NORTHAMPTON COUNTY OTHER POST EMPLOYMENT BENEFITS FUND (OPEB) BOARD MINUTES

July 28, 2022
4:00 p.m.

1. **Call to Order**: Mr. Lamont McClure called the meeting to order at 4:30 p.m.

2. **Call of the Roll**: The following appointees to the Retirement Board were present: Mr. Lamont McClure, County Executive; Ms. Lori Vargo Heffner, Council President; Mr. Ronald Heckman, Council Member; Mr. Thomas Guth, active employee Member of Northampton County Retirement system; Mr. Gerald Seyfried, Retiree Member; and Mr. Stephen Barron, Director of Fiscal Affairs.

   The following appointee to the Retirement Board was absent: Mr. Kerry Myers, Council Vice President.

   Others Present – Mr. John Spagnola, PFM; Mr. Bryce Meyers, Fiscal Affairs; Ms. Mary Lou Kaboly, Board Secretary; Ms. Danielle Mutarelli, Human Resources; Ms. Stephanie Hann, Human Resources.

3. **Courtesy of the Floor** – None.

4. **Approval of the April 28, 2022 OPEB Fund Board minutes**. Mr. Barron made a Motion to approve the minutes of the April 28, 2022 board meeting. Mr. Seyfried seconded the Motion. The remaining board members voted to approve, and noted Mr. McClure's abstention due to his absence from the previous meeting.

5. **Performance Updates – PFM, John Spagnola.** Mr. Spagnola gave the presentation of the fund's performance in the 2nd quarter of 2022.

   OPEB Fund market value as of June 30, 2022 = $47,089,396

Quarter gain:	-11.14 percent
YTD gain:	-16.33 percent
1-year gain:	-12.50 percent
3-year gain:	4.95 percent
5-year gain:	6.31 percent
Gain since inception:	5.94 percent (inception date is 9/1/2017)

   Mr. Spagnola stated that the OPEB fund performed slightly better than the benchmark for the quarter. The fund increased by approximately 1.8 million dollars since the quarter closed on June 30 and was valued at over 48 million dollars as of July 27, 2022. PFM recommends protecting the fund from the stock market's volatility and increasing the fund's long-term return by investing in private debt and infrastructure, both of which yield a higher projected return than the core bonds in which we currently invest.

   Mr. Spagnola outlined the investment with Blackstone Infrastructure Partners for the board. Blackstone is an open-ended private infrastructure fund dedicated to investing in facilities and installations in North America that are essential to our economy, including transportation, energy and utilities, and communications. Infrastructure provides competitive returns over time, limited commodity exposure, and some inflation protection.

Ms. Vargo Heffner requested clarification of the management and performance fees. Mr. Spagnola stated that they receive one percent if they hit their benchmark, which is a six percent return. They would additionally receive 20 percent of the return above the benchmark, which is aligned with the client in terms of performance.

Mr. McClure and Mr. Barron asked what percentage of the funds PFM would invest in infrastructure. Mr. Spagnola replied that they would invest four percent for each fund, or approximately 20 million dollars each. The money would not be invested all at once, as the fund would be scaled into over time.

Mr. McClure stated that he believes investing in infrastructure would put the County in a good position to take advantage of an infrastructure bill that was recently passed, which is expected to put billions of dollars back into the economy. He asked Mr. Spagnola to review our investments and ensure that we are not investing in warehouses.

Mr. Spagnola outlined the investment with Golub Capital Partners for the board. He stated that the fund targets private companies that are doing well that need to borrow money, and provides opportunities for investors to lend money by participating as first-lien and second-lien debt holders in a private fund. Banks are no longer able to work with private debt since the global financial crisis, and the fund is neither federally nor privately insured.

Mr. McClure asked how a company's bankruptcy in the fund would affect the County's investment returns from Golub, should that company have no assets remaining. Mr. Spagnola reassured Mr. McClure that Golub mitigates the risk that a single company's bankruptcy may cause by diversifying their portfolio with around 600 investments, in addition to the waterfall effect from previous fund years.

Ms. Vargo Heffner asked for clarification of the incentive fee and hurdle rate. Mr. Spagnola replied that the client must receive eight percent of their capital return before Golub receives 20 percent of the return above that.

Mr. McClure asked what percentage of the funds PFM would invest in private debt. Mr. Spagnola replied that they would invest four percent for each fund, or approximately 20 million dollars each. PFM is making this recommendation because they are concerned about the stock market's ability to provide future returns. Golub is targeting a 10.5 to 13.5 percent investment return.

Ms. Vargo Heffner asked for clarification regarding the method and timeline for investment returns. Mr. Spagnola replied that investing in private debt would provide immediate returns on interest and capital as the debt runs its course over time.

Mr. McClure expressed hesitation regarding investing in private debt. Mr. Barron remarked that private debt investments must still be creditworthy and go through a vetting process to be in the funds; furthermore, the County has an opportunity to invest in high quality companies that are not publically traded. Ms. Vargo Heffner asked how Golub assesses risk on the debt. Mr. Spagnola replied that Golub has very strong underwriting companies and a previous experience with many of the companies to which they are lending. He also asked the board to consider that the County has 30 percent of its portfolio in bonds, which have not been performing, and PFM would only move 4 percent of that to private debt, which may have different results. Mr. McClure agreed that bonds have not been a safe haven that benefits the portfolio for a long time.

Ms. Vargo Heffner asked for clarification of the investment term. Mr. Spagnola stated that the fund closes in ten years.

Mr. McClure asked Mr. Spagnola why the Dodd-Frank Act outlawed banks lending to these companies. Mr. Spagnola replied that it is an instance of legislative overreach. The Commodity Futures Trading Commission reformed the marketplace and issued rules in response to the 2008 global financial crisis the banks caused, which resulted in higher capital requirements and limited investment areas.

Mr. McClure stated that PFM met his concerns regarding private debt because the money would come from bonds, which are doing poorly, and they are moving a relatively small percentage of the fund. He fully supports investing in infrastructure.

Mr. Heckman remarked on the County's historically cautious approach to the pension fund in their fiduciary responsibility, and expressed support in moving forward with PFM's recommendations.

Mr. Spagnola stated that a vote was not required to make the changes under the contract with PFM, and agreed to move forward after addressing the board's concerns.

6. **Adjournment** – Ms. Vargo Heffner made a Motion to adjourn the meeting. Mr. Heckman seconded the Motion. The OPEB meeting adjourned at 5:12 p.m.