

ANNE ARUNDEL COUNTY RETIREMENT AND PENSION SYSTEM

Board of Trustees Minutes of May 15, 2018, Meeting

Members Present: John Hammond, Jennifer Gilbert-Duran, Mark Hartzell, Mary Lu Hughes, Alan Hyatt, Rick Napolitano, Karin McQuade, Ande Rhodes, Leroy Wilkison

Members Excused: Howard Brown, Jay Cuccia, M. Kathleen Sulick, Jim Thomas

Staff Present: Anne Budowski

Guests: Ellen Cammer, Kevin Dunne, Ignacio Galaz, Christopher Getter, Kevin Gore, Rhett Humphreys, Thomas Lowman, Kris Seets

Recorder: Laura Jackson, Audio Associates

The meeting of the Board of Trustees of the Anne Arundel County Retirement and Pension System (Board) was called to order at 12:00 p.m. by Mr. Hammond. Joe Solari sat in for Howard Brown.

Minutes

Mr. Napolitano motioned to accept the minutes of the April 17, 2018, meeting. Mr. Hartzell seconded, and the board approved the minutes.

Investment Committee

PIMCO

Kevin Dunne, Ignacio Galaz, Christopher Getter

With positive momentum across all its strategies, PIMCO remains focused on preserving and enhancing assets. The firm has more than 2,200 total employees and \$1.77 trillion in assets under management, including \$1.35 trillion in third-party client assets. The new Austin office will focus on technology investments.

The county invests in PIMCO's emerging markets bond fund. Emerging markets remained strong despite higher volatility during the first quarter of 2018. Emerging market currencies

did well relative to the dollar. Emerging market local bonds, however, saw a reversal in April and May. Emerging market external debt and corporates were both down slightly. Mr. Dunne reported May returns of -1.9 percent versus the benchmark's -2.2 percent. Mr. Getter noted that PIMCO has protected investors during the down markets while keeping up and outpacing the benchmark in the up markets.

Emerging market economies remain an attractive investment. Mr. Getter reported accelerating growth across emerging markets and current accounts in balance/surplus. The firm maintains a defensive position in external spread duration. PIMCO has an overweight in local duration and currencies.

Western Asset
Ellen Cammer, Kevin Gore

Founded in 1971, Western Asset has \$431.1 billion in assets under management. This fixed income active manager takes a long-term approach, focusing on flexibility and diversified investments.

Western Asset faced a challenging start to the year. Central banks around the world continue the long, slow process of normalizing interest rates. Managers still see no sign of significant inflation increases. Year to date the county's portfolio was down -2.3 percent versus the benchmark at -2.2 percent. The firm's long position on duration detracted from performance. However, Western Asset's small allocation to Treasury Inflation-Protected Securities (TIPS) benefited the portfolio when market expectation for inflation went up during the quarter. High-yield credit also contributed to performance.

Managers anticipate 2 ½ percent growth. Effects from the consumer tax cut remain to be seen. The federal reserve will likely make a few more moves this year, said Ms. Cammer. Biggest challenges include deficits and high debt loads in the United States and aging populations around the world, which temper the ability to increase growth dramatically. For these and other reasons, diversification remains a cornerstone of the strategy, said Ms. Cammer.

New England Pension Consultants
Rhett Humphreys

Mr. Humphreys presented several reports for board consideration. In the April 2018 "flash" report, the county was up 0.4 percent for the month and 0.5 percent year to date. The Executive Performance Report for the first quarter of 2018 showed returns of 0.1 percent net of fees for the first three months, ranking the county in the top 23 percent of public funds in the country within the NEPC universe.

The Fourth Quarter Private Equity Review noted an internal rate of return (IRR) of 8.35 percent versus the benchmark's 7.52 percent. NEPC recommended a new \$50 million commitment in the Private Market Program Review and Strategic Investment Plan. NEPC suggested the county invest \$25 million with Lexington Capital Partners IX and \$25 million

with Warburg Pincus Private Equity XIII. The final report provided a due diligence write-up on Lexington's Fund IX.

MOTION: Mr. Wilkison moved to invest \$25 million in Lexington Fund IX. Mr. Hartzell seconded, and the board unanimously passed the motion.

Administrative Report

Bolton Partners presented the recommended retirement plan contributions for FY2019. Mr. Seets led a presentation on the total contribution, investment performance and plan growth and risk. Also available for review were individual reports for the employees', police, fire, and detention officers' and deputy sheriffs' retirement plans.

Ms. Budowski reported 18 retirements for May. Staff continue to provide retirement seminars. Beth Zimmerman, a former state employee experienced in investing, auditing and banking, will replace Janet Morgan, who will retire August 1. Karin McQuade reviewed the financial report.

The meeting ended at 2:20 p.m. The next meeting will take place June 19, 2018.

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

Ande Rhodes
Secretary to the Board

Date