



ANNE ARUNDEL COUNTY RETIREMENT AND PENSION SYSTEM

Board of Trustees
Minutes of March 18, 2025,

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

Member Absent:

Staff Present: John Hammond, Kelly Lovett, Amy Lukas, Beth Zimmerman, and Cheryl Wyngarden

Guests: Rhett Humphreys, Kevin Dunne, Ignacio Galaz, Preeyam Gandhi, and Michael Story

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 12:02 p.m. The minutes for the February 18, 2025 meeting were approved unanimously.

Manager Interviews

PIMCO

Kevin Dunne, Ignacio Galaz, Preeyam Gandhi, Michael Story

Mr. Dunne introduced his colleagues and discussed the various ways PIMCO works with the Board's portfolio. Mr. Story gave an overview of PIMCO's full spectrum approach to emerging markets. It includes a mixture of hard and local currency. He noted PIMCO anticipates a default rate of 0.0% for hard currency, which should hold into 2026. Emerging market spreads are compressed but not as compressed as U.S. corporate credit. The emerging market is at 85 due to compression of spread on corporate side. The currency side has been a role reversal. Local currency has absorbed volatility toward the end of 2024.

Hard currency was up, between 5–7% in 2024, but local currency was down by 2% by the fourth quarter. Today, local currency is up 5.5%. Emerging markets have shown resilience. PIMCO has found volatility in this area is not tied to larger geopolitical issues. Most alpha coming from bottom up (basis trade in instruments or frontier markets).

Ms. Gandhi continued with the private income fund (PIF), which has allowed investors to extract additional yield premium in their portfolio. The market for private credit was small prior to 2008 but has exploded in last 15 years. PIF has a bias for more asset-based forms of risk and invests across residential mortgage credit, commercial real estate, corporate lending,

and specialty finance (consumer and non-consumer assts). PIMCO generates 8–12% net return over the market cycle by focusing on distributing income (target of 6–10%). The fund sits at 5 billion in size. The current yield is around 12%.

Mr. Hammond: How are you obtaining 8–9% return on residential mortgage?

Ms. Gandhi: We underwrite mortgages and are getting 6–7% on an un-levered basis. We apply a prudent amount of financing to increase purchasing power.

[Unclear]: You service the home loans. Is this a secondary market function?

Ms. Gandhi: We have a number of servicing partners that do the on-going servicing. We work with originators and banks.

Mr. Dunne: Once we get those home loans, we sell the q-sips (?) and take advantage of premiums from securitizing the loans. We target with opportunistic return and financing for smaller or mid-size companies that cannot access traditional markets.

Mr. Hammond: Do you get additional liquidity?

Ms. Gandhi: Yes.

Ms. Gandhi continued with the corporate opportunity fund (COF), a more flexible strategy that can go across private and public markets. As private markets have grown, many companies have moved to private markets for financing. COF3 (2021) raised \$4 billion and called 90% of fund, completing the investment period in July 2024. Aggregate investments deployed \$8.5 billion. Most of the portfolio is debt or debt-like. PIMCO has distributed about 7% and expect to distribute 30% by end of 2025. PIMCO expects to get 30% of the originally invested capital back to the pension. PIMCO is sitting on 8% since inception, with a 1.3 net multiple, and should increase as the firm moves into the harvesting phase. One detractor is an investment in a real estate company, but COF3 is doing what it is supposed to be doing.

COF4 (2024) raised \$2.1 billion in capital commitment and is in early in the investment period of the strategy. PIMCO has only called 10% of capital, with 15 investments and a bias toward capital solutions transactions. The performance is down as a function of unrealized losses in portfolio, but it is expected to increase as capital is deployed into the strategy. COF4 is sized at 3% and should be less than 1.5% over life of the portfolio.

Mr. Hammond: What is your expected return on COF3 due to losses to date?

Ms. Gandhi: COF3 is on track to hit the mid-teens return target but this is early days of harvesting the fund. PIMCO does recycle the capital. The multiple sits at a 1.3 net multiple and increased to 1.5–1.6 net multiple.

Mr. Hammond: Did you have any losses over the energy deal? Do you typically do 100% of deal?

Ms. Gandhi: It is common equity that we invested in. It depends on the situation where we may bring a co-lender, but this is one example where PIMCO was 100%.

Mr. Dunne noted the funding is a deck and structured.

Mr. Hammond: I am concerned by COF4 from the onset.

Mr. Dunne: This is early in the fund. It will end up being 0.5%. We have until 2027 and the opportunity landscape looks attractive. Net IRR moves around a lot early in the fund.

NEPC

Rhett Humphreys

Mr. Humphreys began that uncertainty is driving volatility, but the U.S. economy remains strong. The BIX, applied volatility index, is trading around 22% (historically at 17%). He noted that eight to nine weeks ago, the BIX was about 13%. When volatility is spiking, the market is going down to correct for volatility. The good news is that fundamentals are still good.

He presented a flash monthly performance report. He noted that a dislocation between U.S. equities and international equities. The index report year-to-date, SNP 500 for February is -1.3% compared to international developed at 1.5%. The U.S. dollar is weakening. On the credit side, U.S. investment grade is positive (e.g., interest rates), but credit markets are also doing well. Emerging market debt (local and hard currency) is up.

The Board's portfolio is at -0.6% which may increase when it is fully updated. Equities are at 1.9% (U.S. is 0.4% and international developed is at 6.5%). NEPC does not have any concerns with individual managers. The bond portfolio year-to-date is 2.7% (non-core 2.1%).

He gave two updates from NEPC. The company hired two new bond managers that can move in and out of high-yield bond sectors. In addition, the Barings manager hired in June is up 8.3% net-of-fees.

Mr. Solari: What role does the pension system have with Blackrock?

Mr. Humphreys: I would defer to the chair. You do not have any liquid investments with Blackrock. You were an investor years ago when Blackrock assumed the company that you made investments in.

Administrative Report

No reports from finance. Ms. Lovett reported 15 retirements for March. Three retirements from the DROP.

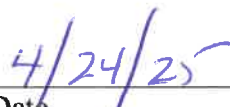
Mr. Trumbauer asked anyone interested in joining an *ad hoc* ESG Investment Policy meeting [see meeting minutes November 2024] to contact him directly.

The meeting adjourned at 1:05 p.m. The next meeting will occur virtually on April 15, 2025.

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



Anne M. Budowski
Secretary to the Board



Date