

Calvert County Employees Retirement Plan  
Calvert County Sheriff's Office Pension Plan  
Other Post-Employment Benefits Trust (OPEB)  
Board of Trustees Quarterly Meeting  
March 1, 2019  
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**MEMBERS PRESENT:**

**Employees Retirement Plan (ERP):** David Carpenter, Bill Clark, Tim Hayden, Terry Shannon, Sharon Strand.

**Sheriff's Office Pension Plan:** David Carpenter, Rebecca Flanagan, Alphonso Hawkins, Tim Hayden, Michael Moore, David Payne, Terry Shannon, Joshua Underwood.

**Other Post Employment Benefits Trust (OPEB):** David Carpenter, Rebecca Flanagan, Tim Hayden, Edith Hutchins.

**MEMBERS ABSENT:**

**Employees Retirement Plan:** Dominic Raino, Jackie Vaughan, Jaime West.

**Sheriff's Office Pension Plan:** Dominic Raino.

**Other Post Employment Benefits Trust (OPEB):** Dina Davis, Kevin Michael.

**OTHERS PRESENT:**

Don Ross, Wainwright Investment Counsel, LLC  
Lauren Barrett, Human Resources Assistant  
Paula Gray, Human Resources Director  
Genieve Clarke-Hillman, Board of Education  
Patmon Malcom, Partner, Earnest Partners  
Kevin Pope, Product Management, Earnest Partners

Tim Hayden called the Calvert County Employees Retirement Plan, the Calvert County Sheriff's Office Pension Plan and OPEB Trustees meeting to order at 9:10 a.m.

After review of the November 30, 2018 minutes, no changes were recommended.

**MOTION:** Terry Shannon motioned to approve the November 30, 2018 minutes for the Calvert County Employees Retirement Plan.

**SECONDED:** Bill Clark seconded the motion for the Calvert County Employees Retirement Plan.

All were in favor. None opposed.

**MOTION:** David Payne motioned to approve the November 30, 2018 minutes for the Sheriff's Office Pension Plan.

**SECONDED:** Tim Hayden seconded the motion for the Sheriff's Office Pension Plan.

All were in favor. None opposed.

**MOTION:** Tim Hayden motioned to approve the November 30, 2018 minutes for OPEB.

**SECONDED:** Edie Hutchins seconded the motion for OPEB.

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All were in favor. None opposed.

A change was made to the agenda due to time constraints. Agenda Item "5. Open Discussion" was moved to the first item of discussion.

**OPEN DISCUSSION**

*OPEB Trustee Appointment*

Tim Hayden began the discussion at 9:12 a.m. and stated that the trustees were provided with a letter outlining a change to the board members of OPEB. Christine Jewett resigned her position with the Board of Education, leaving a vacancy for OPEB. The Board of Education will appoint Genieve Clarke-Hillman at their meeting on March 7, 2019.

*Transitioning to Bolton Partners from AON Hewitt*

Tim Hayden informed the board that Actuarial Services have been provided by AON Hewitt for many years. As of April 1, 2019, the new provider will be Bolton Partners. Tim Hayden stated that there have been many issues with AON Hewitt in the past few years and the issues continue to be larger to what is unacceptable. AON Hewitt has experienced turnover which has resulted in a decrease in service and efficiency.

*Letter from the Trustees regarding Annual Declaration of Disability Recipients*

David Carpenter informed the boards that the letters and Declarations of Disability have been sent. Feedback was received and after consulting with plan attorneys, the determination was made that once an individual meets normal retirement date they do not have to provide proof of disability. Their benefits cannot be stopped or reduced. David Carpenter stated that this has cut the number of required Declarations from 34 to 16. The normal retirement date is determined by age or years of service to include years on disability.

**PRESENTATIONS/DISCUSSIONS**

*Patmon Malcom, Earnest Partners*

At 9:24 a.m., Don Ross introduced Patmon Malcom and Kevin Pope of Earnest Partners. Don Ross stated that the 4<sup>th</sup> quarter was negative and that all public equity managers in the Calvert portfolios were down for the fourth quarter and for the year, except for the Kayne Anderson Small Cap Growth, which while down for the quarter was positive for the full year. Don Ross stated that two of the contributing factors were fear of recession and algorithmic trading. There are other outside factors that have impacted performance. The 1<sup>st</sup> quarter of 2019 has shown a positive turn around.

Patmon Malcom began his presentation with an overview of Earnest Partners. Earnest Partners is a fundamental bottom up stock picker. They do not focus on what they think the Federal Reserve is going to do and they do not look to see what sectors are performing well and load up on companies in that sector. The benchmark used is Russell 2000. Earnest Partners examines all companies in the Russell 2000 and searches for companies they believe are mispriced. The average amount of time Earnest Partners holds a company is 5 years. Companies are sold when they get too big to be considered a midcap company and if it is decided that a mistake was made in

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selecting a company. The companies in the portfolio are all small to mid-cap funds ranging from \$300 million to \$4 Billion. These are not household name companies.

Patmon Malcom presented a market review by giving an overview of sectors in the Russell 2000 and comparing returns for 2018 quarter 4 and 2019 quarter 1. While 2018 quarter 4 showed significant losses, they have begun to turn around in the 1<sup>st</sup> quarter of 2019. Earnest Partners will not sell off companies just because of a sporadic downturn such as 2018 4<sup>th</sup> quarter. They examine company performance to ensure that they are doing what they need to do. Earnest Partners is more concerned with long term performance than quarter to quarter. Patmon Malcom noted that utilities did well and the portfolios are underweighted in utilities. This caused an underperformance relative to the Russell 2000 Value benchmark. Earnest Partners does not heavily invest in utility companies because they see the earnings potential as being less than in other economic sectors.

Kevin Pope gave an overview of current portfolio performance. As of December 31, 2018 the Employees Retirement Plan had an ending portfolio balance of \$5,856,730 with \$67,352 estimated annual income with 1.2% yield in equities. The Employees Retirement Plan asset distribution is 96.8% equities and 3.2% short term investments. As of December 31, 2018 the Sheriff's Office Pension Plan had an ending portfolio balance of \$6,344,401 with \$72,732 estimated annual income with 1.2% yield in equities. The Sheriff's Office Pension Plan asset distribution is 96.7% equities and 3.3% short term investments. As of December 31, 2018 OPEB had an ending portfolio balance of \$6,202,165 with \$71,007 estimated annual income with 1.2% yield in equities. OPEB asset distribution is 96.4% equities and 3.6% short term investments. As of January 31, 2019 the portfolio for the Employees Retirement plan is up 12.38%, the Sheriff's Office Pension Plan is up 12.37% and OPEB is up 12.33%. As of February 28, 2019 all of these numbers are closer to 17%. All plans are slightly behind for the 1 year marker, however, Earnest Partners is looking at investments over a long period of time. All plans are up over 17% over three years. Since inception each plan is up over 12%. Kevin Pope presented portfolio sector weightings in relation to benchmark weighting. Earnest Partners is finding opportunity largely in industrials and information technology, and less opportunity in utilities, real estate, and consumer staples.

Patmon Malcom stated that Earnest Partners maintains a 20% turnover rate of company holdings. In a typical year Earnest partners sells five companies and buys five companies. Tim Hayden asked how many companies Earnest Partners holds total. Patmon Malcom responded that Earnest Partners holds 60 companies at any given time. Don Ross asked what Earnest Partners projection is for forward growth over the next 12 months. Patmon Malcom responded that forward looking 12 months Earnest Partners is projecting an earnings multiple of 16 x.

Terry Shannon noted that the benchmark weight for financials in the Russell 2000 Value Index is 29.6% and the current portfolio weight in financials is 21.3%. Why is there such a large underweight? Patmon Malcom stated that financials are the largest sector, and it is broken into three areas. These three areas are banks, insurance and diversified financials. The portfolio does not show an underweight in insurance or diversified portfolios, the underweight is in banks. This is because of the bank model. Banks borrow money at a low interest rate, and lend that money at a higher rate. The efficacy of this economic model is dependent on the occurrence of loan repayments. Earnest Partners finds that they can find better earnings potential in other economic sectors.

*Don Ross, Wainwright Investment Council, LLC*

Don Ross began his presentation with a review of the state of the plans as of December 31, 2018. At the end of the 4<sup>th</sup> quarter S&P was down 13.52% Quarter to date a 4.38% for 2018. Russell 1000 Value was down 11.72% quarter to date and Russell 1000 Growth was down 15.89%. Consistently over a ten year period Russell 1000

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Value has seen lower returns than Russell 1000 Growth. At the end of the 4<sup>th</sup> quarter the Employees Retirement Plan had a balance of \$73,559,544. This was down around \$10.4 million from the balance as of September 30, 2018, including monthly distributions. Year to date the Employees Retirement plan was down 6.1%. At the end of the 4<sup>th</sup> Quarter the Sheriff's Office Pension Plan had a balance of \$83,881,545. This is down about \$10.5 million from the balance as of September 30, 2018, including monthly distributions. Year to date the Sheriff's Office Pension Plan was down 5.8%. At the end of the 4<sup>th</sup> quarter OPEB had a balance of \$84,921,382. This was down around \$10.5 million from the balance as of September 30, 2018. Year to date OPEB was down 7.0%.

Don Ross gave a review of the plan assets as of January 31, 2019. The Employees Retirement Plan balance was \$78,282,798 as of January 31, 2019. This is up about \$5 million from December 31, 2018. Don Ross stated that as of March 1, 2019 the plan balance is above \$80 million. The Employees Retirement Plan draws around \$165,000 per month. The Sheriff's Office Pension Plan had a balance of \$89,454,484 as of January 31, 2019. This was up about \$6 million from December 31, 2019. The Sheriff's Office Pension Plan draws around \$153,000 per month. OPEB had a balance of \$90,683,786 as of January 31, 2019. This was up about \$6 million from December 31, 2018. OPEB does not currently have monthly draws. All three plans were performing relatively well to the benchmark. For all three plans Kayne Anderson small cap growth was performing very well. The trailing one year returns to January 31, 2019 were up 9.4% relative to the benchmark of -2.6%.

Don Ross asked Tim Hayden if OPEB was expecting additional funds in July. Tim Hayden responded that OPEB is expected to receive between \$11 and \$13 million in July. Don Ross stated that he recommends some reallocating of funds for OPEB. Don Ross recommended moving \$500,000 to Polaris International, \$500,000 to Barings, \$500,000 to Loomis Sayles and \$500,000 to a short duration bond fund.

**MOTION:** Tim Hayden motioned for OPEB to make the four \$500,000 reallocations Don Ross recommended.

**SECONDED:** David Carpenter seconded the motion for OPEB.

All were in favor. None opposed.

Don Ross gave a brief presentation on one form of Real Estate investing. The investment approach he discussed was open ended core real estate investing. These investments average returns of 6-7% net of fees. Of this, about 4% is income and the rest is due to appreciation. Fees are typically 1%. Returns can be received or reinvested. Don Ross presented a comparison of several companies who are managing this type of real estate investment, along with the types of real estate, geographical location of the real estate and return information.

Don Ross asked Terry Shannon for her opinion on real estate investing. Terry Shannon responded that real estate is a volatile sector of the market and it would be a good idea to track real estate performance moving forward. Terry Shannon also stated that the boards would need to consider which area would be reduced in order to make room for this investment.

Don Ross informed the boards that an RFP would probably be the best way to select a company if the boards are interested. Don Ross recommended the boards invite a few firms in for presentations and discussion.

Tim Hayden stated he was interested in non-correlation but concerned about the risk of an open ended fund during an economic downturn.

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Terry Shannon stated that 6-8% returns are low in comparison to many of the other plan investment returns since inception. Terry Shannon commented that the boards need to make sure they understand what they are investing in and not include too many types of investments.

Rebecca Flanagan suggested that the boards hear the presentations from these investment firms. Being educated on their products gives the boards more information and does not require the boards to do anything.

Don Ross and Tim Hayden stated they would like for OPEB to conduct a separate meeting about investment into Large Cap funds.

**MOTION:** Bill Clark motioned to adjourn the Employees Retirement Plan meeting.

**SECONDED:** Terry Shannon seconded the motion for the Employees Retirement Plan.

All were in favor. None opposed. The Employees Retirement Plan meeting was adjourned at 11:05 a.m.

**MOTION:** Tim Hayden motioned to adjourn the Calvert County Sheriff's Office Pension Plan meeting.

**SECONDED:** Terry Shannon seconded the motion for the Calvert County Sheriff's Office Pension Plan.

All were in favor. None opposed. The Calvert County Sheriff's Office Pension Plan meeting was adjourned at 11:05 a.m.

**MOTION:** Tim Hayden motioned to adjourn OPEB.

**SECONDED:** Edie Hutchins seconded the motion for OPEB.

All were in favor. None opposed. OPEB meeting was adjourned at 11:05 a.m.