



## ANNE ARUNDEL COUNTY RETIREMENT AND PENSION SYSTEM

### Board of Trustees Minutes of July 16, 2024 Virtual Meeting

DRAFT

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

**Members Absent:** Howard Brown, and Ronald Seldon

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

**Staff Absent:** Lori Blair, Amy Lukas, Alesia Smith, and Donald Spencer

**Guests:** Rhett Humphreys, Rene Le Fevere, Cheryl Stober, Michael Klawitter, Remi Omisore, and Tonia Shultz

**Recorder:** Stacy Kish, Audio Associates

Christine 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 June 18, 2024 meeting were approved unanimously.

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### Manager Interviews

***Loomis Sayles***

***Rene Le Fevere, Cheryl Stober, Michael Klawitter***

Ms. Fevere gave a brief overview of Loomis Sayles, including the company's fixed and equity strategies. Camille Aguilar, the head of custom income solutions group, has been promoted to the company's board.

Ms. Stober explained that the <unclear> team has been merged into the full discretion team to match convergence in the market. Their contribution has provided more early looks at loans that are refinancing. She gave an overview of the bank loan asset category. Volatility has been increasing in this space, but bank loans have been designed to be insulated from interest rate risk. Default risk is a big part of bank loan category. Loomis focuses on the maturity wall. The company anticipates a spike in 2028 following the seven-year maturity.

Loomis Sayles is overweight in BB. Single B is in the portfolio, but it is more in the B+ range. The market has become skewed to B. The BB portion of the market is more sought after because it is now more rare and provides less volatility. Loomis Sayles has not had any defaults since 2020 due to de-credit work.

Mr. Klawitter gave an overview of the Board's portfolio. The average price is up about one point since 2023. This coincides with the rebounding economy. Credit health has stabilized. The price has picked up over the year. This portfolio does not show any distress. Bank loans are a floating rate instrument and are not exposed to fluctuations in interest rates. Current yield is 8.5%. The investment performance for one year performance (through May) is 4%. Inflation has helped the bank loan market. He anticipates 8.5% moving forward with the Fed cutting rates. Volatility may occur in the future due to pressure on higher-term rates. This product provides insulation from this volatility.

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

Mr. Humphreys gave an update as of June 30, 2024. He began with a quick market backdrop. Big picture, global equities rallied with U.S. equities leading the way. Emerging market outperformed U.S. equities. Global equities and global credit are up. Duration- or interest rate-sensitive bonds are down.

The portfolio is 1.5% for the quarter and 6.1% year-to-date, but the valuation is still missing private assets. The price in assets that are known year-to-date would be 7.9%. The five-year rolling average is at 6.6%, just shy of the 7% actuary target. The equity portfolio for the quarter and year-to-date is 1.5% and 10.7%. International developed is 6.5%. Emerging is at 5.8% for the quarter.

He provided an update on two managers — Axiom and Hardman Johnston. Both companies were added at a time when the benchmark was negative. International growth assets have had a rough three years. In near-term, Hardman broke even for the year and added value in the last year relative to the benchmark. Axiom also broke even since inception. The managers in the near-term have turned things around.

Fixed income (core and non-core) is at 0.3% for the quarter and 1.0% year-to-date. The core part is -0.2% where the benchmark is -0.7%. Managers have been protecting. Non-core is up 1.9% for the first six months. Loomis Sayles has played a big role here in value add. The Board transitioned out of high yield in Penn Capital into Barings, which is up 1% and tracking the index as expected.

Ms. Anderson: What's up with Pimco?

Mr. Humphreys: Pimco is a blended emerging market debt manager. Half of the benchmark is due to local currencies. The biggest part of the negative is driven by dollar appreciating relative to local currencies. No concern with this company. NEPC will have a more finalized update in the coming weeks.

### **Pension ACFR**

*Clifton Larson Allen*  
*Remi Omisore, Tonia Shultz*

Mr. Omisore gave an overview of the December 31, 2023 audit of the system's financial statements. CLA issued an unmodified/clean opinion stating that documents are free of material error. In addition, his team produced a required communication letter that contains additional information of the audit.

The audit found no significant changes to the accounting policies during the year and encountered no difficulties while performing the audit. Finally, Mr. Omisore's team found no material weaknesses or significant deficiencies.

The financial reporting risk assessment is conducted to determine what could go wrong in an audit-1) management override of controls; 2) improper revenue recognition; 3) valuation of alternative investments; 4) valuation of pension liability and related amounts; and 5) new accounting pronouncements and financial reporting. Government accounting standards have affected the County related to software platforms. No contracts were identified that would require reporting on the financial statement. Statement 101 explores compensation arrangements (e.g., sick leave, compensated absences, and other benefits) and may be an issue to address in the next few years.

Ms. Anderson: Does GASB understand how hard it is to hire accountants?

Mr. Omisore: They understand. If they do not believe a standard will have a significant impact from a governance perspective, they will not issue anything, but they have already changed a reporting model for 2026.

The Board's pension plan measures up to other plans. The aggregate one-year investment return is 12%. The cumulative portfolio return is about 6.6%. The assumed rate of return is 6.9%. Nothing concerning from an audit stand point. The Board's plan is tracking with the average funded level (measure of pension liability to assets on hand). The inflation assumption for the plan is at 3% but study is 2.7%.

### **Administrative Report**

Ms. Lovett reported eight retirements.

Mr. Hammond asked about the pension annual report and annual meeting with the oversight committee. He requested information from T. Rowe Price. Ms. Anderson requested scheduling this in September.

Mr. Solari said the 2022–2023 differences showed 3% decrease in County contribution versus 6% increase from employee contribution. He asked if the Board could provide background or what those numbers might indicate.

Ms. Zimmerman noted that in prior year the Board had a one-time budgeted contribution of \$15 million. Mr. Trumbauer continued that released fund balance, because it was available. When faced by a fiscal situation where fund balance is available, the Board has several options on how to apply the money, and the pension program is one option.

Mr. Solari asked if pension is 100% funded.

Ms. Anderson stated that it is not. It is something monitored but not a driving factor. Mr. Trumbauer continued that funding for the pension is a long-term plan. The pension has an annual contribution but when one-time funding is available it can be added to the pension. Mr. Hammond stated that the minimum contribution is based on actuarial recommendation.

Mr. Solari noted that the pension portal has not been updated, and the automatically generated report states as of January 2024. When will it be updated?

Ms. Lovett stated that pension statements go out in August and dated first of the year. Ms. Budowski noted that Board sends information at the beginning of the year for the actuary contribution. During the second quarter, the COLA is calculated. After this is completed, the annual statements are updated, which is typically released in August.

### **Other Business**

The meeting adjourned at 1:01 p.m. The next board meeting will occur in person on August 20, 2024.

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

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Anne M. Budowski  
Secretary to the Board

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Date