MINUTES
PENSION REVIEW COMMITTEE
Tuesday, September 7, 2021
Room 113, Bill Luxford Studio, County-City Building

Present: David Derbin, Chief Administrative Officer; Scott Gaines, Chief Deputy Assessor/Register of Deeds (entered at 2:45 pm); Eric Synowicki, Deputy County Attorney; Joe Nigro, Public Defender; Dennis Meyer, Budget & Fiscal Officer; Robert Holbrook, FOP 32; Rick DeBoer, AFSCME; Kevin Nelson, County Clerk Accounting Operations Manager; Kerry Eagan, Retired County Employee and Current Plan Participant; and Kerin Peterson, Facilities and Properties Director.

Other Participants: Julie Klassen, Prudential Vice President, Key Accounts; Robb Craddock, Prudential Vice President, Investment Strategy; Cy Tuason, Prudential; Crystal Vacura, Prudential; and Frank Picarelli, Segal Marco, Senior Vice President

Absent: Kenny Nolan, FOP 77; Sean Flowerday, County Commissioner

Derbin called the meeting to order at 2:30 p.m.

1. Roll Call

Derbin asked for a Roll Call. All were present except Gaines who entered the meeting at 2:45 pm and Nolan and Flowerday who did not attend.

2. Approval of Pension Review Committee Meeting Minutes for February 23, 2021

MOTION

Nelson moved and Holbrook seconded to approve the Pension Review Committee meeting minutes for February 23, 2021. Derbin, Meyer, Nelson, Holbrook, DeBoer, Nigro and Synowicki voted yes. Gaines was absent for the vote. Eagan and Peterson abstained. The motion passed 7-0-2.

3. Second Quarter 2021 Investment Review (401(a) and 457(b) Plans.

A copy of Prudential's Lancaster County Plan Review as of June 30, 2021, is included with these minutes as ***Exhibit A***. Craddock began his presentation by stating that the investment lineup looks good right now and the common theme is the 3-, 5- and 10-year returns are all pretty strong investment-wise across the board. There is a mixed bag of underperformance and outperformance in the short term due to the market changing quite a bit.

Economic Review

Looking at the Economic Review on page 24 of the Plan Summary, Craddock reminded everyone that the performance numbers in the book are through June of 2021 (2nd quarter) and now being into the first week of September and 3rd quarter things have changed a bit. In the 3rd quarter every investment in the

Plan is positive with one exception of the small growth fund, but generally positive so far. Craddock continued by referring to the Economic Review on page 24 of the Plan Summary stating that the Gross Domestic Product (GDP) rose 10% in the quarter, which is a big number for GDP growth. Keeping in mind that with Covid beginning in late March 2020, things were at a market bottom. Since then things have been rebounding, and for the past 5 quarters have been increasing and looking very good. There are a lot of unknowns in the market right now and with the Covid Delta Crisis and the turmoil in Afghanistan we will have to see how things play out and how that may affect the market. Job creation has been strong, the last couple of reports have come in lower than what people had hoped but still mostly good news.

Financial Market Returns
Moving to page 25 of the Plan Summary, the S&P 500 Index was up about 8 ½% in the second quarter alone and the one-year performance is up over 40%, which is a strong period for the stock market. Barclays Bond Index one year is in negative territory. Bonds actually fell over the last year showing that it is possible to lose money with fixed income. It has paid off to be an equity investor over the past few years, but not so much in the fixed income world because interest rates have been so low.

Domestic Equity Style Returns
Page 26 of the Plan Summary shows how the US markets did in different time periods. Looking at the second quarter returns, growth stocks outperformed value stocks, and large cap stocks outperformed small caps. This is a trend that has been seen for the past 3 to 5 years. In early November 2020 after the presidential election when the COVID vaccine announcement was made, everything changed in the stock market. Value stocks started out performing and small cap stocks started outperforming, which hadn't been seen for an extended time period. This change continued into 2021 and into the second quarter. Now into the third quarter it has switched back to the 3-to-5-year trend that we are used to seeing.

S&P 500 Sector Performance
Looking at page 27 of the Plan Summary, there are a couple things that are different than what has been seen the last few years. Energy stocks rebounded in a big way, oil prices have picked back up and energy stocks were the best performing sector in the first half of 2021. Technology has been in the middle of the pack, but still up 42% over the past year. Utilities were the only sector in the negative for the second quarter.

International Index Returns
Good news regarding absolute return numbers but not as strong as the US. Japan is in negative territory due to the rollout of the vaccine not going very well there, and that has weighed on the economy in Japan. Emerging markets have strong returns over the past year, but that has started to slow down. Chinese markets have started to slow down with lots of uncertainty in the economy of China.

Fixed Income Returns
This is returning to a normal environment that has been seen over the past decade, Barclays Aggregate Bond Index is in negative territory for YTD and one-year. Much of the return in the second quarter was driven by corporate bonds which has been the long-term theme. Looking at Treasury Inflation Protected Securities (TIPS), Treasury bonds that are directly linked to the inflation index: over the past decade there wasn't a lot of interest in TIPS but that has changed over the past few quarters, the one-year return is up

over 6.5% because investors are very concerned with what is going to happen to inflation in the months to come.

US Treasury Yield Curve
One year ago on June 30, 2020, there was a very low interest rate environment with a flat yield curve. Now looking at March 31, 2021, yields had risen due to a lot more demand than there was previously. Now in the second quarter growth has returned and yields have dropped. The 10-year drop is less than 1.2 %. There has been a lot of movement in this which is more than is usually seen.

Executive Summary
Pages 33 and 34 of the Plan Summary show a breakdown of the 17 investment funds plus Income Flex funds that the County has. Each fund has a percentile rank in its own category. Remember that the first percentile is the best you can do and 100^{th} percentile is the worst you can do, so you want to see low numbers on these two pages. For the most part that is what is shown, which is all good news. One-year numbers are a mixed bag which is not unusual. That's why the focus in on the longer terms, the 3-year and the 5-year numbers. Moving to page 37 of the Plan Summary, looking at the return numbers, 3-, 5-, and 10-year numbers look strong. However, looking at some of the short-term numbers especially in the one-year column they are very large and you don't usually see returns that size but again it's just the market rebounding from where it was a year ago. The Prudential stable value fund is currently at 1.775 percent, it has been coming down recently but is still doing well. The primary fixed income fund in GoalMaker took had a bad first quarter of 2020 but bounced back for the rest of the year, the same thing happened in 2021 but that is how the portfolio is managed. The balance fund Oakmark Equity and Income is doing extremely well right now. Large Cap Growth JP Morgan and Small Cap Value Victory has lagged a bit in 2021 but longer-term numbers look fantastic. Eaton Vance long term numbers are behind a little bit, but the short-term numbers are good. BlackRock Advantage Small Cap Growth funds have a negative return in the third quarter, but long-term numbers still look good.

Eagan asked about Gibralter (a fund that the County had switched from a few years ago) and wanted to know if that switch has paid off.

Craddock responded saying that Gibralter doesn't exist anymore and every client that was in Gibralter got out. Gibralter's portfolio had a much longer duration and at some point, interest rates will start rising and as that happens the longer duration is going to lose more money. Craddock also stated that the rule of thumb in the investment world is "the change of value in a portfolio is inversely related to the duration times the change in interest rates." So, the duration of Gilbralter was about double what the investment is that the County is in now, meaning that Gilbralter would've lost about 6.5 percent.

Lastly, Craddock noted that looking at page 45 of the Plan Summary, the charts will show a changing view over time of 3 year returns and 5 year returns for each of the funds.

Plan Statistics
Klassen started by stating with the recent announcement of the pending acquisition by Empower that it is still business as usual at Prudential with all activities continuing as they have. The financial wellness meetings continue through Pathways and one-on-one meetings virtually and in person. All plan

enhancements continue also, there will be a Plan Health 360 that will compare the County's plan with other similar health plans along with an updated retirement income calculator tool.

401(a) Plan
Now looking on page 136 of the Plan Summary, looking at the 401(a) plan in 2018 the balance was over $147 million and with the market activity now through June of 2021 the balance is over $194.8 million in the plan. Distributions have increased but it is to be expected with the current market that we are in. There are 1,164 participants in the 401(a) plan with 583 being over 50 years of age. You will want to keep that in mind when looking at the distribution information. Klassen stated the increase in participant balances over the last few years is over $42,000,000.

457(b) Plan
This plan continues to grow, while distributions have increased some, it is still doing well. The asset allocation information on page 167 of the Plan Summary shows the average contribution rate of 5.9% and $189 as a dollar value through June 30, 2021. The participants that are using the Retirement Income Calculator (RIC) in both the 401(a) and 457(b) plans are on track to replace 73% of their pre-retirement income after they retire.

Essentials Program Results
Vacura stated that over the last year participants have had a little over 500 interactions with 3/4 of them being one-on-one meetings by phone or video conference and the remaining meetings done in a group setting. Overall, there are about 30% of plan participants meeting to discuss their retirement plans and options. She said the option for in person meetings and virtual meetings were well received, and she would like to continue to offer participants both options. The educational sessions have had good attendance and have been a good way to continue to connect. There were 7 meeting topics and on average there were about 19 to 20 participants per meeting which is a good turnout for a plan of this size.

Segal Marco Advisors
Picarelli stated the upcoming sale of Prudential Retirement to Empower will honor all the contracts and commitments of the current contract, including fees, stable value products, the GoalMaker tool and more. Looking at the Plan Activity the 401(a) plan is up to $195 million from July of 2020 to June of 2021. Cashflow is on a negative basis, putting $7.7 Million in and taking $10.4 Million out which has a lot to do with a more aging work population and is expected. There were two fund changes eliminating Fidelity Large Cap Growth Fund and moving to the JP Morgan Fund and Replacing the Small Cap Value Fund with the Victory Fund. Moving on to the 457(b) plan, it is up to $32 million putting in $1.7 million and taking out $3 million with $7 million investments gained.

Pricing
Picarelli shared what he does is looks at the balances at the end of the year then figures in the expenses and revenue sharing to see how it all projects. So, looking at the Balance of $227 million dollars the total funds come in at $154 thousand in revenue sharing, the expenses are $147 thousand dollars which leaves about $6,400 in excess revenue.

DeBoer left the meeting at 3:28 p.m.

Fund Performance

Picarelli identified the following funds which were not meeting performance requirements:

1. American Funds Fundamental Investors Class R-5E; and
2. Eaton Vance Atlanta Capital SMID-Cap Fund Class R6

1. <u>American Funds Fundamental Investors Class R-5E</u>

American Funds Fundamental Investors Class R-5E (American) failed to beat its benchmark and was in the bottom half of peers in its investment category for the one-, three-, and five-year periods. Year-to-date, American also is in the bottom half of peers in its investment category.

Picarelli indicated that American is actively managed and has a 0.43% expense ratio, with a 39.3% return in the one-year period, a 15.5% return in the three-year period, and a 16.0% return in the five-year period.

By comparison, in the same Large Cap – Value asset class, Vanguard 500 Index Fund Admiral Shares (Vanguard) is a passively managed index fund that has a 0.04% expense ratio, with a 40.8% return in the one-year period, an 18.6% return in the three-year period, and 17.6% in the five-year period. Consequently, Picarelli stated that the extra expense for American's active management is not generating additional returns.

Craddock explained that American has significant exposure to international stocks. Because international stocks have been lagging behind United States stocks the last several years, that exposure may be a big reason that American has been underperforming.

Based on the Lancaster County Statement of Overall Investment Objectives and Policy, Picarelli recommended that American be placed on the watch list.

Picarelli also suggested that, if the Fund implements fee leveling, American could be eliminated in this asset class category and mapped to Vanguard.

2. <u>Eaton Vance Atlanta Capital SMID-Cap Fund Class R6</u>

Eaton Vance Atlanta Capital SMID-Cap Fund Class R6 (Eaton Vance) failed to beat its benchmark and was trailing its peers in its investment category for the one-, three-, and five-year periods. Although Eaton Vance is performing very well year-to-date, Eaton Vance currently is in the bottom decile in the three- and five-year periods. Based on the Lancaster County Statement of Overall Investment Objectives and Policy, Picarelli recommended that Eaton Vance be placed on the watch list.

Because the Mid Cap – Growth asset class contains Eaton Vance as well as Mid Cap Growth / Westfield Capital Fund, it also was discussed that consolidation of this asset class could be considered if the Fund implements fee leveling.

Derbin stated that negotiations are happening about fee leveling with all unions at this time.

MOTION

Eagan moved and Nigro seconded to put American Funds Fundamental Investors Class R-5E and Eaton Vance Atlanta Capital SMID-Cap Fund Class R6 on the watchlist. The motion passed unanimously. DeBoer was absent for the vote.

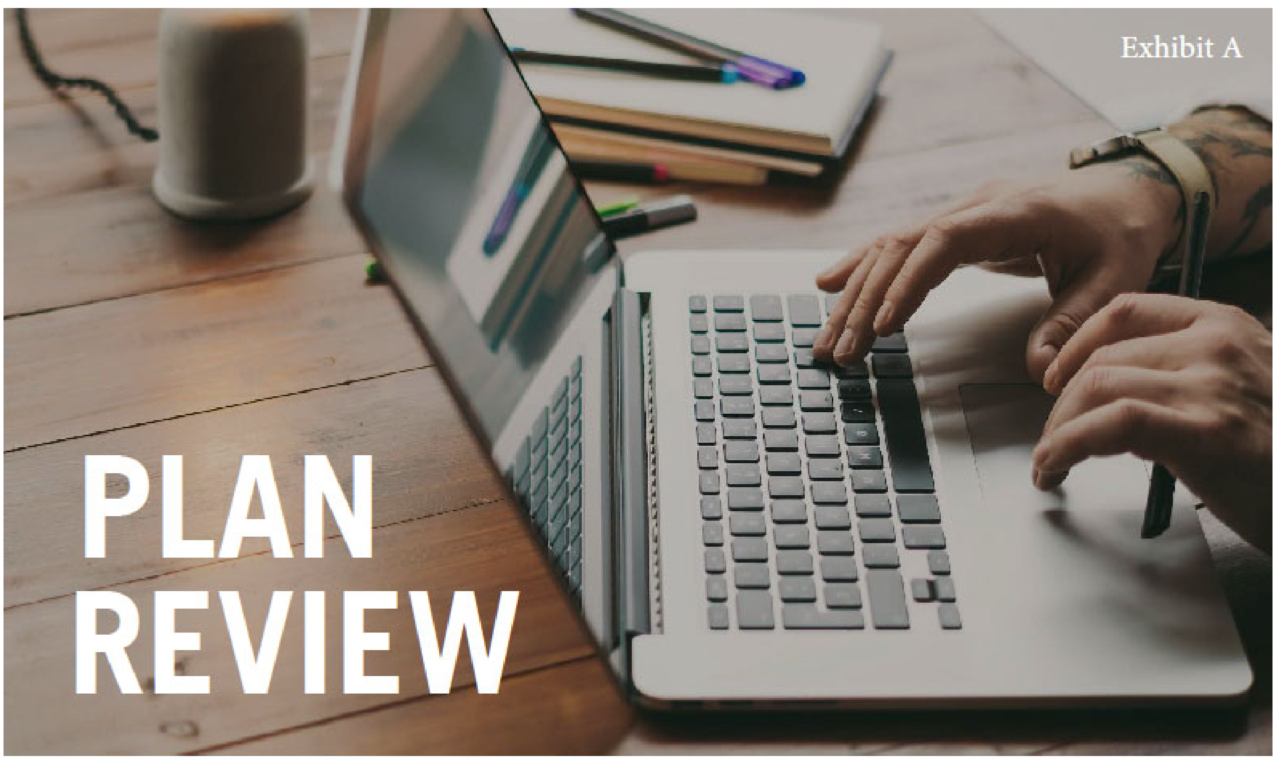
5. Adjournment.

MOTION

It was moved by Eagan and seconded by Gaines to adjourn the meeting. The motion passed unanimously. DeBoer was absent for the vote.

There being no further business the meeting was concluded at 3:50 p.m.

Submitted by Danielle Buck, Administrative Secretary to the Lancaster County Board



Lancaster County

Presented by: Julie Klassen, Vice President, Key Accounts

As Of: June 30, 2021

Report contains information up through the last business day of end period.

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Prudential

Exhibit B

Lancaster County, Nebraska 401(a) and 457 Plans

Analysis of Investment Performance

Period Ending June 30, 2021

Frank Picarelli
Senior Vice President

Segal Marco Advisors