

MINUTES  
PENSION REVIEW COMMITTEE  
Tuesday, September 13, 2022  
Sheriff's Training Classroom C, 575 South 10<sup>th</sup> Street  
2:30 p.m.

Present: David Derbin, Chief Administrative Officer; Sean Flowerday, County Commissioner; Eric Synowicki, Deputy County Attorney; Joe Nigro, Public Defender; Dennis Meyer, Budget and Fiscal Officer; Rick DeBoer, AFSCME (out at 3:30 p.m.); Kevin Nelson, County Clerk Accounting Operations Manager (in at 2:49 p.m.); Kerry Eagan, Retired County Employee and Current Plan Participant; and Kerin Peterson, Facilities and Properties Director.

Other Participants: Julie Klassen, Director Relationship Management, Empower; Robb Craddock, Director, Investment Strategy, Empower; Frank Picarelli, Senior Vice President, Segal Marco; Barton Jefferys, Director, Retirement Counseling, Empower; Cory Callahan, Retirement Counselor, Cyril Tuason, Senior Client Services Manager, Empower

Absent: Scott Gaines, Chief Deputy Assessor/Register of Deeds

Derbin called the meeting to order at 2:31 p.m.

**1. Roll Call**

Derbin asked for a Roll Call. All were present except Gaines and Nelson.

**2. Approval of Pension Review Committee Meeting Minutes for February 15, 2022**

**MOTION**

Eagan Moved and Meyer seconded to approve the Pension Review Committee meeting minutes for February 15, 2022. DeBoer, Derbin, Eagan, Flowerday, Meyer, Nigro, Peterson, and Synowicki voted yes. Gaines and Nelson were absent for the vote. The motion passed 8-0.

**3. Second Quarter 2022 Investment Review (401(a) and 457(b) Plans**

A copy of Prudential's Lancaster County Plan Summary as of June 30, 2022, is included with these minutes as **Exhibit A** as well as a copy of Investment Performance as of June 30, 2022, as **Exhibit B**. Craddock began his presentation by stating the second quarter of this year has been very tough for stock markets and bond markets. The good news will come from the third quarter.

**Economic Review**

Looking at the Economic Review on page 27 of the Plan Summary, we have had two consecutive quarters of negative gross domestic product (GDP) growth. Craddock stated we are already in a recession depending on how you define it. The big news now is inflation, it rose to a four decade high of 9.1% in June. Anticipating another 75-point hike.

## **Financial Market Returns**

Looking at page 28 of the Plan Summary, everything for the quarter, year to date (YTD), and one year, was negative on returns. Bonds, which are generally considered safe, were down 10%. It stems from the fast spike in interest rates.

## **US Markets**

On page 29 of the Plan Summary, in the quarter, YTD, and the one-year time periods, value outperformed growth. This is unusual compared to the 10-12 years. In the one-, three-, and five-year, large caps have significantly outperformed small caps which is typical when you reach the late innings of a market cycle.

## **S&P 500 Sector Performance**

Turning to page 30 of the Plan Summary, all 11 sectors were negative in the second quarter. Energy stocks over the year were up 40%. Craddock states the statistics on this page usually range from 10 to -5. Today, it is 60 to -60. The technology stocks that have done well for a long time are now suffering.

## **International Index Returns**

Turning to page 31 of the Plan Summary, everything downturned in February when Russia invaded Ukraine. The dependence on Russian energy has caused disruption in the European markets. Because most of the world is shunning Russian energy, it's very cheap for other countries such as China and India who are still buying Russian oil. China, which is about 20% of the emerging markets index, had a positive second quarter.

## **Fixed Income Market**

On page 32 of the Plan Summary, this is usually a safe place, but with the rapidly rising interest rates it no longer is. As the Fed raises the interest rates, investors who hold longer duration bonds that have a lower interest rate no longer want them. The demand for shorter term bonds has increased. Investors have shunned risk this year.

## **U.S. Treasury Yield Curve**

Finally on page 33 of the Plan Summary, quite a bit of movement that we don't usually see. A year ago, the interest rate had been at 0%, one quarter ago we were at 1%, and now we are at 2.5%. The downward slope is a sign of recession coming.

## **4. Investment Performance Report**

On page 4 of the Investment Performance Report, Picarelli states we want to beat the benchmark and be close with our peer groups.

On page 30 of the Investment Performance Report, we reviewed the Plan Activity for 401(a) from July 1, 2021 – June 30, 2022. This reports a loss of \$24 million with the only positive fund being the Stable Value Fund. People are moving money in and out of funds, people put \$955,000 in stable value. Picarelli reports in the 401(a) fund more people have disbursed money than contributions by about \$8 million which leads to a negative cash flow.

On page 31 of the Investment Performance Report, we looked at the Asset Allocation report, Picarelli announced good news that we are below government standard for stable value.

Turning to page 33 of the Investment Performance Report, we looked at the Plan Activity for 457(b), disbursements were higher than contributions.

Turning to page 38 of the Investment Performance Report, we look at the Stable Value Fund, we are currently tracking at 1.59%.

On page 41-43 of the Investment Performance Report, we can see the lineup for all funds. Picarelli reviewed each fund and discussed how it is doing compared to the benchmark and compared to its peer groups. The ratings are in parenthesis, anything over 50 is not doing very well, Picarelli stated to always disregard this number for index funds as they are not actively managed. Picarelli reviewed each fund and discussed how it is doing compared to the benchmark and compared to its peer groups.

Eagan posed a question regarding why we are keeping Blackrock since its rating is never below 50.

Craddock chimed in and stated it is a cheap fund. If you look at the performance numbers except for the YTD, it has beat the index in every time period. The percentile ranks are not strong, which means compared to other actively managed funds, it's not doing great. He stated by design, Blackrock, has a lot of constraints which limits them on the bet they can take on any one thing.

## **5. Contract Provision**

Craddock spoke regarding the stable value fund, which has a contract provision that states when things go crazy in the bond market world and interest rates change rapidly, we are going to shorten the duration that we are amortizing our losses, so we capture more losses in the rate quickly. This is meant to protect longer term investors. Because the bond market has not rebounded, Empower asked if Lancaster County would like to waive that provision again.

## **6. Migration**

Klassen spoke about the migration from Prudential to Empower. The Lancaster County plans will migrate in the third quarter of 2023. Participants will need to re-register on the new website when it is live. There will not be a blackout period during the migration, there may be a 1–2 day quiet period, which means you will always be able to access your records, but no transactions during that period.

## **7. Plan Demographics**

Turning to page 120 in the Plan Summary, Klassen discussed the 401(a) Plan Demographics Summary. Not only was the market was not performing, but the distributions also substantially increased.

On page 144 of the Plan Summary, the distributions of the 475 are shown, again a slight increase of distributions and a loss in the market.

## 8. SECURE 2.0

On page 223 of the Plan Summary, Klassen stated in some form the SECURE 2.0 should pass this year. Klassen reviewed page 224, 225 and 229 which contain more detail regarding SECURE 2.0.

## 9. Retirement Counselor and Appointments

Jefferys introduced Cory Callahan. On page 214 and 215 we see counselor activity. Our previous counselor left at the end of fourth quarter 2021, which caused a drop. Jefferys is hopeful traction will be gained by Callahan quickly and the number will jump up once again.

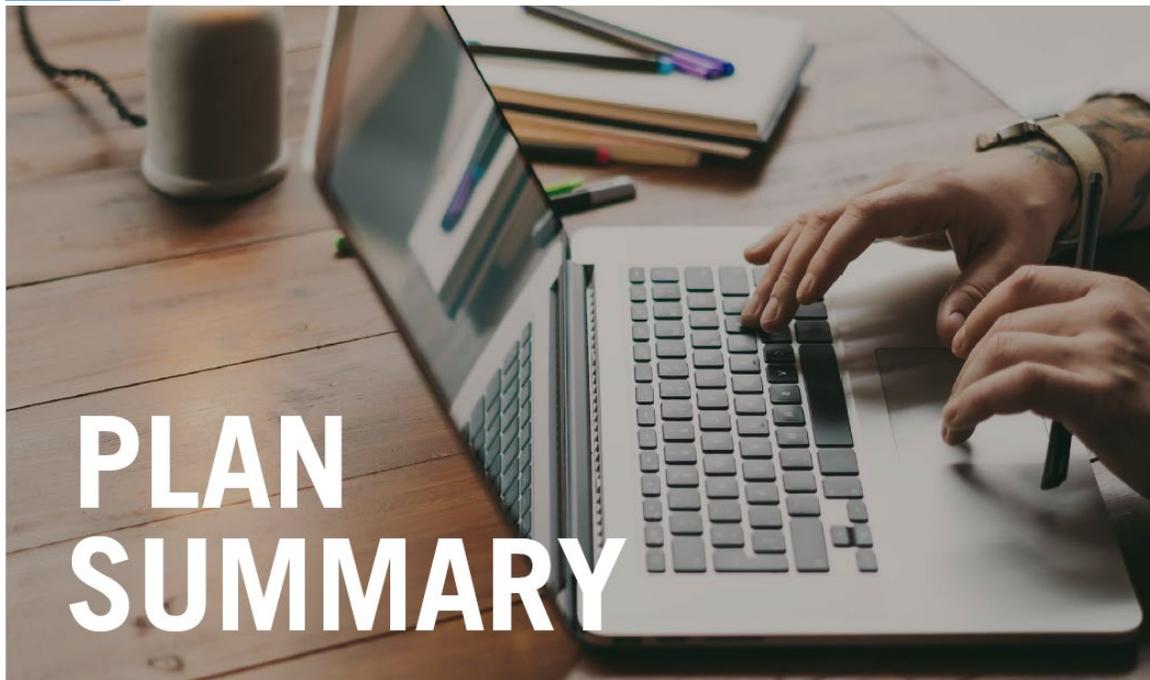
Callahan discussed his background in finance, teaching, and insurance. He has seen great success with back-to-back appointments each time he visits and is scheduled through September with appointments at every Lancaster County employee location.

## 10. Adjournment

### MOTION

Flowerday made a motion to adjourn the Pension Review Committee Meeting at 3:45 p.m., Eagan seconded. Derbin, Eagan, Flowerday, Meyer, Nelson, Nigro, Peterson, and Synowicki voted yes. The motion passed 8-0.

### Exhibit A:



## Lancaster County

As Of: June 30, 2022

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

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Exhibit B:



Lancaster County, Nebraska 401(a) and 457 Plans

## Analysis of Investment Performance

Period Ending June 30, 2022

Frank Picarelli  
Senior Vice President

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**Segal Marco Advisors**