreases mid-month between contributions and benefits (down to about $14 million). Year-to-date, the balance is $70.9 million, which includes $45 million from Aetna and $15 million for contributions at month's end.

Ms. Lovett reported five retirements in March. In addition, Bill No. 93-23 has passed. It will be signed and effective within 45 days (early May). The main provisions added positions. It also allowed a change to the fire and police plans, which allows those who have terminated service prior to vesting and rehired by the County within 12 months to reinstate in the plan and take prior years of credited service. It also has a look back period for current employees that have been rehired to allow them to pay the actuarial equivalent of missed contributions and have the time reinstated. The employees plan included an option for those between 50–59 with 20 years of service, who can select early retirement or keep money in the plan and be term vested until age 60. The bill also removed the prohibition for individuals in the employees plan who are eligible for normal retirement from applying for a service-connected disability retirement.

Other Business

The next meeting will be held on April 16 virtually. The meeting adjourned at 12:56 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

4/25/24
Date